BRASIL TELECOM HOLDING CO
Form 6-K
January 14, 2008

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 OF THE
SECURITIES EXCHANGE ACT OF 1934

THROUGH January 14, 2008

(Commission File No. 1-14477)

BRASIL TELECOM PARTICIPAÇÕES S.A.
(Exact name of registrant as specified in its charter)

BRAZIL TELECOM HOLDING COMPANY
(Translation of Registrant's name into English)

SIA Sul, Área de Serviços Públicos, Lote D, Bloco B
Brasília, D.F., 71.215-000
Federative Republic of Brazil
(Address of Regristrant's principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F ___X___ Form 40-F ______

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1)__.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7)__.

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ______ No ___X___

If "Yes" is marked, indicated below the file number assigned to the registrant in connection with Rule 12g3-2(b):

FEDERAL PUBLIC SERVICE
CVM - COMISSÃO DE VALORES MOBILIÁRIOS (SECURITIES COMMISSION)
ITR - QUARTERLY INFORMATION
COMMERCIAL, INDUSTRIAL AND OTHER COMPANIES

Corporate Law
Date: September 30, 2007

REGISTRATION AT THE CVM DOES NOT REQUIRE ANY EVALUATION ON THE COMPANY, BEING ITS DIRECTOR RESPONSIBLE FOR THE VERACITY OF THIS INFORMATION

01.01 - IDENTIFICATION

1 - CVM CODE	2 - COMPANY NAME	3 - CORPORATE TAXPAYER ID (CNPJ)
01768-0	**BRASIL TELECOM PARTICIPAÇÕES S.A.**	**02.570.688/0001-70**
4 - NIRE **5.330.000.581-8**		

01.02 - ADRESS OF COMPANY S HEADQUARTERS

1 - COMPLETE ADDRESS SIA/SUL - ASP - LOTE D - BL B - 1° ANDAR			2 - DISTRICT SIA	
3 - ZIP code 71215-000	4 - CITY BRASÍLIA			5 - STATE DF
6 - AREA CODE (DDD) 061	7 - TELEPHONE 3415-1010	8 - TELEPHONE 3415-1256	9 - TELEPHONE 3415-1119	10 - TELEX
11 - AREA CODE (DDD) 061	12 - FAX 3415-1593	13 - FAX 3415-1315	14 - FAX -	
15 - E-MAIL ri@brasiltelecom.com.br				

01.03 - INVESTORS RELATIONS OFFICER (Adress for correspondence to Company)

1 - NAME PAULO NARCÉLIO SIMÕES AMARAL				
2 COMPLETE ADDRESS SIA/SUL - ASP LOTE D - BL - 2° ANDAR				3 - DISTRICT SIA
4 - ZIP code 71215-000	5 - CITY BRASÍLIA			6 - STATE DF
7 - AREA CODE (DDD) 061	8 - TELEPHONE 3415-1010	9 - TELEPHONE 3415-1140	10 - TELEPHONE -	11 - TELEX
12 - AREA CODE (DDD)	13 - FAX 3415-1593	14 - FAX -	15 - FAX -	

061				
16 - E-MAIL ri@brasiltelecom.com.br				

01.04 - REFERENCE / AUDITOR

ACCOUNTING PERIOD IN PROGRESS		CURRENT QUARTER			PREVIOUS QUARTER		
1 - START	2 - END	3 - NUMBER	4 - START	5 - END	6 - NUMBER	7 - START	8 - END
01/01/2007	12/31/2007	3	07/01/2007	09/30/2007	2	04/01/2007	06/30/2007
9 - AUDITOR NAME/COMPANY NAME Deloitte Touche Tohmatsu Auditores Independentes					10 - CVM CODE 00385-9		
11 - NAME OF THE TECHNICAL RESPONSIBLE Marco Antonio Brandão Simurro					12 - INDIVIDUAL TAXPAYER ID (CPF) OF THE TECH. RESPONSIBLE 755.400.708-44		

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01.05 - COMPOSITION OF CAPITAL STOCK

Number of Shares (Units)	1 - CURRENT QUARTER 09/30/2007	2 - PREVIOUS QUARTER 06/30/2007	3 - EQUAL PREVIOUS QUARTER e.g. 09/30/2006
Issued Capital			
1 - Common shares	134,031,688	134,031,688	134,031,688,203
2 - Preferred shares	229,937,525	229,937,525	229,937,525,684
3 - Total	363,969,213	363,969,213	363,969,213,887
Treasury Shares			
4 - Common shares	1,480,800	1,480,800	1,480,800,000
5 - Preferred shares	0	0	0
6 - Total	1,480,800	1,480,800	1,480,800,000

01.06 - COMPANY S CHARACTERISTICS

1 - COMPANY TYPE Trade, Industrial and Other Companies
2 - SITUATION TYPE Operational
3 - SHAREHOLDING NATURE Brazilian Holding
4 - ACTIVITY CODE 1130 - Telecommunications
5 - MAIN ACTIVITY Operation Of Switched Fixed Telephone Service
6 - CONSOLIDATED TYPE Total
7 - AUDITORS REPORT TYPE No Exceptions

01.07 - SUBSIDIARIES EXCLUDED FROM THE CONSOLIDATED FINANCIAL STATEMENTS

1 - ITEM	2 - CNPJ	3 - COMPANY NAME

01.08 - DIVIDENDS APPROVED AND/OR PAID DURING AND AFTER THE QUARTER

1 - ITEM	2 - EVENT	3 - APPROVAL	4 - INCOME	5 - PAYM. START	6 - SHARE TYPE AND CLASS	7 - INCOME VALUE PER SHARE

01.09 - ISSUED CAPITAL AND CHANGES IN CURRENT YEAR

1- ITEM	2 - CHANGE DATE	3 - CAPITAL STOCK VALUE (R$ 1,000)	4 - CHANGE VALUE (R$ 1,000)	5 - CHANGE ORIGIN	7 - NUMBER OF SHARES ISSUED (Units)	8 - SHARE PRICE UPON ISSUANCE (Reais)

01.10 - INVESTOR RELATIONS OFFICER

1 - DATE 10/18/2007	2 - SIGNATURE

02.01 - BALANCE SHEET - ASSETS (IN THOUSAND OF REAIS)

1 - CODE	2 - DESCRIPTION	3 09/30/2007	4 06/30/2007
1	Total Assets	5,907,429	5,666,087
1.01	Current Assets	1,677,865	1,577,192
1.01.01	Cash and Cash Equivalents	1,436,012	1,336,936
1.01.01.01	Cash and Bank Accounts	77	66
1.01.01.02	High-Liquidity Investments	1,435,935	1,336,870
1.01.02	Credits	0	0
1.01.02.01	Clients	0	0
1.01.02.02	Sundry Credits	0	0
1.01.03	Inventories	0	0
1.01.04	Others	241,853	240,256
1.01.04.01	Deferred and Recoverable Taxes	92,156	93,206
1.01.04.02	Dividends Receivable	140,104	140,104
1.01.04.03	Judicial Deposits	5	0
1.01.04.04	Other Assets	9,588	6,946
1.02	Non-Current Assets	4,229,564	4,088,895
1.02.01	Long-Term Assets	244,459	238,113
1.02.01.01	Sundry Credits	0	0
1.02.01.02	Credits with Related Parties	0	0
1.02.01.02.01	From Direct and Indirect Associated Companies	0	0
1.02.01.02.02	From Subsidiaries	0	0
1.02.01.02.03	From Other Related Parties	0	0
1.02.01.03	Others	244,459	238,113
1.02.01.03.01	Deferred and Recoverable Taxes	237,153	232,695
1.02.01.03.02	Judicial Deposits	5,518	5,418
1.02.01.03.03	Other Assets	1,788	0
1.02.02	Permanent Assets	3,985,105	3,850,782
1.02.02.01	Investments	3,984,256	3,849,873
1.02.02.01.01	Direct and Indirect Associated Companies	0	0
1.02.02.01.02	Direct and Indirect Associated Companies - Goodwill	0	0
1.02.02.01.03	Subsidiaries	3,976,089	3,841,782
1.02.02.01.04	Subsidiaries - Goodwill	0	0
1.02.02.01.05	Other Investments	8,167	8,091
1.02.02.02	Property, Plant and Equipment	831	884
1.02.02.03	Intangible Assets	18	25
1.02.02.04	Deferred Charges	0	0

02.02 - BALANCE SHEET - LIABILITIES (IN THOUSAND OF REAIS)

1 - CODE	2 - DESCRIPTION	3 09/30/2007	4 06/30/2007
2	Total Liabilities	5,907,429	5,666,087
2.01	Current Liabilities	329,529	253,138
2.01.01	Loans and Financing	0	0
2.01.02	Debentures	0	0
2.01.03	Suppliers	403	332
2.01.04	Taxes, Duties and Contributions	33,555	23,553
2.01.04.01	Indirect Taxes	16	28
2.01.04.02	Taxes on Income	33,539	23,525
2.01.05	Dividends Payable	219,842	228,872
2.01.06	Provisions	14	14
2.01.06.01	Provisions for Contingencies	14	14
2.01.07	Debts with Related Parties	0	0
2.01.08	Others	75,715	367
2.01.08.01	Payroll and Social Charges	21	19
2.01.08.02	Consignment in Favor of Third Parties	79	68
2.01.08.03	Other Liabilities	75,615	280
2.02	Non-Current Liabilities	8,340	7,613
2.02.01	Long-Term Liabilities	8,340	7,613
2.02.01.01	Loans and Financing	0	0
2.02.01.02	Debentures	0	0
2.02.01.03	Provisions	4,634	4,485
2.02.01.03.01	Provisions for Contingencies	4,634	4,485
2.02.01.04	Debts with Related Parties	0	0
2.02.01.05	Advance for Future Capital Increase	0	0
2.02.01.06	Others	3,706	3,128
2.02.01.06.01	Indirect Taxes	0	0
2.02.01.06.02	Taxes on Income	3,706	3,128
2.02.02	Deferred Income	0	0
2.04	Shareholders Equity	5,569,560	5,405,336
2.04.01	Paid Up Capital Stock	2,596,272	2,596,272
2.04.02	Capital Reserves	309,178	309,178
2.04.02.01	Goodwill on Share Subscription	306,961	306,961
2.04.02.02	Other Capital Reserves	2,217	2,217
2.04.03	Revaluation Reserves	0	0
2.04.03.01	Owned Assets	0	0
2.04.03.02	Subsidiaries/Direct and Inidirect Associated Companies	0	0
2.04.04	Revenue Reserves	306,349	306,349
2.04.04.01	Legal	232,169	232,169
2.04.04.02	Statutory	0	0
2.04.04.03	For Contingencies	0	0
2.04.04.04	From Profits to Realize	74,180	74,180

02.02 - BALANCE SHEET - LIABILITIES (IN THOUSAND OF REAIS)

1 - CODE	2 - DESCRIPTION	3 09/30/2007	4 06/30/2007
2.04.04.05	Profit Retention	0	0
2.04.04.06	Special Reserve for Undistributed Dividends	0	0
2.04.04.07	Other Profit Reserves	0	0
2.04.05	Retained Earnings/Accumulated Deficit	2,357,761	2,193,537
2.04.06	Advance for Future Capital Increase	0	0

03.01 - STATEMENT OF INCOME (IN THOUSAND OF REAIS)

1 - CODE	2 - DESCRIPTION	3 07/01/2007 to 09/30/2007	4 - 01/01/2007 to 09/30/2007	5 07/01/2006 to 09/30/2006	6 - 01/01/2006 to 09/30/2006
3.01	Gross Revenue from Sales and/or Services	0	0	0	0
3.02	Deductions from Gross Revenue	0	0	0	0
3.03	Net Revenue from Sales and/or Services	0	0	0	0
3.04	Cost of Goods and/or Services Sold	0	0	0	0
3.05	Gross Profit	0	0	0	0
3.06	Operating Expenses/Revenues	172,403	316,143	86,082	56,639
3.06.01	Selling Expenses	0	0	0	0
3.06.02	General and Administrative Expenses	(4,807)	(13,328)	(3,406)	(12,435)
3.06.03	Financial	43,153	(63,681)	45,825	(54,313)
3.06.03.01	Financial Income	45,859	150,627	51,535	182,615
3.06.03.02	Financial Expenses	(2,706)	(214,308)	(5,710)	(236,928)
3.06.04	Other Operating Income	451	2,386	4,066	5,933
3.06.05	Other Operating Expenses	(287)	(948)	(825)	(1,548)
3.06.06	Equity Income	133,893	391,714	40,422	119,002
3.07	Operating Income	172,403	316,143	86,082	56,639
3.08	Non-Operating Income	(895)	(353)	52	300
3.08.01	Revenues	75	617	52	300
3.08.02	Expenses	(970)	(970)	0	0
3.09	Income Before Tax and Minority Interests	171,508	315,790	86,134	56,939
3.10	Provision for Income and Social Contribution	(10,014)	(33,539)	(20,183)	(42,883)
3.11	Deferred Income Tax	(5,984)	411	3,984	7,382
3.12	Statutory Interest/Contributions	0	0	0	0
3.12.01	Interests	0	0	0	0
3.12.02	Contributions	0	0	0	0
3.13	Reversal of Interest on Shareholders Equity	0	187,600	0	185,300
3.15	Income (Loss) for the Period	155,510	470,262	69,935	206,738

03.01 - INCOME STATEMENT (IN THOUSAND OF REAIS)

1 - CODE	2 - DESCRIPTION	3 07/01/2007 to 09/30/2007	4 - 01/01/2007 to 09/30/2007	5 07/01/2006 to 09/30/2006	6 - 01/01/2006 to 09/30/2006
	NUMBER OF OUTSTANDING SHARES, EX-TREASURY (UNITS)	362,488,413	362,488,413	362,488,413,887	362,488,413,887
	EARNINGS PER SHARE (REAIS)	0.42901	1.29732	0.00019	0.00057
	LOSS PER SHARE (REAIS)				

FEDERAL PUBLIC SERVICE
CVM - COMISSÃO DE VALORES MOBILIÁRIOS (SECURITIES COMMISSION)
ITR - Quarterly Information **Corporate Law**
COMMERCIAL, INDUSTRIAL COMPANY AND OTHER **Date: September 30, 2007**

01768-0 BRASIL TELECOM PARTICIPAÇÕES S.A. **02.570.688/0001-70**

04.01 - NOTES TO FINANCIAL STATEMENTS

NOTES TO THE QUARTERLY INFORMATION AS OF 09/30/2007

(In thousand of Brazilian Reais)

1. OPERATIONS

Brasil Telecom Participações S.A. (the Company) is a joint stock publicly-held company, incorporated according to article 189 of Law 9,472/97 - Telecommunications General Law, as part of TELEBRÁS spin-off process, whose protocol and justification was approved on May 22, 1998.

The Company has as purpose to control companies developing fixed telephony public services in Region II of the General Concession Plan (PGO), approved by Decree 2,534 of April 2, 1998. Such control is exercised through Brasil Telecom S.A., which is a concessionaire responsible for the Switched Fixed Telephone Service (STFC) in Region II of PGO. In addition, the Company may participate in the capital of other companies.

The Company is registered at the Brazilian Securities and Exchange Commission (CVM) and at the U.S. Securities and Exchange Commission SEC. Its shares are traded on the São Paulo Stock Exchange (BOVESPA), where it also integrates Level 1 of Corporate Governance, and trades its American Depositary Receipts (ADRs) on the New York Stock Exchange (NYSE).

The control of the Company is exercised by SOLPART Participações S.A. (SOLPART), corresponding, at the quarter closing date, to 51.00% of the voting capital and 18.78% of the total capital.

Subsidiaries

a. Brasil Telecom S.A.

Brasil Telecom S.A. is a concessionaire of the Switched Fixed Telephone Service (STFC) and operates in Region II of the General Concession Plan, covering the Brazilian states of Acre, Rondônia, Mato Grosso, Mato Grosso do Sul, Tocantins, Goiás, Paraná, Santa Catarina and Rio Grande do Sul, besides the Federal District. In this area, Brasil Telecom S.A. renders since July 1998 the STFC in the modalities of local and intra-regional long distance.

With recognition of the prior fulfillment of the obligations for universalization stated in the General Plan of Universalization Goals (PGMU), required for December 31, 2003, Brasil Telecom S.A. obtained from the National Agency for Telecommunications (ANATEL), on January 19, 2004, authorizations for the Company to exploit STFC in the following service modalities: (i) Local and Domestic Long Distance calls in Regions I and III and Sectors 20,

22 and 25 of Region II of the General Concession Plan (PGO); and (ii) International Long Distance calls in Regions I, II and III of PGO. As a result of these authorizations, the Company began to exploit the Domestic and International Long Distance Services in all Regions, starting on January 22, 2004. In the case of the Local Service in the new regions and PGO sectors, the service began to be rendered as from January 19, 2005.

The concession agreements in force, under the modalities of local and long distance services, came into force as of January 1, 2006, effective until December 31, 2025. Additional information about these agreements is mentioned in Note 5.i.

Information related to the quality and universalization targets of the Switched Fixed Telephone Service of its Subsidiary are available to interested parties on ANATEL s homepage, on the website *www.anatel.gov.br*.

b. Nova Tarrafa Participações Ltda. and Nova Tarrafa Inc.

The Company also holds the control of Nova Tarrafa Participações Ltda (NTP) and Nova Tarrafa Inc. (NTI). The purpose of these subsidiaries is the capital interest in Internet Group (Cayman) Limited (iG Cayman), which is focused on Internet access provision. iG Cayman is subsidiary of Brasil Telecom Serviços de Internet S.A, a company that is also an indirect subsidiary and operates in the internet segment.

NTP s and NTI s interest in iG Cayman on the quarter closing date represented 9.25% and 0.16%, respectively, and together with Brasil Telecom Serviços de Internet S.A. the total interest was 98.2% .

Indirect Subsidiaries

On August 1, 2006, was approved by Brasil Telecom S.A. s Board of Directors the corporate restructuring of its subsidiaries. This restructuring, whose purpose is to optimize the controlling structure through company reduction, concentration of similar activities and simplification of inter-company corporate interest, began in the second semester of 2006. The alterations carried out in the current year are mentioned in the comments on the Companies performance below, when applicable. The corporate alterations performed in 2006 and 2007, carried out based on the book values, did not have material effects in the cost structure.

The subsidiary Brasil Telecom S.A. holds the control of the following companies:

a. 14 Brasil Telecom Celular S.A.

14 Brasil Telecom Celular S.A. (BrT Celular) is a wholly-owned subsidiary which operates since the fourth quarter of 2004 to provide Personal Mobile Service (SMP), with authorization to render such services to the Region II of the PGO.

b. BrT Serviços de Internet S.A.

BrT Serviços de Internet S.A. (BrT Celular) is a wholly-owned subsidiary whose main product is internet broadband services. It also provides both residential and corporate clients with a series of value added services, among which wireless internet access.

BrTI, on the other hand, has the control of the following companies:

(i) iBest Group

iBest has its operations concentrated in providing dialup connection to the Internet, sale of advertising space for disclosure in its portal and value-added service, and one of its main services is its internet connection speedup device. iBest activities are totally represented by Freelance S.A., established in Brazil. It also has the iBest Holding Corporation, constituted in Cayman Islands, which is not operating and does not have investments in other companies.

(ii) iG Group

iG operates as an internet access provider, both dialup and broadband. It also provides value added services focused on the residential and corporate markets. In addition, iG also sells advertising space in its portal.

BrTI s control over the iG Companies is attributed to its 88.81% share in the capital stock of Internet Group (Cayman) Limited (iG Cayman), located in the Cayman Islands.

iG Cayman is a holding which, in its turn, has the control of Internet Group do Brasil Ltda. (iG Brasil) and Central de Serviços Internet Ltda. (CSI), both established in Brazil.

Agência O Jornal da Internet Ltda. ("Jornal Internet")

BrTI holds thirty per cent interest in the capital stock of Jornal Internet, which aims at the commercialization of goods and services through the Internet, edition of daily newspapers or magazines, as well as the obtainment, generation and publication of news on selected facts. Seventy per cent of the capital stock of Jornal Internet is held by Caio Túlio Vieira Costa, executive vice-president of the Company s subsidiaries related to internet businesses.

c. Brasil Telecom Cabos Submarinos Ltda.

Brasil Telecom Cabos Submarinos Ltda. (BrT CS) was subsidiary of BrTI up to January 2, 2007. On such date BrTI reduced the portion of its capital stock held by Brasil Telecom S.A., using it to pay up part of the investment reduction in BrT CS, in the amount of R$132,678 thousand. Thus, Brasil Telecom S.A. is now the parent company of BrT CS, owning nearly all of the latter s capital stock. BrTI continue to be holder of only a quota of the capital stock of BrT CS, corresponding to an interest below 0.01% .

BrT CS, jointly with its subsidiaries, operates through a system of submarine fiber optics cables, with connection points in the United States, Bermudas Islands, Venezuela and Brazil, allowing data traffic through packages of integrated services, offered to local and international corporate clients.

BrT CS is holds 100% of the capital stock of Brasil Telecom Subsea Cable Systems (Bermuda) Ltd. (BrT SCS Bermuda), which, on its turn, holds the total shares of Brasil Telecom of America Inc. (BrT of America) and of Brasil Telecom de Venezuela, S.A. (BrT Venezuela).

d. BrT Comunicação Multimídia Ltda.

Brasil Telecom S.A. held until April 10, 2007, 100% of the MTH Ventures do Brasil Ltda (MTH) capital, a holding company that controlled the capital of Brasil Telecom Comunicação Multimídia Ltda, with Brasil Telecom S.A. and BrTI holding the remaining equities. On the aforementioned date, the Extraordinary General Meeting deliberated the incorporation of MTH by Brasil Telecom S.A.

Today, Brasil Telecom S.A. has equities corresponding to 89.8% of the BrT Multimídia capital stock, with the remaining 10.2% held by BrTI.

BrT Multimídia is a service provider of private telecommunications network through optical fiber digital networks, of local scope in São Paulo, Rio de Janeiro and Belo Horizonte, and long distance network connecting these major metropolitan commercial centers. It performs nationwide through commercial agreements with other telecommunication companies to offer services to other regions in Brazil. It also has an Internet solution center in São Paulo, which offers co-location, hosting and other value-added services.

e. Vant Telecomunicações S.A. ("VANT")

Company whose capital stock is practically totally held by Brasil Telecom S.A.. BrTI has only one share in VANT s capital stock, representing less than 0.01% interest.

VANT aims at the rendering of multimedia communication services, acquisition and onerous assignment of capabilities and other means, operating in the main Brazilian state capitals.

f. Brasil Telecom Call Center S.A. ("BrT Call Center")

Formerly named as Santa Bárbara dos Pinhais S.A., the Company is already operating. Together with the change of its company name, decided in the shareholders meeting carried out on August 21, 2007, its social object has also been changed, and became call center service provisioning to third parties, including client services, active and receptive telemarketing, training, support, consulting services and similar activities, among others.

Change in the Management

During the third quarter of 2005, there were changes in the Company s Board of Directors. The process of replacing the former managers, formerly related to the manager Opportunity, was litigious, according to various material facts published by the Companies during the 2005 and various lawsuits still in progress, filed by the former manager, aiming at retaking the Companies management.

Agreements as of April 28, 2005 under the Previous Management

On April 28, 2005, still under previous management, Brasil Telecom Participações S.A. and Brasil Telecom S.A. entered into various agreements involving the Opportunity Group and Telecom Italia (April 28 Agreements).

Among such agreements, Brasil Telecom S.A. and its subsidiary 14 Brasil Telecom Celular S.A. executed with TIM International N.V. (TIMI) and TIM Brasil Serviços e Participações S.A. (TIMB) an instrument named as Merger Agreement and a Protocol related thereto.

As mentioned in material facts published, the merger was forbidden by injunctions issued by the Brazilian and U.S. courts. It is also subject-matter of discussion under arbitration involving the controlling shareholders.

The current management of Brasil Telecom Participações S.A. and of Brasil Telecom S.A. understands that the Merger Agreement, the respective Protocol, and other April 28 agreements, which included the waiver and transaction in lawsuits involving the Companies, were entered into with conflict of interests, breaching the laws and the Bylaws of the Companies, and also, in opposition to shareholders agreements and without the necessary corporate approvals. In addition, the actual management deems that such agreements are contrary to the best interest of the Companies, especially regarding its mobile telephony business.

Referring to the Merger Agreement mentioned in this note, the subsidiary Brasil Telecom S.A. and BrT Celular started on March 15, 2006 arbitration against TII and TIM, with the purpose of annulling it. The Company released a material fact on this matter on March 16, 2006.

TIMI and TIMB sent to Brasil Telecom S.A. and BrT Celular a correspondence dated May 2, 2006, unilaterally terminating the referred Merger Agreement , reserving supposed right to indemnification for losses and damages, which is being dealt with in said arbitration. According to analyses of the Company s legal advisors, the risk of losses referring to the supposed right to indemnification is remote and its amount is not possible to be measured. Also in May 2006, Telecom Italia International filed with Anatel and CADE, petitions requesting to file the operation related to the Merger Agreement due to lack of grounds.

2. PRESENTATION OF THE ACCOUNTING STATEMENTS

Preparation Criteria

The accounting statements have been prepared in accordance with accounting practices adopted in Brazil, in compliance with the Brazilian corporate law, rules of the CVM - Comissão de Valores Imobiliários (Securities Commission) and rules applicable to telephony service concessionaires.

As the Company is registered with the SEC, it is subject to SEC s standards, and it must prepare financial statements and other information by using criteria that comply with that agency s requirements. To comply with these requirements and aiming at meeting the market s information needs, the Company adopts, as a principle, the disclosure of information in both markets in their respective languages.

The notes to the financial statements are presented in thousands of reais, unless otherwise demonstrated. According to each situation, they present information related to the Company and the consolidated statements, identified as PARENT COMPANY and CONSOLIDATED , respectively. When the information is common to both situations, it is identified as PARENT COMPANY AND CONSOLIDATED .

The amounts of judicial deposits bound to the provisions for contingencies are presented in a deductive way from the liabilities established. Also referring to the form of presentation, this quarterly information considers the requirements determined by CVM Resolution 488/05, especially, the segregation of assets in current and non-current groups, as well as pertaining to the latter, the creation of intangible assets subgroup. For comparative effect, previous year balances have been reclassified.

The accounting estimates were based on objective and subjective factors, based on management s judgment to determine the appropriate amount to be recorded in the financial statements. Significant items subject to these estimates and assumptions include the residual amount of the fixed assets, provisions for doubtful accounts, inventories and deferred income tax and social contribution, provision for contingencies, valuation of derivative instruments, and assets and liabilities related to benefits to employees. The settlement of transactions involving these estimates may result in different amounts due to the inaccuracy inherent to the process of determining these amounts. Management reviews its estimates and assumptions at least quarterly.

Consolidated Financial Statements

The consolidation was made in accordance with CVM Instruction 247/96 and includes the companies listed in Note 1.

Some of the main consolidation procedures are:

- Elimination of balances of the asset and liability accounts among the consolidated companies, as well as revenue and expenses of transactions among them.
- Elimination of the balances of the investment accounts and corresponding investor s shareholdings, reserves and accumulated results in the consolidated companies; and.
- Segregation of the portions of shareholders equity and income belonging to minority shareholders, indicated in specific items.

The conciliation of the net income and the shareholders equity belonging to the Parent Company and the Consolidated is shown below:

	NET INCOME		SHAREHOLDERS EQUITY	
	09/30/07	**09/30/06**	**09/30/07**	**09/30/07**
PARENT COMPANY	**470,262**	**206,738**	**5,569,560**	**5,405,336**
Registrations carried out in the Subsidiary s Shareholders Equity				
Prescribed Dividends	(5,198)	(6,778)	-	-
Capitalized Interest in the Subsidiary	582	2,620	-	-
CONSOLIDATED	**465,646**	**202,580**	**5,569,560**	**5,405,336**

Supplementary Information

The Company is presenting as supplementary information the statement of cash flows, which was prepared in accordance with Accounting Rules and Procedures - NPC 20 of the Brazilian Institute of Independent Auditors - IBRACON. This statement is shown jointly with Note 17.

Report per Segment

The Company is presenting, supplementarily to note 42, the report per business segment. A segment is an identifiable component of the company, intended for service rendering (business segment), or provision of products and services which are subject to risks and compensations which are different among themselves.

3. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

The criteria mentioned in this note refer to the practices adopted by the Company and its subsidiaries that are included in the consolidated accounting statements.

a. <u>Cash, Bank Accounts and High-Liquidity Investments:</u> Financial investments are temporary high-liquidity investments, with immediate maturity. They are recorded at cost, plus income registered until the closing dates of the quarters presented, and do not exceed market value. Investment funds quotas are appreciated considering the quota values on the quarters closing dates.

b. **Trade Accounts Receivable:** Receivables from users of telecommunications services are recorded at the amount of the fee or the service on the date the service is rendered. Accounts receivable from services include credits for services rendered and not billed until the quarters closing date. Receivables resulting from sales of cell phones and accessories are recorded by the amount of sales made, at the moment in which the goods are delivered and accepted by the client. The criterion adopted for making the provisions for doubtful accounts takes into account the calculation of the actual percentage of losses incurred on each range of accounts receivable. Future losses on the current receivables balance are estimated based on these historic percentages, which include accounts coming due and also the portion of services rendered yet to be billed, thus composing the amount that could become a future loss, which is recorded as a provision.

c. **Material Inventories:** Stated at average acquisition cost, not exceeding replacement cost. Inventories are segregated into inventories for plant expansion and maintenance and goods inventories for resale, mainly composed of cell phones, accessories and electronic cards - chips. The inventories to be used in expansion are classified in property, plant and equipment (construction in progress), and inventories to be used in maintenance are classified as current and long-term assets, in accordance with the period in which they will be used, and the resale inventories are classified as current assets. Obsolete inventories are recorded as provisions for losses. With regard to cell phones and accessories, BrT Celular records adjustments, in the cases in which the acquisitions presented higher values conforming them to the realization value.

d. **Investments:** Investments in subsidiaries are assessed using the equity method of accounting. Goodwill is calculated based on the expectation of future results and its amortization is based on the expected realization/timing over an estimated period of not more than ten years. Other investments are recorded at acquisition cost, less provisions for losses, when applicable. The investments resulting from income tax incentives are recognized on the date of investment, and result in shares of companies with tax incentives or investment fund quotas. In the period between the investment date and receipt of shares or quotas of funds, they remain recognized in long-term assets. These investments are periodically valued and the result of the comparison between its original and market costs, when the latter is lower, results in the constitution of provisions for probable losses.

e. **Property, Plant and Equipment:** Stated at cost of acquisition and/or construction, less accumulated depreciation. Financial charges resulting from obligations for financing assets and construction in progress are capitalized.

The expenditures incurred, when they represent improvements (increase in installed capacity or useful life) are capitalized. Maintenance and repair expenditures are charged to the profit and losses accounts, on an accrual basis.

Depreciation is calculated under the straight-line method. Depreciation rates used are based on expected useful lives of the assets and in accordance with the standards of the Public Telecommunications Service. The main rates used are set forth in Note 28.

f. **Intangible Assets:** These mainly refer to licenses and rights to use software and regulatory licenses. The amortization of rights to use software is calculated by the straight-line method, for a five-year period and the regulatory licenses according to the terms determined by the regulatory agency. When benefits are not expected from a license or right connected to such asset, it is written off against the non-operating income.

g. **Deferred Charges:** Mainly refer to implementation and reorganization expenses. Amortization is calculated under the straight-line method, for a five-year term. When benefits are not expected from an asset, it is written off against non-operating income.

h. **Income and Social Contribution Taxes:** Corporate income and social contribution taxes are accounted for on an accrual basis. These taxes levied on temporary differences, tax losses and the social contribution negative basis are recorded under assets or liabilities, as applicable, according to the assumption of realization or future demand, within the parameters set forth in CVM Instruction 371/02.

i. Loans and Financing: These are restated by monetary and/or exchange variations and interest incurred until the quarter closing date. Equal restatement is applied to the guarantee contracts to hedge the debt.

j. Provisions for Contingencies: The contingency provisions are made based on a survey of the respective risks and they are quantified according to economic grounds and legal opinions on the contingency proceedings and facts known on the quarter closing date. The basis and nature of the provisions are described in Note 7.

k. Revenue Recognition: Revenues from services rendered are recognized when provided. Local and long distance calls are charged based on time measurement according to the legislation in force. Revenues from sales of payphone cards (Public Use Telephony - TUP), cell phones and accessories are recorded when delivered and accepted by the clients. For prepaid services linked to mobile telephony, the revenue is recognized in accordance with the utilization of services. Revenue is not recognized if there is a significant uncertainty in its realization.

l. Recognition of Expenses: Expenses are recognized on an accrual basis, considering their relation with revenue realization. Expenses related to future periods are deferred.

m. Financial Income (Expenses), Net: Financial income is recognized on an accrual basis and comprises interest earned on overdue accounts settled after the term, gains on financial investments and hedges. Financial expenses comprise interest incurred and other charges on loans, financing and other financial transactions.

Interest on shareholders equity, when credited, is included in the financial expenses balance, and for financial statement presentation purposes, the amounts are reversed to profit and loss accounts and reclassified as a deduction of retained earnings, in the shareholders equity.

n. Benefits to Employees: Private pension plans and other retirement benefits sponsored by the Company and its subsidiaries for their employees are managed under three Foundations. Contributions are determined on an actuarial basis, when applicable, and accounted for on an accrual basis. As of December 31, 2001, the subsidiary Brasil Telecom S.A. recorded its actuarial deficit on the balance sheet date against shareholders equity, excluding the corresponding tax effects. As from 2002, as new actuarial revaluations show the necessity for adjustments to the provision, they are recognized in the profit and loss accounts. Additional information relative to private pension plans is described in Note 6.

o. Profit Sharing: The provision for employees and management profit sharing is recognized on an accrual basis, being accounted as operating expense. The calculation of the amount, which is paid in the subsequent year after the provision is recognized, is based on the target program established with the labor union, by means of collective labor agreement, in accordance with Law 10,101/00 and the Company s Bylaws.

p. Earnings or loss per share: Calculated based on the number of shares outstanding on the quarter closing date, which comprises the total number of shares issued, minus shares held in treasury.

4. RELATED PARTIES TRANSACTIONS

Related parties transactions refer to operations of the Company with the subsidiaries Brasil Telecom S.A., Nova Tarrafa Participações Ltd. and Nova Tarrafa Inc.

Operations between related parties and the Company are carried out under regular market prices and conditions. The main transactions are:

Brasil Telecom S.A.

Sureties and Guarantees: (i) The Company renders sureties as guarantee of loans and financing owed by the Subsidiary to the lending financial institutions. Until the quarter, related to the guarantee benefit, the Company assessed revenues at the amount of R$ 2,702 (R$ 2,442 in 2006); and (ii) the Company renders guarantee surety for the Subsidiary, related to the contracting of insurance policies, guarantee of contractual liabilities (GOC), which amounted to R$ 97,457 (R$ 101,502 on 06/30/07). Up to closing of the quarter, in return to such surety, the Company registered an operating revenue of R$ 88 (R$ 198 in 2006).

Expenses and Accounts Receivable: resulting from transactions related share of resources. The balance receivable is R$ 1,052 (R$ 1.287 receivable on 06/30/07) and the amouts recorded in income in 2006, comprised operating expenses of R$ 337.

5. MARKET VALUE OF FINANCIAL ASSETS AND LIABILITIES (FINANCIAL INSTRUMENTS) AND RISK ANALISYS

The Company and its subsidiaries assessed the book value of its assets and liabilities as compared to market or realizable values (fair value), based on information available and evaluation methodologies applicable to each case. The interpretation of market data regarding the choice of methodologies requires considerable judgment and determination of estimates to achieve an amount considered adequate for each case. Accordingly, the estimates presented may not necessarily indicate the amounts, which can be obtained in the current market. The use of different assumptions for calculation of market value or fair value may have material effect on the obtained amounts. The selection of assets and liabilities presented in this note took place based on their materiality. Instruments whose values approximate their fair values, for example, cash, bank accounts and high-liquid investments, accounts receivable, assets and liabilities of taxes, pension funds, among others, and whose risk assessment is not significant, are not mentioned.

In accordance with their natures, the financial instruments may involve known or unknown risks, and the potential of such risks is important for the best judgment. Thus, there may be risks with or without guarantees, depending on circumstantial or legal aspects. Among the principal market risk factors which can affect the Company s and the subsidiaries business are the following:

a. Credit Risk

The majority of services provided by the subsidiary Brasil Telecom S.A. are related to the Concession Agreement, and a significant portion of these services is subject to the determination of fees by the regulatory agency. The credit policy, in its turn, in case of telecommunications public services, is subject to legal standards established by the concession authority. The risk exists since Brasil Telecom S.A. and its subsidiaries may be subject to losses arising from the difficulty in receiving amounts billed to its clients. The consolidated default in the quarter was 2.23% (2.60% in 2006), taking into account the accounts receivable total losses in relation to gross revenue. By means of internal controls, the level of accounts receivable is constantly monitored, thus limiting the risk of past due accounts by cutting the access to the service (out phone traffic) if the bill is overdue for over 30 days. Exceptions are made for telephone services, which should be maintained for national security or defense.

The subsidiary Brasil Telecom S.A. operates in co-billing, concerning long distance calls with the use of its CSP (Operator Selection Code) originated by subscribers of other fixed and mobile telephony operators. The co-billing accounts receivable are managed by these operators, based on the operational agreements entered into with them and according to the rules set forth by ANATEL. The blocking rules set forth by the regulating agency are the same for the fixed and mobile telephony companies, which are co-billing suppliers. The Subsidiary separately controls receivables of this nature and maintains an allowance for losses that may occur, due to the risks of not receiving such amounts.

Regarding mobile telephony, the credit risk in cell phones sales and service rendering in the post-paid category is minimized with the adopt on of a credit pre-analysis. Still regarding to post-paid service, whose client base at the end of the quarter was 21.3% of the total portfolio (23.6% in 06/30/07), the accounts receivable are also monitored in order to limit the default rate and blocking the service (of phone traffic) when the bill is overdue for more than 15 days.

b. Exchange Rate Risk

Liabilities

The subsidiary Brasil Telecom S.A. has loans and financing contracted in foreign currency. The risk related to these liabilities arises from possible exchange rate fluctuations, which may increase these liabilities balances. Loans subject to this risk represent approximately 17.7% (18.3% on 06/30/07) of the total liabilities of consolidated loans and financing, minus the contracted hedge balances. In order to minimize this kind of risk, exchange hedge agreements are contracted with financial institutions. Of the debt installment consolidated in foreign currency, 52.4% (41.0% on 06/30/07) is covered by hedge operations in the exchange rate swap and dollar options mode and financial investments in foreign currency. Unrealized positive and negative effects in these operations are record against income as profit or loss.

Net exposure as per book and market values at the exchange rate risk prevailing is as follows:

CONSOLIDATED

	09/30/07		**06/30/07**	
	Book Value	**Market Value**	**Book Value**	**Market Value**
Liabilities				
Loans & Financing	642,334	669,150	707,525	738,906
Hedge Contracts	380,389	379,869	425,941	425,778
Total	**1,022,723**	**1,049,019**	**1,133,466**	**1,164,684**
Current	197,019	196,938	207,917	208,893
Long-term	825,704	852,081	925,549	955,791

The method used for calculating the market value (fair value) of swap instruments was future cash flows associated to each instrument contracted, discounted at market rates in force on the closing date of the quarter. For securities negotiable in organized markets, the market (fair) value is equivalent to the value of the last closing quotation available on the closing date of the quarter multiplied by the number of securities in circulation. For contracts in which the current contracting conditions are similar to those in which they have been originated, or that do not present parameters for quotation or contracting, market values are equal to accounting values.

c. Interest Rate Risk

Assets

Consolidated assets result from loans remunerated by rates mentioned below, as well as Bank Deposit Certificates (CDBs) with Banco de Brasília S.A. related to the guarantee to credit benefit granted by the Federal District Government under a program called *Programa de Promoção do Desenvolvimento Econômico e Sustentável do Distrito Federal* PRO-DF, (Program to Promote the Economic and Sustained Development of the Federal District), and the remuneration of these securities is equivalent to 95% of the SELIC rate.

CONSOLIDATED

	Book and Market Value	
	09/30/07	**06/30/07**
Assets		
Loans (Includes Debentures)		
Loans Subject to IGP-M, Column 27 (FGV) and IGP-DI	8,015	8,068
Securities subject to:		
SELIC rate	3,604	3,510
Total	**11,619**	**11,578**
Current	1,638	1,426
Long-term	9,981	10,152

The book values are equal to market values, as the current contracting conditions for these types of financial instruments are similar to the ones in which those come from or do not present parameters for quotation or contracting.

Liabilities

The subsidiary Brasil Telecom S.A. has loans and financing contracted in local currency subject to interest rates bound to indexing units (TJLP, UMBNDES, CDI and IGP-DI). The inherent risk in these liabilities arises from possible variations in these rates. The Subsidiary has contracted derivative hedge contracts to 5.3% (9.3% on 06/30/07) of the liabilities subject to the UMBNDES rate, using exchange rate swap contracts. However, the other market rates are continually monitored to evaluate the need to contract instruments to protect against the variation of these rates. The positive or negative effects unrealized in these operations are recorded in results as gain or loss.

In addition to loans and financing, the Controlled Company issued public debentures, non-convertible or exchangeable with shares. This liability has been contracted at interest rate bound to CDI and the risk arises in function of eventual rate increase.

The above mentioned liabilities on the balance sheet closing date are as follows:

CONSOLIDATED

	09/30/07		**06/30/07**	
	Book Value	**Market Value**	**Book Value**	**Market Value**
Liabilities				
Loans subject to TJLP	1,690,270	1,701,589	1,875,550	1,889,550
Debentures - CDI	1,121,195	1,120,746	1,089,622	1,089,622
Loans subject to UMBNDES	113,524	113,649	134,695	134,747
Hedge agreements on UMBNDES	6,821	6,781	12,436	12,276
Loans subject to IGP-DI	25,546	25,546	25,255	25,255
Other Loans (Fixed Rate)	28,790	28,790	31,942	31,942
Total	**2,986,146**	**2,997,101**	**3,169,500**	**3,183,392**
Current	457,425	461,638	574,705	579,999
Long-term	2,528,721	2,535,463	2,594,795	2,603,393

The method used for calculating the market value (fair value) of swap instruments was future cash flows associated to each instrument contracted, discounted at market rates in force on the closing date of the quarter. For securities negotiable in organized markets, the market (fair) value is equivalent to the value of the last closing quotation available on the closing date of the quarter multiplied by the number of securities in circulation. For contracts in which the current contracting conditions are similar to those in which they have been originated, or that do not present parameters for quotation or contracting, market values are equal to accounting values.

d. Risk of Not Binding Monetary Restatement Indexes of Loans and Financing to Accounts Receivable

Loan and financing rates contracted by the subsidiary Brasil Telecom S.A. are not bound to amounts of accounts receivable. Thus, a risk exists, since telephony fees adjustments do not necessarily follow increases in local interest rates, which affect the Subsidiary s debts.

e. Contingency Risks

Contingency risks are assessed according to loss hypotheses, as probable, possible or remote. Contingencies considered probable risks are recorded as liabilities. Details of these risks are presented in Note 7.

f. Risks Related to Investments

The Company has investments, which are assessed through the equity method of accounting and the acquisition cost. Brasil Telecom S.A., Nova Tarrafa Participações Ltd. And Nova Tarrafa Inc. are subsidiaries, whose investments are assessed by the equity accounting.

Investments assessed at cost are immaterial in relation to total assets. Their associated risks would not cause significant impacts on the results of the Company in case of substantial loss.

The amounts related to the investments are as follows:

	09/30/07		06/30/07	
	Book Value	**Market Value**	**Book Value**	**Market Value**
Investments	**3,984,256**	**10,246,168**	**3,849,873**	**10,144,015**
Interests in Subsidiaries	**3,976,089**	**10,238,001**	**3,841,782**	**10,135,924**
With Stock Exchange Quotation	3,954,218	10,216,130	3,816,891	10,111,033
Without Stock Exchange Quotation	21,871	21,871	24,891	24,891
Other Investments	**8,167**	**8,167**	**8,091**	**8,091**

The Stock Exchange quotation investment refers to the interest in Brasil Telecom S.A. and its market value was evaluated based on the market quotation used in the negotiation between minority shareholders.

g. Financial Investment Risks

The company has temporary high-liquidity investments, in domestic currency, in financial investment funds (FIFs), and investments in its own portfolio of (based on post-fixed rates) private securities issued by first-tier financial institutions (CDBs). The FIFs portfolios are comprised of federal bonds (based on post-fixed, pre-fixed and foreign exchange rates) and CDBs issued by first-tier financial institutions (based on post-fixed rates). Funds may carry out non-leveraged derivative operations, aiming at protecting their portfolios and complying with the purposes established in their respective investment policies. The exposure to market risks is monitored everyday by the VaR (Value at Risk) methodology, which expresses the loss risk quantification in these investments.

The temporary high-liquidity investments, in foreign currency, are represented by overnight operations backed by securities issued by foreign financial institutions, with low credit risk.

The short-term investments, rated as temporary investments, are represented by investments in securities issued by the Republic of Austria, with remuneration bound to CDI.

The investments in CDBs and overnight operations are subject to credit risk of the financial institutions. Investments in foreign currency are subject to exchange rate risk.

The balances of financial investments and short-term investments - temporary investments - are shown in Notes 17 and 18, respectively.

h. Risk of Early Maturity of Loans and Financing

Liabilities resulting from financing, mentioned in note 36, concerning agreements of BNDES, public debentures and most of them referring to financial institutions, have clauses that estimate the early maturity of liabilities or retention of amounts pegged to debt covenants, in the cases in which certain levels for certain indicators are not reached, such as ratios of indebtedness, liquidity, cash generation and others.

For the financing agreements maintained with BNDES, the Company must comply with a set of financial ratios and in the event of non-compliance with some of these ratios, the Bank is allowed to request the temporary block of amounts, given as guarantee in a blocked account. . All indicators set forth in agreements are being complied with, thus there are no sanctions or penalties set forth in the agreement clauses entered into upon the Company.

i. Regulatory Risks

New Concession Agrements

New Local and domestic long distance concession agreements were entered into by Brasil Telecom S.A. with Anatel, which took effect between January 1, 2006 and December 31, 2025. These new concession agreements, which provide for reviews on a five-year basis, in general have a higher intervention level in the management of the businesses and several provisions defending the consumer s interest, as noticed by the regulation body. The main highlights are:

- The burden of the concession defined as 2% of the net revenue from taxes, calculated every two years, started in 2006 fiscal year, whose initial payment took place on April 30, 2007 and then successively until the end of the concession. This calculation method, concerning accrual, corresponds to 1% for each fiscal year;
- The definition of new universalization targets, particularly AICE Special Class Individual Access, of mandatory and progressive offer and the Telecommunications Service Centers - PST, with full burden for the Concessionaire;
- The possibility of the Regulating Agency imposing alternative plans of mandatory offer;
- The introduction of Regulating Agency s right to intervene and modify agreements of the concessionaire with third parties;
- The inclusion of assets of the parent company, subsidiary, affiliated companies and third parties, indispensable to the concession, as reversible assets;
- The creation of the users board in each concession.

Interconnection tariffs are defined as a percentage public local and domestic long distance tariff until the effective implementation of cost model by service/modality, estimated for 2008, as defined in the Regulation for Separation and Accounting Allocation (Resolution 396/05).

The amendment to the tariff method applicable to the STFC Basic Plan in the Local Modality Rendered under Public Scheme (PBS) Conversion from Pulses to Minutes, and the implementation of the Alternative Service Plan of the Mandatory Offer (PASOO) shall be concluded in all areas of operations of the Company up to July 31, 2007, in compliance with the regulatory requirements defined by ANATEL set forth in Rules 423/05, 432/06 and 450/06This change enables the clients selecting one of two service plans of mandatory offer (PBS and PASOO), as well as exercising the right of requesting details on their local calls in the telephone bills.

The Bill of the Senate (PLS) 103/2007 and the Bill 1,481/2007, under priority progress, to amend Law 9,394/96 and Law 9,998/00, provide for the access to information digital networks in educational institutions and enable the use of funds raised by FUST by all the telecommunication operators, or even on a decentralized basis, by means of agreements of the federal government with other states. On the date of the preparation of this quarterly information is not possible to assess the future impacts of these Bills under process on Brasil Telecom S.A. s results.

Overlapping of Licenses

When Brasil Telecom S.A. received the certification for achieving the universalization targets for 2003 was received, set forth by ANATEL, it had been already providing the fixed telephony service (STFC) in the intra-regional local and domestic long distance modalities (LDN) in the Region II of the General Concession Plan (PGO). After achieving the referred targets, ANATEL, in January 2004, issued authorizations that increase the possibility of Subsidiary s operation: Local STFC and LDN in the Regions I and III of the PGO (and a few sectors of the Region II); International Long Distance (LDI) in the Regions I, II and III of the PGO; mobile telephony, by means of the subsidiary 14 Brasil Telecom Celular S.A. (BrT Celular), in the Region II of the Personal Mobile Service (SMP). The already existing concession agreements were expanded, enabling LDN calls to any part of the Brazilian territory. If Telecom Italia International N.V. (TII) acquired an indirect interest in the Company or in Brasil Telecom S.A., these and TIM Brasil Serviços e Participações S.A. (TIM) could be considered affiliates under the new Brazilian telecommunications legislation. That would imply the ability of providing domestic (LDN) and international (LDI) fixed and mobile telephony services throughout the same regions of TIM s, would be subject to risk of being partially closed by ANATEL. On January 16, 2004, ANATEL issued the Act 41,780 establishing an 18-month period for TII to reacquire an indirect interest in the Company, as long as TII did not participate or vote on issues related to the

overlapping of services offered by the Brasil Telecom S.A. and TIM, such as domestic and international long-distance and mobile services. On June 30, 2004, the Administrative Council of Economic Defense CADE, in the records of the Writ of Prevention 08700.000018/2004 -68, set forth restrictions to the exercise of the control rights on the part of Telecom Italia International N.V. and its representatives at the board of directors of Solpart Participações S.A., Brasil Telecom Participações S.A. and Brasil Telecom S.A.

On April 28, 2005, TII and TIM and Brasil Telecom S.A. and BrT Celular entered into various corporate agreements, including an instrument called Merger Agreement and a Protocol related thereto. Among other reasons alleged, this merger operation was justified by the management of that time as possible solution to overlapping of regulatory licenses and authorizations with TIM, to remove sanctions and penalties, which could be imposed by ANATEL. The operation was forbidden by an injunction issued by the U.S. court. It is also subject-matter of discussion in the Brazilian Court and in arbitration involving controlling shareholders.

On July 7, 2005, ANATEL declared, by means of Act 51,450, that the counting of 18 month-term to solve the overlapping of licenses would start on the date of effective return of TII to the control group of Brasil Telecom S.A. On July 26, 2005, ANATEL, by means of Order 576/2005, declared that the counting of term had already started on April 28, 2005. Therefore, according to ANATEL, the interested companies shall adopt the measures necessary to eliminate the overlapping of the concessions until the end of referred term in October 2006, under the penalty of applying legal sanctions, which may affect either companies or both of them.

Depending on the final decision of ANATEL, these sanctions could have an adverse and material effect on businesses and operations of the Company and of 14 Brasil Telecom Celular S.A.

On October 18, 2006, the Board of Executive Officers of ANATEL, by means of its press agency, informed its previous consent to a new operation presented by Telecom Italia International (TII) with the purpose of unmaking the concession overlapping of the Personal Mobile Service (SMP) in Region II of the General Plan of Authorizations (PGA) and of the domestic and international long distance Switched Fixed Telephone Service (STFC) in regions I, II and III of the General Concession Plan (PGO).

This new operation comprised the transfer, to Brasilco S.r.l. (a wholly-owned subsidiary of TII, with headquarters in Italy), of the total voting shares held by TII in the capital stock of Solpart Participações S.A. (corresponding to 38%), the parent company of Brasil Telecom Participações S.A., of Brasil Telecom S. A. and of 14 Brasil Telecom Celular S. A. The stake of TII in Brasilco shall be managed independently by Credit Suisse Securities (Europe) Limited.

The Agency, upon its prior consent, maintained the prohibitions related to the vote and veto exercise in the resolutions related to the STFC services (LDN and LDI) and SMP.

With the effective implementation of the operation until October 28, 2006, the concession overlapping for the SMP exploitation in Region II of PGA and domestic and international long distance STFC in regions I, II and III of PGO would cease, as a communication of ANATEL of October 18, 2006, mentioned above.

On October 27, 2006, Brasil Telecom S.A. received the terms of resignation, dated October 20, 2006, from two members of its Board of Directors pointed by TII, as well as its respective alternate members. Also, on October 27, 2006, the Company received a letter from its controlling shareholder, SOLPART PARTICIPAÇÕES S.A., informing that TII had already transferred the shares in the terms approved by Anatel - however, within the deadline. On October 30, 2006, the Company disclosed to the market a material fact related to these two topics.

Also on October 30, 2006, ANATEL, through its press agency announced that Telecom Italia International would file with ANATEL on October 27,2006, therefore, within deadline, the supplementary documentation necessary to analyze and approve the new operation: (i) proof of Telecom Italia s managers and deputies resignations in the Board of Directors of Brasil Telecom and Solpart Participações S.A.; and (ii) corporate documents related to the referred transfer of shares and to the independent management of Brasilco by Credit Suisse, in the capacity as Trustee of Telecom Italia.

Should Anatel s approval be confirmed (still pending) of the documentation presented by TII to the Agency on October 27, 2006, confirming the operation implementation until October 28, 2006, the concession overlapping for SMP exploitation in Region II of PGA and STFC domestic and international long distance in regions I, II and III of PGO

would cease.

On November 2006, TII submitted to Anatel the concentration act with Brasilco. During same month, Anatel, observing the procedural progress, it submitted this operation to the Administrative Council of Economic Defense - CADE.

On May 25, 2007, Anatel officially published the decision of granting to TIM new grants of STFC, this time under the local modality, in the Regions I, II and III of the General Concession Plan, (Act 65,152 as of May 24, 2007).

On July 18, 2007, Brasil Telecom Participações S.A. and Brasil Telecom S.A., jointly with 14 Brasil Telecom Celular S.A., Zain Participações S.A., Invitel S.A., Solpart Participações S.A., Techold Participações S.A., Caixa de Previdência dos Funcionários do Banco do Brasil Previ, Petros Fundação Petrobras de Seguridade Social, Fundação dos Economiários Federais Funcef, Investidores Institucionais Fundo de Investimento em Ações, Fundação 14 de Previdência Privada, Fundação Vale do Rio Doce de Seguridade Social Valia, Citigroup Venture Capital International Brazil, L.P., Citigroup Venture Capital International Brazil, Ltd., International Equity Investments Inc., Citibank, N.A., Priv Fundo de Investimento em Ações, Tele Fundo de Investimento em Ações, Angra Partners Consultoria Empresarial e Participações Ltda., on the one hand, and Telecom Italia International N.V., Telecom Italia S.p.A., Brasilco S.R.L., Credit Suisse Securities (Europe) Limited, Tim Brasil Serviços e Participações S.A. and Tim International N.V., on the other hand (Telecom Italia), signed a Mutual Waiver Agreement, by means of which the signatory parties undertake, provided that they are granted prior authorization of the proper corporate bodies and upon the effective acquisition by Previ, Petros and Funcef, or by Techold, as the case may be, of the entire shareholding represented by shares issued by Solpart held by Brasilco (Brasilco Shares) to waive pleadings and dismiss ongoing disputes at the Judiciary Branch and at international Arbitration Courts, involving the Companies and its shareholders, direct or indirect, on the one hand, and Telecom Italia and its subsidiaries, on the other hand.

With the Mutual Waiver Agreement, current and potential litigations involving Brasil Telecom and Brasil Telecom Participações and its subsidiaries and the companies of Telecom Italia Group, will be closed, amongst others, including the end of arbitrations aimed at nullifying the Incorporation Agreement of BrT Celular , started on March 15, 2006, and mentioned in the relevant fact disclosed by the Companies on March 16, 2006.

Brasil Telecom S.A. and Brasil Telecom Participações S.A. also clarified, by means of material fact, that they are not parties of the Brasilco Share Purchase Agreement, and they are not parties of any other agreements which may have been entered into concurrently to the Mutual Waiver Agreement.

On October 11, 2007, Techold Participações S.A. exercise, in a irrevocable and indefeasible way, its right of first refusal to acquire all the shares issued by Solpart Participações S.A. and held by Brasilco S.r.l., as provisioned in the Solpart Shareholders Agreement, under the terms and conditions, and by the price, established in the Purchase Agreement of Shares and the Letter Agreement executed on July 18, 2007.

The effective acquisition of Brasilco Shares, which is subject to approval of the National Telecommunications Agency - ANATEL and to other conditions, will enable to close the existing administrative proceedings regarding the overlapping of telephony licenses (STFC, SMP, LDN and LDI) among companies of Brasil Telecom Group and Telecom Italia Group and, thus, permanently removing the possibility of material adverse impact on the businesses and interests of the companies of Brasil Telecom Group.

6. BENEFITS TO EMPLOYEES

The benefits described in this note are offered to the employees of the Company, of its subsidiary Brasil Telecom S.A. and its subsidiaries. These companies are better described jointly, and can be referred to as Brasil Telecom Companies and for the purpose of the supplementary pension plan mentioned in this note, are also denominated Sponsor or Sponsors .

a. Supplementary Pension Plan

The Company sponsors supplementary pension plans related to retirement for its employees and assisted members, and, in the case of the latter, medical assistance in some cases. These plans are managed by the following foundations: (i) Fundação 14 de Previdência Privada (Fundação 14); (ii) Fundação BrTPREV (FBrTPREV) former CRT, a company merged by the Company on 12/28/00; and (iii) Fundação SISTEL de Seguridade Social (SISTEL), originated from certain companies of the former Telebrás System.

The Bylaws stipulate approval of the supplementary pension plan policy, and the joint liability attributed to the defined benefit plans is bound to the acts signed with the foundations, with the agreement of the Secretaria de Previdência Complementar - SPC, where applicable to the specific plans.

The plans sponsored are valued by independent actuaries on the fiscal year closing date. In the case of the defined benefit plans described in this explanatory note, immediate recognition of the actuarial gains and losses is adopted. Liabilities are provided for plans which show deficits. This measure has been applied since the 2001 fiscal year, when the regulations of CVM Resolution 371/00 were adopted. In cases that show positive actuarial situations, no assets are recorded due to the legal impossibility of reimbursing these surpluses.

The characteristics of the supplementary pension plans sponsored by the Company are described below:.

FUNDAÇÃO 14

Private Pension Fundação 14 was created in 2004 and since 3/10/05 has been in charge of the management and operation of the TCSPREV pension plan. On such a date, it entered into an administration agreement with SISTEL, so that the latter would provide management and operating services to the TCSPREV and PAMEC-BrT plans up to 9/30/06. From this date on, Fundação 14 took over the management and operation services of its plans.

Plans

TCSPREV (Defined Contribution, Settled Benefit and Defined Benefit)

This defined contribution and settled benefit plan was introduced on 02/28/00. On 12/31/01, all pension plans sponsored by the Company with SISTEL were merged, being exceptionally and provisionally approved by the Secretaria de Previdência Complementar SPC of document sent to that Agency, due to the need for adjustments to the regulations. Thus, TCSPREV is comprised of defined contribution groups with settled and defined benefits. The plans that were merged into the TCSPREV were the PBS-TCS, PBT-BrT, BrT Management Agreement, and the Unusual Contractual Relation Instrument, and the conditions established in the original plans were maintained. In March 2003, this plan was no longer offered to the sponsors new contracted ones. However, concerning the defined contribution group, this plan started being offered as of March 2005. TCSPREV currently provides assistance to nearly 65.6% of the staff.

Contributions to this plan, by group of participants, are established based on actuarial studies prepared by independent actuaries according to regulations in force in Brazil, using the capitalization system to determine the costs. Currently, contributions are made by the participants and the sponsor only for the internal groups PBS-TCS (defined benefit) and TCSPREV (defined contribution). In the TCSPREV group, the contributions are credited in individual accounts of each participant, equally by employee and sponsor, and the basic contribution percentages vary between 3% and 8% of the participant s salary, according to participant s age and limited to R$20,070.00 for 2007. Participants have the option to make additional contributions to the plan, but without parity of the Company. In the case of the PBS-TCS group, the sponsor s contribution corresponds to 12% of the payroll of the participants; while the employees contribution varies according to the age, service time and salary. An entry fee may also be payable depending on the age of joining the plan. The sponsors are responsible for the cost of all administrative expenses and risk benefits.

PAMEC-BrT Health Care Plan for Supplementary Pension Beneficiaries (Defined Benefit)
Destined for health care of retirees and pensioners subject to Grupo PBT-BrT, which was merged into TCSPREV on 12/31/01.

The contribution for this plan was fully paid in July 1998, through a single payment. New contributions are limited to future necessity to cover expenses, if that occurs.

FUNDAÇÃO SISTEL DE SEGURIDADE SOCIAL

The supplementary pension plan PBS-A, which remains under SISTEL s management, comes from the period before the Telebrás Spin-off and assists participants who had the status of beneficiaries in January 2000. SISTEL also manages the PAMA/PAMA-PCE pension plan, formed by participants assisted by the PBS-A Plan, the PBS s plans segregated by sponsor in January 2000 and PBS-TCS Internal Group, merged into the TCSPREV plan in December 2001.

Plans

PBS-A (Defined Benefit)
Maintained jointly with other sponsors subject to the provision of telecommunications services and destined for participants that had the status of beneficiaries on 1/31/00.

Contributions may occur in case of accumulated deficit. On 12/31/06, the actuarial appraisal date, the plan presented a surplus.

PAMA - Health Care Plan for Retirees / PCE Special Coverage Plan (Defined Contribution)
Maintained jointly with other sponsors subject to the provision of telecommunications services and destined for participants that had the status of beneficiaries on 01/31/00, for the beneficiaries of the PBS-TCS Group, merged on 12/31/01 into TCSPREV (plan currently managed by Fundação 14) and for the participants of PBS s defined benefit plans sponsored by other companies, together with SISTEL and other foundations. According to a legal and actuarial appraisal, the Sponsor s responsibility is exclusively limited to future contributions. From March to July 2004 and from December 2005 to April 2006, an incentive optional migration of retirees and pensioners of PAMA took place for new coverage conditions (PCE). The participants who opted for the migration began to contribute to PAMA/PCE.

The contributions for this plan corresponding to 1.5% on payroll of active participants subject to PBS plans, segregated and sponsored by several sponsors company. In the case of Brasil Telecom, the PBS-TCS was merged into the TCSPREV plan on 12/31/01, and began to constitute an internal group of the plan. Contributions by retirees and pensioners who migrated to PAMA/PCE are also carried out.

FUNDAÇÃO BrTPREV

It is the manager originated from the plans sponsored by former CRT, company incorporated by Brasil Telecom S.A. at the end of 2000. The main purpose of the Company sponsoring FBrTPREV is to maintain the supplementary retirement, pension and other provisions in addition to those provided by the official social security system to participants.

Plans

BrTPREV
Defined contribution plan and settled benefits, launched in October 2002, destined for the concession of pension plan benefits supplementary to those of the official pension plan and that initially assisted only employees subject to the Subsidiary Rio Grande do Sul. This pension plan remained open to new employees of the Company and its subsidiaries from March 2003 to February 2005, when its offering was suspended. Currently, BrTPREV provides assistance to nearly 24.6% of the staff.

Contributions to this plan are established based on actuarial studies prepared by independent actuaries according to the regulations in force in Brazil, using the capitalization system to determine costs. Contributionst;">)

Accumulated other comprehensive loss
(56,679
)

(45,443
)
Retained earnings
381,129

348,373

Total stockholders' equity
1,397,030

1,375,796

Total liabilities and stockholders' equity
$
3,205,711

$
3,107,887

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

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

	Three Months Ended March 31,	
	2019	2018
OPERATING ACTIVITIES:		
Net income	$32,756	$10,992
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	27,093	27,096
Deferred income tax	(6,843)	(1,636)
Amortization of debt issuance costs	1,357	1,519
Loss on disposal of property and equipment	367	146
Change in fair value of contingent consideration and other	194	379
Share-based compensation	4,083	4,731
Changes in assets and liabilities, net of business acquisitions:		
Accounts receivable	(13,705)	(18,400)
Inventories	(12,048)	1,297
Prepaid expenses and other current assets	(12,949)	12,163
Other non-current assets	(628)	339
Accounts payable, accrued expenses and other current liabilities	5,387	2,974
Deferred revenue	(188)	—
Other non-current liabilities	4,608	(69)
Net cash provided by operating activities	29,484	41,531
INVESTING ACTIVITIES:		
Purchases of property and equipment	(16,086)	(15,387)
Proceeds from note receivable	245	221
Proceeds from sale of property and equipment	35	148
Cash provided by business acquisitions	—	5,720
Net cash used in investing activities	(15,806)	(9,298)
FINANCING ACTIVITIES:		
Proceeds from borrowings of long-term indebtedness	67,200	25,000
Payments on debt	(57,400)	(35,000)
Net cash paid for contingent consideration	—	(7,772)
Proceeds from exercised stock options	1,750	3,662
Cash taxes paid in net equity settlement	(6,157)	(6,776)
Net cash provided by (used in) financing activities	5,393	(20,886)
Effect of exchange rate changes on cash and cash equivalents	(884)	3,114
Net increase in cash and cash equivalents	18,187	14,461
Cash and cash equivalents at beginning of period	138,838	174,935
Cash and cash equivalents at end of period	$157,025	$189,396

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

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

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

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

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

	Three Months Ended March 31, 2018							
	Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Equity
	Shares	Amount	Shares	Amount				
	(In thousands)							
Balance, January 1, 2018	81,306	$ 813	(2,927)	$(121,644)	$821,758	$ (23,807)	$285,186	$962,306
Net income	—	—	—	—	—	—	10,992	10,992
Adoption of Update No. 2014-09	—	—	—	—	—	—	1,854	1,854
Other comprehensive income (loss), net of tax	—	—	—	—	—	22,144	(532)	21,612
Issuance of common stock	297	3	—	—	3,107	—	—	3,110
Issuance of common stock through employee stock purchase plan	—	—	—	—	553	—	—	553
Issuance of common stock for vesting of share based awards, net of shares withheld for taxes	108	1	37	910	(7,643)	—	—	(6,732)
Share-based compensation	—	—	—	—	4,745	—	—	4,745
Balance, March 31, 2018	81,711	$ 817	(2,890)	$(120,734)	$822,520	$ (1,663)	$297,500	$998,440

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

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

1. BASIS OF PRESENTATION
General
The terms “we,” “our,” “us,” “Company” and “Integra” refer to Integra LifeSciences Holdings Corporation, a Delaware corporation, and its subsidiaries unless the context suggests otherwise.
In the opinion of management, the March 31, 2019 unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement of the financial position, results of operations and cash flows of the Company. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. These unaudited condensed consolidated financial statements should be read in conjunction with the Company’s consolidated financial statements for the year ended December 31, 2018 included in the Company’s Annual Report on Form 10-K. The December 31, 2018 consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States. Operating results for the three month period ended March 31, 2019 are not necessarily indicative of the results to be expected for the entire year.
The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent liabilities, and the reported amounts of revenues and expenses. Significant estimates affecting amounts reported or disclosed in the consolidated financial statements include allowances for doubtful accounts receivable and sales returns and allowances, net realizable value of inventories, valuation of intangible assets including amortization periods for acquired intangible assets, discount rates and estimated projected cash flows used to value and test impairments of long-lived assets and goodwill, estimates of projected cash flows and depreciation and amortization periods for long-lived assets, computation of taxes, valuation allowances recorded against deferred tax assets, the valuation of stock-based compensation, valuation of derivative instruments, valuation of pension assets and liabilities, valuation of contingent liabilities, the fair value of debt instruments and loss contingencies. These estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the current circumstances. Actual results could differ from these estimates.
Recently Issued Accounting Standards
In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (the New Lease Standard). The New Lease Standard requires that lessees recognize virtually all of its leases on the balance sheet by recording a right-of-use asset and lease liability (other than leases that meet the definition of a "short-term lease"). This update became effective for all annual periods and interim reporting periods beginning after December 15, 2018.
The Company adopted the New Lease Standard as of January 1, 2019 using a modified retrospective transition. Under this method, financial results reported in periods prior to January 1, 2019 are unchanged. The Company also elected the package of practical expedients, which among other things, does not require reassessment of lease classification. As most of our leases do not provide an implicit rate, we used our collateralized incremental borrowing rate based on the information available at the lease implementation date in determining the present value of the lease payments. The adoption of the New Lease Standard had an impact on our consolidated balance sheet due to the recognition of $76.4 million of lease liabilities with corresponding right-of-use assets ("ROU") of $67.3 million for operating leases. The difference between lease liabilities and right-of-use assets is primarily attributed to unamortized lease incentives which will be amortized over the term of each respective lease.
In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The ASU is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU requires the measurement of all expected credit losses for financial assets including trade receivables held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to

better inform their credit loss estimates. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company is evaluating the impact, if any, that this pronouncement will have on our financial position and results of operations.

In August 2018, the FASB issued ASU 2018-14, Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20): Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans. The new guidance modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans, including removing certain previous disclosure requirements, adding certain new disclosure requirements, and clarifying certain other disclosure requirements. The ASU will be effective for fiscal years beginning after December 15, 2020, including

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interim periods within those fiscal years. Early adoption is permitted. The adoption is not expected to have a material impact on the Condensed and Consolidated Financial Statements.

In August 2018, the FASB issued ASU No. 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40), relating to a customer's accounting for implementation, set-up, and other upfront costs incurred in a cloud computing arrangement that is hosted by a vendor (i.e., a service contract). Under the new guidance, a customer will apply the same criteria for capitalizing implementation costs as it would for an arrangement that has a software license. The new guidance also prescribes the balance sheet, income statement, and cash flow classification of the capitalized implementation costs and related amortization expense, and requires additional quantitative and qualitative disclosures. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early application is permitted. The Company can choose to adopt the new guidance (1) prospectively to eligible costs incurred on or after the date this guidance is first applied or (2) retrospectively. The Company is evaluating the impact, if any, that this pronouncement will have on our financial position and results of operations.

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

2. BUSINESS DEVELOPMENT

Integrated Shoulder Collaboration, Inc.

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

3. REVENUES FROM CONTRACTS WITH CUSTOMERS

Summary of Accounting Policies on Revenue Recognition

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

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

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

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

Revenues from sale of products and services are evidenced by either a contract with the customer or a valid purchase order and an invoice which includes all relevant terms of sale. For product sales, invoices are generally issued upon the transfer of control (or upon the completion of the manufacturing in the case of the private label transactions recognized over time) and are typically payable thirty days after the invoice date. The Company performs a review of

each specific customer's creditworthiness and ability to pay prior to acceptance as a customer. Further, the Company performs periodic reviews of its customers' creditworthiness prospectively.

Performance Obligations

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

Significant Judgments

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

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

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

The Company's return policy, as set forth in its product catalogs and sales invoices, requires the Company to review and authorize the return of a product in advance. Upon the authorization, a credit will be issued for the goods returned within a set amount of days from the shipment, which is generally ninety days.

The Company disregards the effects of a financing component if the Company expects, at contract inception, that the period between the transfer and customer payment for the good or services will be one year or less. The Company has no significant revenues recognized on payments expected to be received more than one year after the transfer of control of products or services to customers.

Contract Asset and Liability

Revenues recognized from the Company's private label business that are not invoiced to the customers as a result of recognizing revenue over time are recorded as a contract asset included in the prepaid expenses and other current assets account in the consolidated balance sheet.

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

The following table summarizes the changes in the contract asset and liability balances for the three months ended March 31, 2019:

Contract Asset	
Contract asset, January 1, 2019	$4,193
Transferred to trade receivable of contract asset included in beginning of the year contract asset	(4,193)
Contract asset, net of transferred to trade receivables on contracts during the period	5,848
Contract asset, March 31, 2019	$5,848
Contract Liability	
Contract liability, January 1, 2019	$12,716
Recognition of revenue included in beginning of year contract liability	(1,165)
Contract liability, net of revenue recognized on contracts during the period	800
Foreign currency translation	4
Contract liability, March 31, 2019	$12,355

At March 31, 2019, the short-term portion of the contract liability of $3.8 million and the long-term portion of $8.6 million were included in accrued expenses and other current liabilities and other liabilities in the consolidated balance sheet.

As of March 31, 2019, the Company is expected to recognize revenue of approximately $3.0 million for the remainder of 2019, $2.9 million in 2020, $2.2 million in 2021, $1.3 million in 2022, $0.8 million in 2023, and $2.2 million thereafter.

Shipping and Handling Fees

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

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

Product Warranties
Certain of the Company's medical devices, including monitoring systems and neurosurgical systems, are designed to operate over long periods of time. These products are sold with warranties which may extend for up to two years from the date of purchase. The warranties are not considered a separate performance obligation. The Company estimates its product warranties using the expected value method based on historical trends and other known factors. The Company includes them in accrued expenses and other current liabilities in the consolidated balance sheet.
Taxes Collected from Customers
The Company elected to exclude from the measurement of the transaction price all taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction and collected by the entity from a customer.
Disaggregated Revenue
The following table presents revenues disaggregated by the major sources of revenues for the three months ended March 31, 2019 and 2018 (amounts in thousands):

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
	(amounts in thousands)	
Neurosurgery	$166,415	$166,898
Precision Tools and Instruments	68,153	69,217
Total Codman Specialty Surgical	234,568	236,115
Wound Reconstruction and Care	74,963	72,287
Extremity Orthopedics	22,685	22,635
Private Label	27,474	26,045
Total Orthopedics and Tissue Technologies	125,122	120,967
Total revenue	$359,690	$357,082

Prior period amounts were reclassified between categories within the Orthopedics and Tissue Technologies segment to conform to the current period presentation.
See Note 15, Segment and Geographical Information, for details of revenues based on the location of the customer.
Effect of Adoption of ASC Topic 606
On January 1, 2018, the Company adopted Topic 606 using the modified retrospective method applied to all contracts which were not completed as of January 1, 2018. Results of operations for the reporting periods after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with Topic 605, Revenue Recognition.
The adoption of Topic 606 resulted in an increase to the opening retained earnings of $1.9 million, which was recorded net of taxes as of January 1, 2018 to reflect the change in timing of the recognition of revenue related to the Company's private label business from point in time to over time during the manufacturing process and goods in transit for which control was transferred to customers at the time of shipment. The total assets and liabilities increased by $7.1 million and $5.2 million, respectively, as of January 1, 2018.
The impact of adoption in the year of implementation of Topic 606 to the Company's consolidated statement of operations for the three months ended March 31, 2018 was as follows:

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

	Three Months Ended March 31, 2018	
	As Reported	Excluding Impact of Topic 606
	(Amounts in thousands)	
Statement of Operations		
Total revenue, net	$357,082	$356,622
Cost of goods sold	144,222	144,019
Income tax benefit	(1,860)	(1,924)
Net income	10,992	10,799

4. INVENTORIES

Inventories, net consisted of the following:

	March 31, 2019	December 31, 2018
	(In thousands)	
Finished goods	$178,263	$ 179,885
Work in process	52,640	47,715
Raw materials	56,059	52,747
	$286,962	$ 280,347

5. GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amount of goodwill for the three-month period ended March 31, 2019 were as follows:

	Codman Specialty Surgical	Orthopedics and Tissue Technologies	Total
	(In thousands)		
Goodwill at December 31, 2018	$625,760	$ 300,715	$926,475
Foreign currency translation	(2,679)	(1,288)	(3,967)
Goodwill at March 31, 2019	$623,081	$ 299,427	$922,508

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

	March 31, 2019			
	Weighted Average Life	Cost	Accumulated Amortization	Net
	(Dollars in thousands)			
Completed technology	19 years	$852,751	$ (178,506)	$674,245
Customer relationships	13 years	231,111	(110,519)	120,592
Trademarks/brand names	28 years	103,820	(25,665)	78,155
Codman trade name	Indefinite	161,025	—	161,025
Supplier relationships	27 years	34,721	(16,876)	17,845
All other	4 years	10,844	(4,076)	6,768
		$1,394,272	$ (335,642)	$1,058,630

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	December 31, 2018			
	Weighted Average Life	Cost	Accumulated Amortization	Net
	(Dollars in thousands)			
Completed technology	19 years	$855,679	$(167,384)	$688,295
Customer relationships	13 years	231,448	(106,859)	124,589
Trademarks/brand names	28 years	104,061	(24,764)	79,297
Codman trade name	Indefinite	162,054	—	162,054
Supplier relationships	27 years	34,721	(16,519)	18,202
All other	4 years	10,958	(3,899)	7,059
		$1,398,921	$(319,425)	$1,079,496

Based on quarter-end exchange rates, amortization expense (including amounts reported in cost of product revenues) is expected to be approximately $49.5 million for the remainder of 2019, $65.8 million in 2020, $64.7 million in 2021, $61.2 million in 2022, $60.3 million in 2023, $59.5 million in 2024 and $535.9 million thereafter.

In April of 2019, a contract manufacturing customer of our Private Label product line received a notification from the FDA ordering them to remove their product from the market. Revenue for this customer was approximately $1.7 million and $0.6 million for the twelve month period ended December 31, 2018 and three month period ended March 31, 2019, respectively. The Company has an acquired customer relationship intangible asset associated with this customer with a carrying value of $5.9 million as of March 31, 2019. The Company is assessing the impact of this decision on our relationship with this customer and any related financial impact including potential future impairments.

6. DEBT

Amended and Restated Senior Credit Agreement

On May 3, 2018, the Company entered into the fifth amendment and restatement (the "May 2018 Amendment") of its Senior Credit Facility (the "Senior Credit Facility") with a syndicate of lending banks with Bank of America, N.A., as Administrative Agent. The May 2018 Amendment extended the maturity date to May 3, 2023 and decreased the applicable rate, as described below. The Company continues to have the aggregate principal amount of $2.2 billion available to it through the following facilities:

i. a $900.0 million Term Loan facility; and

ii. a $1.3 billion revolving credit facility, which includes a $60.0 million sublimit for the issuance of standby letters of credit and a $60.0 million sublimit for swingline loans.

In connection with the May 2018 Amendment, the Company's maximum consolidated total leverage ratio in the financial covenants (as defined in the Senior Credit Facility) was modified to the following:

Fiscal Quarter	Maximum Consolidated Total Leverage Ratio
Execution of May 2018 Amendment through March 31, 2019	5.50 : 1.00
June 30, 2019 through March 31, 2020	5.00 : 1.00
June 30, 2020 through March 31, 2021	4.50 : 1.00
June 30, 2021 and thereafter	4.00 : 1.00

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

i. the Eurodollar Rate (as defined in the Senior Credit Facility) in effect from time to time plus the applicable rate (ranging from 1.00% to 1.75%), or

ii. the highest of:

1. the weighted average overnight Federal funds rate, as published by the Federal Reserve Bank of New York, plus 0.50%, plus the applicable rate (ranging from 0% to 0.75%),
2. the prime lending rate of Bank of America, N.A. plus the applicable rate (ranging from 0% to 0.75%), and
3. the one-month Eurodollar Rate plus 1.00% plus the applicable rate (ranging from 0% to 0.75%).

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The applicable rates are based on the Company's consolidated total leverage ratio (defined as the ratio of (a) consolidated funded indebtedness less cash that is not subject to any restriction on the use or investment thereof to (b) consolidated EBITDA at the time of the applicable borrowing).
The Company will pay an annual commitment fee (ranging from 0.15% to 0.30%), based on the Company's consolidated total leverage ratio, on the amount available for borrowing under the revolving credit facility.
The Senior Credit Facility is collateralized by substantially all of the assets of the Company's U.S. subsidiaries, excluding intangible assets. The Senior Credit Facility is subject to various financial and negative covenants and at March 31, 2019, the Company was in compliance with all such covenants. In connection with the May 2018 Amendment, the Company capitalized $4.2 million of financing costs and wrote off $0.8 million of previously capitalized financing costs during the second quarter of 2018.
At March 31, 2019 and December 31, 2018, there was $350.0 million and $345.0 million outstanding, respectively, under the revolving credit component of the Senior Credit Facility at weighted average interest rates of 3.9% and 4.0%, respectively. At March 31, 2019 and December 31, 2018, there was $900.0 million outstanding under the Term Loan component of the Senior Credit Facility at a weighted average interest rate of 3.9%. At March 31, 2019, $33.8 million of the Term Loan component of the Senior Credit Facility is classified as current on the consolidated balance sheet.
Securitization Facility
During the fourth quarter of 2018, the Company entered into an accounts receivable securitization facility (the "Securitization Facility") under which accounts receivable of certain domestic subsidiaries are sold on a non-recourse basis to a special purpose entity ("SPE"), which is a bankruptcy-remote, consolidated subsidiary of the Company. Accordingly, the assets of the SPE are not available to satisfy the obligations of the Company or any of its subsidiaries. From time to time, the SPE may finance such accounts receivable with a revolving loan facility secured by a pledge of such accounts receivable. The amount of outstanding borrowings on the Securitization Facility at any one time is limited to $150.0 million. The Securitization Facility agreement is for an initial three-year term and may be extended. The agreement governing the Securitization Facility contains certain covenants and termination events. An occurrence of an event of default or a termination event under this Securitization Facility may give rise to the right of its counterparty to terminate this facility. As of March 31, 2019, the Company was in compliance with the covenants, and none of the termination events had occurred. As of March 31, 2019, the Company had $126.0 million of outstanding borrowings under its Securitization Facility at a weighted average interest rate of 3.5%.
The fair value of outstanding borrowings of the Senior Credit Facility's revolving credit and Term Loan components at March 31, 2019 was approximately $340.9 million and, $885.3 million, respectively. The fair value of the outstanding borrowing of the Securitization facility at March 31, 2019 was approximately $124.6 million. These fair values were determined by using a discounted cash flow model based on current market interest rates available to the Company. These inputs are corroborated by observable market data for similar liabilities and therefore classified within Level 2 of the fair value hierarchy. Level 2 inputs represent inputs that are observable for the asset or liability, either directly or indirectly, and are other than active market observable inputs that reflect unadjusted quoted prices for identical assets or liabilities.
Letters of credit outstanding as of March 31, 2019 and December 31, 2018 totaled $0.6 million. There were no amounts drawn as of March 31, 2019.
Contractual repayments of the Term Loan component of the Senior Credit Facility are due as follows:

Year Ended December 31,	Principal Repayment
	(In thousands)
Remainder of 2019	$ 22,500
2020	45,000
2021	56,250

2022	67,500
2023	708,750
	$ 900,000

The outstanding balance of the revolving credit component of the Senior Credit Facility is due on May 3, 2023.

7. DERIVATIVE INSTRUMENTS

Interest Rate Hedging

The Company's interest rate risk relates to U.S. dollar denominated variable interest rate borrowings. The Company uses interest rate swap derivative instruments to manage earnings and cash flow exposure resulting from changes in interest rates. These interest

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rate swaps apply a fixed interest rate on a portion of our expected LIBOR-indexed floating-rate borrowings. The Company held the following interest rate swaps as of March 31, 2019 and December 31, 2018 (amounts in thousands):

Hedged Item	Current Notional Amount	Designation Date	Effective Date	Termination Date	Fixed Interest Rate	March 31, 2019 Estimated Fair Value Assets (Liabilities)	December 31, 2018 Estimated Fair Value Assets (Liabilities)
3-month USD LIBOR Loan	$50,000	June 22, 2016	December 31, 2016	June 30, 2019	1.062 %	$ 193	$ 410
3-month USD LIBOR Loan	50,000	June 22, 2016	December 31, 2016	June 30, 2019	1.062 %	193	415
1-month USD LIBOR Loan	50,000	July 12, 2016	December 31, 2016	June 30, 2019	0.825 %	210	418
3-month USD LIBOR Loan	50,000	February 6, 2017	June 30, 2017	June 30, 2020	1.834 %	393	619
1-month USD LIBOR Loan	100,000	February 6, 2017	June 30, 2017	June 30, 2020	1.652 %	866	1,287
1-month USD LIBOR Loan	100,000	March 27, 2017	December 31, 2017	June 30, 2021	1.971 %	552	1,246
1-month USD LIBOR Loan	150,000	December 13, 2017	January 1, 2018	December 31, 2022	2.201 %	(136)	1,491
1-month USD LIBOR Loan	150,000	December 13, 2017	January 1, 2018	December 31, 2022	2.201 %	(168)	1,460
1-month USD LIBOR Loan	100,000	December 13, 2017	July 1, 2019	June 30, 2024	2.423 %	(1,059)	418
1-month USD LIBOR Loan	50,000	December 13, 2017	July 1, 2019	June 30, 2024	2.423 %	(572)	162
1-month USD LIBOR Loan	200,000	December 13, 2017	January 1, 2018	December 31, 2024	2.313 %	(1,226)	2,076
1-month USD LIBOR Loan	75,000	October 10, 2018	July 1, 2020	June 30, 2025	3.220 %	(3,726)	(2,594)
1-month USD LIBOR Loan	75,000	October 10, 2018	July 1, 2020	June 30, 2025	3.199 %	(3,698)	(2,551)
1-month USD LIBOR Loan	75,000	October 10, 2018	July 1, 2020	June 30, 2025	3.209 %	(3,735)	(2,568)
1-month USD LIBOR Loan	100,000	December 18, 2018	December 30, 2022	December 31, 2027	2.885 %	(2,426)	(797)
1-month USD LIBOR Loan	100,000	December 18, 2018	December 30, 2022	December 31, 2027	2.867 %	(2,337)	(873)
Total interest rate derivatives designated as cash flow hedge	$1,475,000					$(16,676)	$ 619

The Company has designated these derivative instruments as cash flow hedges. The Company assesses the effectiveness of these derivative instruments and has recorded the changes in the fair value of the derivative

instrument designated as a cash flow hedge as unrealized gains or losses in accumulated other comprehensive income ("AOCI"), net of tax, until the hedged item affected earnings, at which point any gain or loss was reclassified to earnings. If the hedged cash flow does not occur, or if it becomes probable that it will not occur, the Company will reclassify the remaining amount of any gain or loss on the related cash flow hedge recorded in AOCI to interest expense at that time.

Foreign Currency Hedging

From time to time the Company enters into foreign currency hedge contracts intended to protect the U.S. dollar value of certain forecasted foreign currency denominated transactions. The Company assesses the effectiveness of the contracts that are designated as hedging instruments. The changes in fair value of foreign currency cash flow hedges are recorded in AOCI, net of tax, until the hedged item affects earnings. Once the related hedged item affects earnings, the Company reclassifies amounts recorded in AOCI to earnings. If the hedged forecasted transaction does not occur, or if it becomes probable that it will not occur, the Company will reclassify the amount of any gain or loss on the related cash flow hedge to earnings at that time. For contracts not designated as hedging instruments, the changes in fair value of the contracts are recognized in other income (expense), net in the consolidated statements of operation, along with the offsetting foreign currency gain or loss on the underlying assets or liabilities.

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

Cross-Currency Rate Swaps

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

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

	Effective Date	Termination Date	Fixed Rate	Aggregate Notional Amount	March 31, 2019 Fair Value Asset (Liability)
Pay CHF Receive U.S.$	October 2, 2017	October 2, 2020	1.75% 4.38%	CHF 64,710 $ 66,667	$ 1,062
Pay CHF Receive U.S.$	October 2, 2017	October 2, 2021	1.85% 4.46%	CHF 48,533 $ 50,000	575
Pay CHF Receive U.S.$	October 2, 2017	October 2, 2022	1.95% 4.52%	CHF 145,598 $ 150,000	1,078
Total					$ 2,715

During the three months ended March 31, 2019, the Company settled a cross-currency swap designated as a cash flow hedge of an intercompany loan with an aggregate notional amount of $33.3 million. The original termination date was October 2, 2020, however, as the intercompany loan settlement was consummated during the three months ended March 31, 2019, the cross-currency swap was settled simultaneously. As a result of the settlement, the Company recorded a loss of $0.4 million in other income, net in the consolidated statement of operations.

The Company held the following cross-currency rate swaps as of December 31, 2018 (dollar amounts in thousands):

	Effective Date	Termination Date	Fixed Rate	Aggregate Notional Amount	December 31, 2018 Fair Value Asset (Liability)
Pay CHF Receive U.S.$	October 2, 2017	October 2, 2020	1.75% 4.38%	CHF 97,065 $ 100,000	$ (215)
Pay CHF Receive U.S.$	October 2, 2017	October 2, 2021	1.85% 4.46%	CHF 48,533 $ 50,000	(422)
Pay CHF Receive U.S.$	October 2, 2017	October 2, 2022	1.95% 4.52%	CHF 145,598 $ 150,000	(2,193)
Total					$ (2,830)

The cross-currency swaps are carried on the consolidated balance sheet at fair value, and changes in the fair values are recorded as unrealized gains or losses in AOCI. For the three months ended March 31, 2019 and 2018, the Company recorded a gain of $3.3 million and loss of $6.4 million, respectively, in other income (expense), net for the foreign currency rate translation to offset the gains or losses recognized on the intercompany loans.

For the three months ended March 31, 2019 and 2018, the Company recorded a gain of $5.5 million and a loss of $7.0 million, respectively, in AOCI related to the change in fair value of the cross-currency swap.

For the three months ended March 31, 2019 and 2018, the Company recorded gains of $1.9 million in other income, net included in the consolidated statements of operations related to the interest rate differential of the cross-currency swap.

As of March 31, 2019, an estimated gain of $6.8 million is expected to be reclassified within the next twelve months to other income, net from AOCI. As of March 31, 2019, the Company does not expect any gains or losses will be reclassified into earnings as a result of the discontinuance of these cash flow hedges because the original forecasted transaction will not occur.

Net Investment Hedges

The Company manages certain foreign exchange risks through a variety of strategies, including hedging. The Company is exposed to foreign exchange risk in its international operations from foreign currency purchases, net investments in foreign subsidiaries, and foreign currency assets and liabilities created in the normal course of business. On October 1, 2018, the

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Company entered into cross-currency swap agreements designated as net investment hedges to partially offset the effects of foreign currency on foreign subsidiaries.
The Company held the following cross-currency rate swaps designated as net investment hedges as of March 31, 2019 and December 31, 2018, respectively (dollar amounts in thousands):

	Effective Date	Termination Date	Fixed Rate	Aggregate Notional Amount	March 31, 2019 Fair Value Asset (Liability)	December 31, 2018 Fair Value Asset (Liability)
Pay EUR Receive U.S.$	October 3, 2018	September 30, 2021	— 3.01%	EUR 70,738 $ 82,000	$ 3,343	$ 1,359
Pay EUR Receive U.S.$	October 3, 2018	September 30, 2023	— 2.57%	EUR 51,760 $ 60,000	2,175	(421)
Pay EUR Receive U.S.$	October 3, 2018	September 30, 2025	— 2.19%	EUR 38,820 $ 45,000	1,037	(150)
Pay GBP Receive U.S.$	October 3, 2018	September 30, 2025	1.67% 2.71%	GBP 128,284 $ 167,500	(1,026)	2,360
Pay CHF Receive GBP	October 3, 2018	September 30, 2025	— 1.67%	CHF 165,172 GBP 128,284	1,731	(3,780)
Total					$ 7,260	$ (632)

The cross-currency swaps were carried on the consolidated balance sheet at fair value, and changes in the fair values were recorded as unrealized gains or losses in AOCI. For the three months ended March 31, 2019, the Company recorded a gain of $7.9 million in AOCI related to the change in fair value of the cross-currency swaps.
For the three months ended March 31, 2019, the Company recorded a gain of $2.3 million in interest income included in the consolidated statements of operations related to the interest rate differential of the cross-currency swaps.
The estimated gain that is expected to be reclassified to interest income from AOCI as of March 31, 2019 within the next twelve months is $8.9 million.
Counterparty Credit Risk
The Company manages its concentration of counterparty credit risk on its derivative instruments by limiting acceptable counterparties to a group of major financial institutions with investment grade credit ratings, and by actively monitoring their credit ratings and outstanding positions on an ongoing basis. Therefore, the Company considers the credit risk of the counterparties to be low. Furthermore, none of the Company’s derivative transactions are subject to collateral or other security arrangements, and none contain provisions that depend upon the Company’s credit ratings from any credit rating agency.

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Fair Value of Derivative Instruments
The Company has classified all of its derivative instruments within Level 2 of the fair value hierarchy because observable inputs are available for substantially the full terms of the derivative instruments. The fair value of the interest rate swaps and the cross-currency swaps was developed using a market approach based on publicly available market yield curves and the terms of the related swap. The Company performs ongoing assessments of counterparty credit risk.
The following table summarizes the fair value and presentation for derivatives designated as hedging instruments in the condensed consolidated balance sheets as of March 31, 2019 and December 31, 2018:

Location on Balance Sheet [1]:	Fair Value as of March 31, 2019	December 31, 2018
	(In thousands)	
Derivatives designated as hedges — Assets:		
Prepaid expenses and other current assets		
Cash Flow Hedges		
Interest rate swap[2]	$2,738	$ 4,654
Cross-currency swap	6,849	7,615
Net Investment Hedges		
Cross-currency swap	8,910	8,888
Other assets		
Cash Flow Hedges		
Interest rate swap[2]	346	5,350
Net Investment Hedges		
Cross-currency swap	1,532	1,774
Total derivatives designated as hedges — Assets	$20,375	$ 28,281
Derivatives designated as hedges — Liabilities:		
Accrued expenses and other current liabilities		
Cash Flow Hedges		
Interest rate swap[2]	$87	$ —
Other liabilities		
Cash Flow Hedges		
Interest rate swap[2]	19,672	9,385
Cross-currency swap	4,134	10,445
Net Investment Hedges		
Cross-currency swap	3,181	11,294
Total derivatives designated as hedges — Liabilities	$27,074	$ 31,124

(1) The Company classifies derivative assets and liabilities as non-current based on the cash flows expected to be incurred within the following 12 months.
(2) At March 31, 2019 and December 31, 2018, the notional amount related to the Company's interest rate swaps were $1.5 billion.

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The following presents the effect of derivative instruments designated as cash flow hedges on the accompanying condensed consolidated statement of operations during the three months ended March 31, 2019 and 2018:

	Balance in AOCI Beginning of Quarter	Amount of Gain (Loss) Recognized in AOCI	Amount of Gain (Loss) Reclassified from AOCI into Earnings	Balance in AOCI End of Quarter	Location in Statements of Operations
	(In thousands)				
Three Months Ended March 31, 2019					
Cash Flow Hedges					
Interest rate swap	$619	$ (15,891)	$ 1,406	$ (16,678)	Interest income
Cross-currency swap	(6,190)	7,473	5,178	(3,895)	Other income, net
Net Investment Hedges					
Cross-currency swap	(632)	10,221	2,327	7,262	Interest income
	$(6,203)	$ 1,803	$ 8,911	$ (13,311)	
Three Months Ended March 31, 2018					
Cash Flow Hedges					
Interest rate swap	$592	$ 14,940	$ (656)	$ 16,188	Interest expense
Cross-currency swap	(5,104)	(7,027)	(4,454)	(7,677)	Other income, net
	$(4,512)	$ 7,913	$ (5,110)	$ 8,511	

8. STOCK-BASED COMPENSATION

As of March 31, 2019, the Company had stock options, restricted stock awards, performance stock units, contract stock awards and restricted stock unit awards outstanding under two plans, the 2001 Equity Incentive Plan (the "2001 Plan") and the 2003 Equity Incentive Plan (the "2003 Plan," and collectively, the "Plans").

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

Stock Options

As of March 31, 2019, there were approximately $7.0 million of total unrecognized compensation costs related to unvested stock options. These costs are expected to be recognized over a weighted-average period of approximately over three years. There were 202,752 stock options granted during the three months ended March 31, 2019. For the three months ended March 31, 2019, the weighted average grant date fair value for stock options was $18.74 per option.

Awards of Restricted Stock and Performance Stock

Performance stock and restricted stock awards generally have requisite service periods of three years. Performance stock units are subject to graded vesting conditions, and the Company expenses their fair value over the requisite service period. The Company expenses the fair value of restricted stock awards on a straight-line basis over the requisite service period. As of March 31, 2019, there were approximately $33.6 million of total unrecognized compensation costs related to these unvested awards. The Company expects to recognize these costs over a weighted-average period of approximately over two years. The Company granted 215,662 restricted stock awards and 118,903 performance stock awards during the three months ended March 31, 2019. For the three months ended March

31, 2019, the weighted average grant date fair value for restricted stock awards and performance stock units was $55.62 and $55.91 per award, respectively.

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

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

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9. DEFINED BENEFIT PLANS
The Company maintains defined benefit pension plans that cover certain employees in Austria, France, Japan, Germany and Switzerland.
Net periodic benefit costs for the Company's defined benefit pension plans for the three months ended March 31, 2019 and 2018 were $0.5 million and $0.6 million, respectively. The components of the net periodic benefit costs other than the service cost component of $0.7 million for the three months ended March 31, 2019 and 2018, respectively, are included in other income (expense), net in the consolidated statements of operations.
The Company previously disclosed in its consolidated financial statements for the year ended December 31, 2018 that it expected to contribute $1.9 million to its defined benefit pension plans in 2019. For the three months ended March 31, 2019, the Company did not make a contribution to the defined benefit plans. As of March 31, 2019, the Company anticipates contributing $1.9 million to its defined benefit plans in 2019.
The estimated fair values of plan assets were $30.1 million and $31.1 million as of March 31, 2019 and December 31, 2018, respectively. The net plan assets of the pension plans are invested in common trusts as of March 31, 2019 and December 31, 2018. Common trusts are classified as Level 2 in the fair value hierarchy. The fair value of common trusts is valued at the net asset value based on the fair values of the underlying investments of the trusts as determined by the sponsor of the trusts. The investment strategy of the Company's defined benefit plans is both to meet the liabilities of the plans as they fall due and to maximize the return on invested assets within an appropriate risk profile.
10. LEASES AND RELATED PARTY LEASES
The Company leases administrative, manufacturing, research and distribution facilities and vehicles through operating lease agreements. The Company has no finance leases as of March 31, 2019. Many of our leases include both lease (e.g., fixed payments including rent) and non-lease components (e.g., common-area or other maintenance costs). For vehicles, we have elected the practical expedient to group lease and non-lease components.
Most facility leases include one or more options to renew. The exercise of lease renewal options is typically at our sole discretion, therefore, the majority of renewals to extend the lease terms are not included in our ROU assets and lease liabilities as they are not reasonably certain of exercise. We regularly evaluate the renewal options and when they are reasonably certain of exercise, we include the renewal period in our lease term.
As most of our leases do not provide an implicit rate, we use our collateralized incremental borrowing rate based on the information available at the lease commencement date in determining the present value of the lease payments.
Total operating lease expense for the three months ended March 31, 2019 and March 31, 2018, was $4.4 million and $3.4 million respectively, which includes $0.1 million, in related party operating lease expense.
Supplemental balance sheet information related to operating leases at March 31, 2019 were as follows:

	March 31, 2019 (In thousands, except lease term and discount rate)
ROU assets	$ 64,999
Current lease liabilities	$ 12,619
Non-current lease liabilities	61,711
Total lease liabilities	$ 74,330
Weighted average remaining lease term (in years):	

Leased facilities	9.9	
Leased vehicles	3.4	
Weighted average discount rate:		
Leased facilities	5.7	%
Leased vehicles	3.2	%

ROU assets were included in other assets at March 31, 2019. Current lease liabilities were included in accrued expenses and other current liabilities and non-current lease liabilities were included in other liabilities at March 31, 2019.

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Supplemental cash flow information related to leases was as follows for the three months ended March 31, 2019 (in thousands):

	March 31, 2019 (In thousands)
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 3,408
ROU assets obtained in exchange for lease liabilities:	
Operating leases	2,004

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

	Related Parties	Third Parties	Total
	(In thousands)		
2019	$222	$11,641	$11,863
2020	296	12,409	12,705
2021	296	11,532	11,828
2022	296	9,154	9,450
2023	296	7,282	7,578
Thereafter	1,724	40,893	42,617
Total minimum lease payments	$3,130	$92,911	$96,041
Less: Imputed interest			21,711
Total lease liabilities			74,330
Less: Current lease liabilities			12,619
Long-term lease liabilities			61,711

During 2018, the Company entered into a lease for a new corporate headquarters in Princeton, NJ which is expected to commence during the second quarter of 2019. Total payments over the lease term are approximately $67.0 million. The payments are not included in the table above as the lease has yet to commence.

Future minimum lease payments under operating leases at December 31, 2018 were as follows:

	Related Parties	Third Parties	Total
	(In thousands)		
2019	$296	$16,472	$16,768
2020	296	13,510	13,806
2021	296	12,197	12,493
2022	296	12,937	13,233
2023	296	10,707	11,003
Thereafter	1,724	100,675	102,399
Total minimum lease payments	$3,204	$166,498	$169,702

Total operating lease expense for the year ended December 31, 2018 was $16.3 million and included $0.3 million, in related party lease expense. Future lease expense for the new corporate headquarters in Princeton, NJ is included in the table above, however, has not yet commenced.

There were no future minimum lease payments under capital leases at December 31, 2018.

Related Party Leases

The Company leases its manufacturing facility in Plainsboro, New Jersey, from a general partnership that is 50% owned by a corporation whose shareholders are trusts, whose beneficiaries include family members of the Company's

principal stockholder and former director. The term of the current lease agreement is through October 31, 2032 at an annual rate of approximately $0.3 million per year. The current lease agreement also provides (i) a 5-year renewal option for the Company to extend the lease from

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November 1, 2032 through October 31, 2037 at the fair market rental rate of the premises, and (ii) another 5-year renewal option to extend the lease from November 1, 2037 through October 31, 2042 at the fair market rental rate of the premises.

11. TREASURY STOCK

As of March 31, 2019 and December 31, 2018, there were 2.9 million shares of treasury stock outstanding with a cost of $120.1 million and $120.6 million, respectively, at a weighted average cost per share of $41.87 and $41.87, respectively.

On December 11, 2018, the Board of Directors authorized the Company to repurchase up to $225.0 million of the Company’s common stock. The program allows the Company to repurchase its shares opportunistically from time to time. The repurchase authorization expires in December 2020. Purchases may be affected through one or more open market transactions, privately negotiated transactions, transactions structured through investment banking institutions, or a combination of the foregoing. As of March 31, 2019, there remained $225.0 million available for repurchase under this authorization. This stock repurchase authorization replaces the previous $150.0 million stock repurchase authorization, approved by the Board in 2016.

There were no cash treasury stock repurchases during the three months ended March 31, 2019 and 2018.

12. INCOME TAXES

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

	Three Months Ended March 31,	
	2019	2018
Reported tax rate	(32.0)%	(20.4)%

The Company’s effective income tax rates for the three months ended March 31, 2019 and 2018 were (32.0)% and (20.4)%, respectively. For the three months ended March 31, 2019, the primary driver of the reduction in the rate is a tax benefit of $10.8 million ($0.13 per share) related to a federal tax holiday in Switzerland, which was finalized during the quarter ended March 31, 2019. The Company received a Switzerland federal tax credit of 12 million CHF, which can be used over a seven year period, ending in 2024.

As of March 31, 2019, the Company has not provided deferred income taxes on unrepatriated earnings from foreign subsidiaries as they are deemed indefinitely reinvested. Such taxes would primarily be attributable to foreign withholding taxes and local income taxes when such earnings are distributed. As such, the Company has determined the tax impact of repatriating these earnings would not be material as of March 31, 2019.

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

13. NET INCOME PER SHARE

Basic and diluted net income per share was as follows:

	Three Months Ended March 31,	
	2019	2018
	(In thousands, except per share amounts)	
Basic net income per share:		
Net income	$32,756	$10,992
Weighted average common shares outstanding	85,343	78,552
Basic net income per common share	$0.38	$0.14
Diluted net income per share:		
Net income	$32,756	$10,992
Weighted average common shares outstanding — Basic	85,343	78,552
Effect of dilutive securities:		
Stock options and restricted stock	915	1,282
Weighted average common shares for diluted earnings per share	86,258	79,834
Diluted net income per common share	$0.38	$0.14

Shares of common stock of approximately 0.3 million and 0.2 million at March 31, 2019 and 2018, respectively, that are issuable through the exercise of dilutive securities were not included in the computation of diluted net income per share because their effect would have been antidilutive.

Vested restricted and performance units that entitle the holders to approximately 0.5 million shares of common stock are included in the basic and diluted weighted average shares outstanding calculation because no further consideration is due related to the issuance of the underlying common shares.

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

COMPREHENSIVE INCOME

Comprehensive income was as follows:

	Three Months Ended March 31,	
	2019	2018
	(In thousands)	
Net income	$32,756	$10,992
Foreign currency translation adjustment	(7,009)	13,780
Change in unrealized gain (loss) on derivatives, net of tax	(4,236)	7,838
Pension liability adjustment, net of tax	9	(6)
Comprehensive income, net	$21,520	$32,604

Changes in Accumulated Other Comprehensive Income by component between December 31, 2018 and March 31, 2019 are presented in the table below, net of tax:

	Gains and Losses on Derivatives	Defined Benefit Pension Items	Foreign Currency Items	Total
	(In thousands)			
Balance at January 1, 2019	$(4,813)	$(736)	$(39,894)	$(45,443)
Other comprehensive income (loss)	2,516	9	(7,009)	(4,484)
Less: Amounts reclassified from accumulated other comprehensive income	6,752	—	—	6,752
Net current-period other comprehensive income (loss)	(4,236)	9	(7,009)	(11,236)
Balance at March 31, 2019	$(9,049)	$(727)	$(46,903)	$(56,679)

For the three months ended March 31, 2019, the Company reclassified gains of $4.0 million and $2.8 million from AOCI to other income (expenses), net, and interest income, respectively.

15. SEGMENT AND GEOGRAPHIC INFORMATION

The Company internally manages two global reportable segments and reports the results of its businesses to its chief operating decision maker. The two reportable segments and their activities are described below.

- The Codman Specialty Surgical segment includes (i) the Neurosurgery business, which sells a full line of products for neurosurgery and neuro critical care such as tissue ablation equipment, dural repair products, cerebral spinal fluid management devices, intracranial monitoring equipment, and cranial stabilization equipment and (ii) the precision tools and instruments business, which sells more than 60,000 instrument patterns and surgical and lighting products to hospitals, surgery centers, dental, podiatry, and veterinary offices.
- The Orthopedics and Tissue Technologies segment includes such offerings as skin and wound repair, bone and joint fixation implants in the upper and lower extremities, bone grafts and nerve and tendon repair products.

The Corporate and other category includes (i) various executive, finance, human resource, information systems, legal functions, (ii) brand management, and (iii) share-based compensation costs.

The operating results of the various reportable segments as presented are not comparable to one another because (i) certain operating segments are more dependent than others on corporate functions for unallocated general and administrative and/or operational manufacturing functions and (ii) the Company does not allocate certain manufacturing costs and general and administrative costs to the operating segment results. Net sales and profit by each reportable segment for the three months ended March 31, 2019 and 2018 are as follows:

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

	Three Months Ended March 31,	
	2019	2018
	(In thousands)	
Segment Net Sales		
Codman Specialty Surgical	$234,568	$236,115
Orthopedics and Tissue Technologies	125,122	120,967
Total revenues	$359,690	$357,082
Segment Profit		
Codman Specialty Surgical	$91,380	$89,491
Orthopedics and Tissue Technologies	40,495	32,438
Segment profit	131,875	121,929
Amortization	(5,279)	(5,390)
Corporate and other	(94,288)	(90,960)
Operating income	$32,308	$25,579

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

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

	Three Months Ended March 31,	
	2019	2018
	(In thousands)	
United States	$256,726	$248,928
Europe	48,640	51,773
Asia Pacific	35,700	35,785
Rest of World	18,624	20,596
Total Revenues	$359,690	$357,082

16. COMMITMENTS AND CONTINGENCIES

Contingent Consideration

The Company determined the fair value of contingent consideration during the three-month period ended March 31, 2019 and 2018 to reflect the change in estimates, additions, payments, transfers and the time value of money during the period.

A reconciliation of the opening balances to the closing balances of these Level 3 measurements for the three months ended March 31, 2019 and 2018 is as follows (in thousands):

Three Months Ended March 31, 2019	Contingent Consideration Liability Related to Acquisition of Derma Long-term
Balance as of January 1, 2019	$ 230
Balance as of March 31, 2019	$ 230

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

Three Months Ended March 31, 2018	Contingent Considerations Liabilities Related to Acquisition of Derma		Contingent Consideration Liability Related to Acquisition of Confluent Surgical, Inc.	Location in Financial Statements
	Short-term	Long-term	Short-term	
Balance as of January 1, 2018	$ 315	$ 1,387	$ 22,478	
Loss from change in fair value of contingent consideration liabilities	—	32	1,422	Selling, general and administrative
Balance as of March 31, 2018	$ 315	$ 1,419	$ 23,900	

On January 15, 2014, the Company acquired all outstanding shares of Confluent Surgical, Inc., ("Confluent Surgical"). The purchase price includes contingent consideration. The potential maximum undiscounted contingent consideration of $30.0 million consists of $25.0 million upon obtaining certain U.S. governmental approvals (the "U.S. Contingent Consideration") and $5.0 million upon obtaining certain European governmental approvals, both related to the completion of the transition of the Confluent Surgical business. The U.S. Contingent Consideration is subject to adjustment to reduce the amount of maximum payment based on the timing of obtaining the U.S. governmental approval up to the minimum of $19.0 million. The fair values of contingent consideration related to the acquisition of Confluent Surgical were estimated using a discounted cash flow model using discount rate of 2.2%. During the first quarter of 2018, the Company received the U.S. governmental approvals and adjusted the related contingent consideration liability to $19.0 million, which the Company paid in April 2018. During the third quarter of 2018, the Company received certain European governmental approvals. The Company paid the remaining $5.0 million of contingent consideration related to Confluent Surgical in October of 2018.

The Company assumed contingent consideration incurred by Derma Sciences related to its acquisitions of BioD and the intellectual property related to the Medihoney product. The Company accounted for the contingent liabilities by recording their fair value on the date of the acquisition based on a discounted cash-flow model. The contingent liabilities recognized as part of the Derma Sciences acquisition relate to the following:

i. contractual incentive payments that could be made to former equity owners of BioD if net sales of BioD products exceed a certain amount for the twelve-month periods ending June 30, 2017 and 2018 ("BioD Earnout Payments");

ii. a contractual incentive payment that could be made to the former equity owners if there has been no specific enforcement action or notice by the FDA against the specific BioD products as a result of the Untitled Letter for a certain period after closing as defined by the agreement ("Product Payment"); and

iii. contractual incentive payments that could be made to the former owner of the intellectual property relating to the Medihoney product line, if net sales of Medihoney products exceed certain amounts defined in the agreement between Derma Sciences and the former owner of the intellectual property of Medihoney for any twelve-month period ("Medihoney Earnout Payments").

At the date of the acquisition, net sales used in estimating the BioD Earnout Payments was based on the weighted average of different possible scenarios using a revenue volatility of 13.5%. The BioD Earnout Payments were valued using a discount rate of 3.0%. The maximum payout related to the BioD Earnout Payments is $26.5 million. The estimated fair value as of February 24, 2017 was $9.1 million. In August 2017, the Company paid $4.8 million for the twelve-month period ending June 30, 2017 component of the BioD Earnout Payments. The Company made no additional payments after the final earn out period. The estimated fair value as of March 31, 2018 was $0.3 million.

On May 25, 2017, the Company made full payment for the Product Payment of $26.6 million.

At the date of the acquisition, the net sales used in estimating the Medihoney Earnout Payments were based on the weighted average of different possible scenarios using revenue volatility of 27.5%. The Medihoney Earnout Payments were valued using a discount rate of 4.5%. The maximum payout related to the Medihoney Earnout Payments is $5.0

million. During the second quarter of 2018, the Company paid $2.0 million for the Medihoney Earnout Payment. The estimated fair value as of March 31, 2019 and December 31, 2018 was $0.2 million. The estimated fair value as of March 31, 2018 was $1.4 million.
The Company assesses these assumptions on an ongoing basis as additional information affecting the assumptions is obtained. The contingent consideration balance was included in other liabilities at March 31, 2019 and accrued expenses and other current liabilities and other liabilities at March 31, 2018.
BioD
On April 7, 2017, the Company's indirect wholly-owned subsidiary, BioD filed an action in the Superior Court of New Jersey, Chancery Division, Middlesex County seeking a declaration that the resignation of Russell Olsen, the former CEO of BioD, was

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

“for Good Reason” (as defined in Olsen’s employment agreement); a finding that Olsen breached the implied covenant of good faith and fair dealing, committed legal fraud, equitable fraud and negligent misrepresentation; and an award of damages for such actions, including a return of severance fees paid to Olsen. BioD was acquired in August 2016 by Derma Sciences, which Integra subsequently acquired in February 2017. After receiving a job offer from Integra that Olsen believed materially diminished his title and authority, on February 24, 2017 Olsen indicated his intention to terminate his position with BioD for Good Reason, as otherwise permitted by his employment agreement with BioD. Shortly thereafter, Cynthia Weatherly (as representative of the former equity owners of BioD) claimed in a letter to Derma Sciences that Olsen’s resignation was a “termination Without Cause” (as also defined in Olsen’s employment agreement), which would arguably trigger an acceleration of the earn out under a merger agreement between Derma Sciences, BioD and other parties (the "BioD Merger Agreement"), which was entered into in July 2016, and require as a result of the acceleration of the payment of $26.5 million by BioD. Integra assumed this contingent liability in connection with its acquisition of Derma Sciences. The action for a declaratory judgment was filed to clarify that Olsen’s termination was for Good Reason and not Without Cause. If the employment agreement was terminated for Good Reason, then the Company believes that the earn out provision under the BioD Merger Agreement should not be accelerated.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and the related notes thereto appearing elsewhere in this report and our consolidated financial statements for the year ended December 31, 2018 included in our Annual Report on Form 10-K.

We have made statements in this report which constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (the “Exchange Act”). These forward-looking statements are subject to a number of risks, uncertainties and assumptions about the Company and other matters. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of many factors, including but not limited to those set forth under the heading “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2018, and under the heading "Risk Factor" in this report. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

You can identify these forward-looking statements by forward-looking words such as “believe,” “may,” “might,” “could,” “wil
“estimate,” “continue,” “anticipate,” “intend,” “seek,” “plan,” “expect,” “should,” “would” and similar expressions in this repo

GENERAL

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

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

a broad set of our regenerative and wound care medicine technologies.

We manufacture many of our products in facilities located in the United States (the "U.S."), Canada, France, Germany, Ireland, Switzerland, and Puerto Rico. We also source most of our handheld surgical instruments, specialty metal and pyrocarbon implants, and dural sealant products through specialized third-party vendors.

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

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

Integra is committed to delivering high quality products that positively impact the lives of millions of patients and their families. We focus on four key pillars of our strategy: 1) building an execution-focused culture, 2) achieving relevant scale, 3) improving agility and innovation, and 4) leading in customer experience. We believe that by sharpening our focus on these

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areas through improved planning and communication, optimization of our infrastructure, and strategically aligned tuck-in acquisitions, we can build scale, increase competitiveness and achieve our long-term goals.

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 focus on measurements that are indicative of long-term profitable growth. These measurements include (1) revenue growth (including organic growth and acquisitions), (2) gross margins on total revenues, (3) earnings before interest, taxes, depreciation, and amortization, (4) earnings per diluted share of common stock, and (5) operating cash flows.

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

Strategic Acquisitions. An important part of our strategy is pursuing strategic transactions and licensing agreements that increase relevant scale in the clinical areas in which we compete. In 2019, integrating the Codman Neurosurgery business, which was acquired from Johnson and Johnson in 2017, remains a top priority. This acquisition expanded our portfolio of neurosurgery products and established us as the world leader in neurosurgery. It has also enabled us to bring our entire Integra portfolio to a global market.

Portfolio Optimization and New Product Introductions. We are investing in innovative product development to drive a multi-generational pipeline for our key product franchises. Our product development efforts focus on regenerative technologies and other projects with the potential for significant returns on investment. In 2018, we achieved significant milestones in research and development by successfully launching nine new products. 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 Investments. With acquisitions, new product introductions and a broader portfolio of products, investing in our sales channels is a core part of our strategy to create specialization and greater focus on reaching our customers and addressing their needs. Internationally, we have increased our commercial resources significantly in all markets and are making investments to support our sales organization and maximize our commercial opportunities. We now have a strong international sales channel that will deliver our current portfolio as well as position us for expansion. In addition, we continue to build upon our leadership brands across our product franchises to enable us to engage hospital systems through enterprise-wide contracts.

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

Equity Offering

In May 2018, the Company commenced and closed on a public offering of common stock. The Company issued 6.0 million shares of common stock and received total proceeds, net of underwriting fees and offering expenses of approximately $349.6 million. The net proceeds from the offering were used to reduce outstanding borrowings under the revolving credit portion of the Company's Senior Credit Facility.

Clinical and Product Development Activities

We continue to invest in collecting clinical evidence to support our existing products and new product launches, and to ensure that we obtain market access for broader and more cost-effective solutions. In 2018, we launched the CUSA® Clarity ultrasonic tissue ablation platform in Japan, Xtrasorb® Gentle Tack Silicone Foam Dressing, SurgiMend® MP Collagen Matrix, and Integra® Meshed Dermal Regeneration Template outside the U.S., and AmnioExcel® Plus Amniotic Allograft Membrane, Integra® XT Revision Total Ankle Replacement System, and Panta® II TTC Arthrodesis Nail System in the U.S. We continue to work on advanced shoulder products and are developing a pyrocarbon shoulder hemiarthroplasty product to add to our orthopedic reconstruction portfolio. We launched the Panta II system outside the U.S. during the first quarter of 2019. The Panta II system is a new fusion nail used in ankle fixation. In our electromechanical technologies portfolio, we are focused on the development of core clinical applications and anticipate a steady flow of product launches in early 2019, including the introduction of a

new electrosurgery generator, a next generation ICP monitoring platform and an innovative customer-centric toolkit for our Certas™ Plus Programmable Valve along with additional shunt configurations. We continue to work with several instrument partners to bring new surgical instrument patterns to the market, enabling us to add new instruments with minimal expense and invest in ongoing development, such as in LED technology. Updates to our CUSA Clarity platform incorporate new ultrasonic tips and integrated electrosurgical capabilities.

FDA Matters

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On June 22, 2015, the FDA issued an Untitled Letter (the "Untitled Letter") alleging that BioD LLC's ("BioD") morselized amniotic membrane tissue based products do not meet the criteria for regulation as HCT/Ps solely under Section 361 of the Public Health Services Act ("Section 361") and that, as a result,the morselized amniotic membrane tissue products would be regulated as a Drug or Biologic. Since the issuance of the Untitled Letter, BioD and more recently the Company have been in discussions with the FDA to communicate their disagreement with the FDA’s assertion that certain products are more than minimally manipulated. The FDA has not changed its position that certain of the BioD acquired products are not eligible for marketing solely under Section 361. In November 2017, the FDA issued the final guidance document related to human tissue titled, “Regulatory Considerations for Human Cells, Tissues, and Cellular and Tissue-Based Products: Minimal Manipulation and Homologous Use” (the “HCT/P Final Guidance”). The HCT/P Final Guidance maintains the FDA’s position that products such as the Company’s morselized amniotic membrane tissue-based products do not meet the criteria for regulation solely as HCT/Ps. In addition, the FDA articulated a risk-based approach to enforcement and, while some uses for amniotic membrane tissue-based products would have as much as thirty-six months of enforcement discretion, other high risk uses could be subject to immediate enforcement action. The Company does not believe the uses for its amniotic membrane tissue-based products fall into the high-risk category. As of March 31, 2019, the Company has not received any further notice of enforcement action from the FDA regarding its morselized amniotic tissue-based products. Nonetheless, we can make no assurances that the FDA will continue to exercise its enforcement discretion with respect to the Company’s morselized amniotic membrane tissue-based products, and any potential action of the FDA could have a financial impact regarding the sales of such products. The Company has been considering and continues to consider regulatory approval pathways for its morselized amniotic membrane tissue-based products.

Revenues from BioD morselized amniotic membrane based products for the three months ended March 31, 2019 were less than 1.0% of consolidated revenues.

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

Revenues of products manufactured in the Boston facility for the three months ended March 31, 2019 were approximately 4% of consolidated revenues.

RESULTS OF OPERATIONS

Executive Summary

Net income for the three months ended March 31, 2019 was $32.8 million, or $0.38 per diluted share, as compared to $11.0 million or $0.14 per diluted share for the three months ended March 31, 2018.

The increase in net income from the same period last year resulted from higher sales, improved margin, a reduction in interest expense and a tax benefit from the Switzerland tax holiday. Operating expenses decreased from the same

period last year primarily as a result of one-time costs associated with the acquisition of Codman Neurosurgery included in net income for the three months ended March 31, 2018.

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Income before taxes includes the following special charges:

	Three Months Ended March 31,	
	2019	2018
	(In thousands)	
Acquisition and integration-related charges	$19,463	$28,886
Structural optimization charges	4,797	1,603
Discontinued product lines	1,400	—
Litigation matters	1,249	—
EU medical device regulation	1,109	—
Total	$28,018	$30,489

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

	Three Months Ended March 31,	
	2019	2018
	(In thousands)	
Cost of goods sold	$3,883	$13,292
Research and development	1,675	—
Selling, general and administrative	22,460	17,197
Total	$28,018	$30,489

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

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

Revenues and Gross Margin on Product Revenues

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

	Three Months Ended March 31,	
	2019	2018
Segment Net Sales	(Dollars in thousands)	
Codman Specialty Surgical	$234,568	$236,115
Orthopedics & Tissue Technologies	125,122	120,967
Total revenue	359,690	357,082
Cost of goods sold	128,912	144,222
Gross margin on total revenues	$230,778	$212,860
Gross margin as a percentage of total revenues	64.2 %	59.6 %

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Three Months Ended March 31, 2019 as Compared to Three Months Ended March 31, 2018

Revenues and Gross Margin

For the three months ended March 31, 2019, total revenues increased by $2.6 million to $359.7 million from $357.1 million for the same period in 2018. Domestic revenues increased $7.8 million, or 3.1%, to $256.7 million and were 71.4% of total revenues for the three months ended March 31, 2019. International revenues decreased by $5.2 million to $103.0 million for the three months ended March 31, 2019 compared to $108.2 million during the same period in the prior year. The net increase of $2.6 million was a result of growth in both segments of $11.0 million offset by a $5.3 million unfavorable impact of foreign exchange, which mainly impacts the Codman Specialty Surgical segment and a $3.1 million unfavorable impact due to discontinued and divested products.

Codman Specialty Surgical revenues were $234.6 million, a decrease of 0.7% from the prior-year period. The decrease primarily resulted from sales of our Neuro Monitoring products, which declined high-single digits compared to the prior year. These decreases were offset by growth in our Dural Repair and Programmable Valve products. Our Dural Repair products achieved low-single digit growth driven by DuraSeal and DuraGen compared to the same period last year. Our Programmable Valve products achieved mid-single digit growth driven by new product introductions. Precision Tools and Instruments revenue decreased low-single digits compared to the same period last year primarily due to revenue declines in our stereotaxy and dental product lines.

Orthopedics and Tissue Technologies revenues were $125.1 million, an increase of 3.4% from the prior-year period. In our Wound Reconstruction and Care portfolio used in inpatient and outpatient procedures, sales of our core tissue products including, PriMatrix, SurgiMend, and amniotic tissue products all increased high-single or low double-digits. Private Label increased by mid-single digits over the prior period due to the timing of customer orders. Extremity Orthopedic sales growth was flat compared to the same period last year. Sales growth in our ankle and shoulder products were offset by declines in other lower extremity products.

Gross margin increased to $230.8 million for the three-month period ended March 31, 2019, an increase of $17.9 million from $212.9 million for the same period last year. Gross margin as a percentage of total revenue increased to 64.2% for the first quarter of 2019 from 59.6% in the same period last year. The increase in gross margin percentage resulted primarily from one time costs associated with the acquisition of Codman Neurosurgery that were included in the three-month period ended March 31, 2018 but are not included in the three-month period ended March 31, 2019. Improved sales mix and manufacturing yields also contributed to an increase in gross margin for the three-month period ended March 31, 2019.

Operating Expenses

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

	Three Months Ended March 31,	
	2019	2018
Research and development	5.1 %	5.1 %
Selling, general and administrative	48.6 %	45.8 %
Intangible asset amortization	1.5 %	1.5 %
Total operating expenses	55.2 %	52.4 %

Total operating expenses, which consist of research and development expenses, selling, general and administrative expenses, and amortization expense, increased $11.2 million, or 6.0%, to $198.5 million in the three months ended March 31, 2019, compared to $187.3 million in the same period last year.

Selling, general and administrative expenses in the first quarter of 2019 increased by $11.3 million to $174.9 million compared to $163.6 million in the same period last year. Selling and marketing expenses increased by $5.1 million compared to the first quarter last year, primarily resulting from channel expansion. General and administrative costs increased by $6.2 million primarily from costs related to structural optimization.

Non-Operating Income and Expenses

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

	Three Months Ended March 31,	
	2019	2018
	(In thousands)	
Interest income	$2,428	$ 76
Interest expense	(13,149)	(18,768)
Other income (expense), net	3,236	2,245

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Interest Income and Interest Expense

Interest expense for the three months ended March 31, 2019 decreased by $5.6 million, primarily resulting from a decrease in our outstanding balance on our Senior Credit Facility of $1.3 billion compared to a balance of $1.8 billion as of March 31, 2018. The weighted average interest rate for the three months ended March 31, 2019 increased nominally to 3.8% compared to 3.7% for the same period in the prior year.

Interest income for the three months ended March 31, 2019 increased by $2.4 million compared to 2018 primarily due to the interest rate differential on cross-currency swaps designated as net investment hedges that were entered into during the fourth quarter of 2018.

Other Income, net

Other income, net for the three months ended March 31, 2019 increased by $1.0 million compared to the same period last year primarily driven from net transactional foreign exchange gains.

Income Taxes

	Three Months Ended March 31,	
	2019	2018
	(In thousands)	
Income before income taxes	$24,823	$9,132
Income tax (benefit) expense	(7,933)	(1,860)
Effective tax rate	(32.0)%	(20.4)%

The Company's effective income tax rates for the three months ended March 31, 2019 and 2018 were (32.0)% and (20.4)%, respectively. For the three months ended March 31, 2019, the primary driver of the reduction in the rate is a tax benefit of $10.8 million related to a federal tax holiday in Switzerland, which was finalized during the quarter ended March 31, 2019. The Company received a Switzerland federal tax credit of 12 million CHF, which can be used over a seven-year period, ending in 2024. Additionally, the Company recorded an expense of $1.2 million, related to the revaluation of deferred taxes to the new Switzerland effective tax rate of 10.8%, as a result of the tax holiday.

The Company expects its effective income tax rate for the full year to be approximately 10%, driven primarily by the excess tax benefit from share-based compensation, the Switzerland tax holiday, and a favorable jurisdictional mix of pretax income in foreign operations relative to U.S.-based operations. This estimate could be revised in the future as additional information is presented to the Company.

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

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

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GEOGRAPHIC PRODUCT REVENUES AND OPERATIONS

We attribute revenues to geographic areas based on the location of the customer. Total revenue by major geographic area consisted of the following:

	Three Months Ended March 31,	
	2019	2018
	(In thousands)	
United States	$256,726	$248,928
Europe	48,640	51,773
Asia Pacific	35,700	35,785
Rest of World	18,624	20,596
Total Revenues	$359,690	$357,082

We generate significant revenues outside the U.S., a portion of which are U.S. dollar-denominated transactions conducted with customers who generate revenue in currencies other than the U.S. dollar. As a result, currency fluctuations between the U.S. dollar and the currencies in which those customers do business could have an impact on the demand for our products in foreign countries. Local economic conditions, regulatory compliance or political considerations, the effectiveness of our sales representatives and distributors, local competition and changes in local medical practice all may combine to affect our sales into markets outside the U.S.

Domestic revenues increased to $256.7 million, or 71% of total revenues, for the three months ended March 31, 2019 from $248.9 million, or 70% of total revenues for the three months ended March 31, 2018. Growth in domestic revenues was driven by Dural Repair, Integra skin, and amniotic tissue. European sales decreased by $3.1 million for the three months ended March 31, 2019 compared to the same period last year, resulting primarily from a decrease in revenues for Precision Tools and Instruments and an unfavorable impact of foreign exchange. Sales to customers in Asia Pacific and the Rest of the World for the three months ended March 31, 2019 decreased by $2.1 million compared to the same period last year primarily driven by an unfavorable impact of foreign exchange. Foreign exchange fluctuations on international revenues in total had an unfavorable impact of $5.3 million for the three months ended March 31, 2019 compared to the same period in 2018.

LIQUIDITY AND CAPITAL RESOURCES

Cash and Marketable Securities

We had cash and cash equivalents totaling approximately $157.0 million and $138.8 million at March 31, 2019 and December 31, 2018, respectively, which are valued based on Level 1 measurements in the fair value hierarchy. At March 31, 2019, our non-U.S. subsidiaries held approximately $130.0 million of cash and cash equivalents that are available for use outside the U.S. The Company asserts that it has the ability and intends to indefinitely reinvest the undistributed earnings from its foreign operations unless there is a tax-free manner under which to remit the earnings.

Cash Flows

	Three Months Ended March 31,	
	2019	2018
	(In thousands)	
Net cash provided by operating activities	$29,484	$41,531
Net cash used in investing activities	(15,806)	(9,298)
Net cash provided by (used in) financing activities	5,393	(20,886)
Effect of exchange rate fluctuations on cash	(884)	3,114

Cash Flows Provided by Operating Activities

We generated operating cash flows of $29.5 million for the three months ended March 31, 2019, a decrease of $12.0 million from $41.5 million for the same period in 2018. Net income after non-cash adjustments increased for the three months ended March 31, 2019 by approximately $15.8 million compared to the same period in 2018, which resulted primarily from increased sales and an improvement in our gross margin compared to 2018. The changes in assets and liabilities, net of business acquisitions, decreased cash flows from operating activities by $29.5 million for the three

months ended March 31, 2019 compared to a decrease of $1.7 million for the same period in 2018. The decrease is primarily driven by increased investment in inventories and growth in accounts receivable in foreign jurisdictions with increased payment terms.

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Cash Flows Used in Investing Activities
During the three months ended March 31, 2019, we paid $16.1 million for capital expenditures, most of which were directed to our new Mansfield, Massachusetts facility, and commercial expansion.
During the three months ended March 31, 2018, we paid $15.4 million for capital expenditures, most of which were directed to the expansion of a manufacturing facility and commercial expansion. We received $5.7 million from the Codman Neurosurgery acquisition for a working capital adjustment.
Cash Flows Provided by (Used in) Financing Activities
Our principal sources of cash from financing activities in the three months ended March 31, 2019 were $67.2 million from borrowings under our Senior Credit Facility and Securitization Facility. These were offset by repayments of $57.4 million on the revolving portion of our Senior Credit Facility and Securitization Facility and $6.2 million cash taxes paid in net equity settlement.
Our principal source of cash from financing activities in the three months ended March 31, 2018 were $25.0 million in borrowings under our Senior Credit Facility. These were offset by repayments of $35.0 million on the revolving portion of our Senior Credit Facility and $6.8 million cash taxes paid in net equity settlement.
Upcoming Debt Maturities
The first quarterly installment of the Company's Term Loan component of its Senior Credit Facility is due on September 30, 2019. The Company recorded $33.8 million as a current liability in the Company's consolidated balance sheet.
Amended and Restated Senior Credit Agreement and Related Hedging Activities
See Note 6 - Debt to the current period’s condensed consolidated financial statements for a discussion of our amended and restated Senior Credit Agreement and Note 7 - Derivative Instruments for discussion of our hedging activities.
Share Repurchase Plan
On December 11, 2018, the Board of Directors authorized the Company to repurchase up to $225.0 million of the Company’s common stock. The program allows the Company to repurchase its shares opportunistically from time to time. The repurchase authorization expires in December 2020. Purchases may be affected through one or more open market transactions, privately negotiated transactions, transactions structured through investment banking institutions, or a combination of the foregoing. This stock repurchase authorization replaces the previous $150.0 million stock repurchase authorization, approved by the Board in 2016.
The Company has not repurchased any shares of common stock under these authorizations through March 31, 2019.
Dividend Policy
We have not paid any cash dividends on our common stock since our formation. Our Senior Credit Facility limits the amount of dividends that we may pay. Any future determinations to pay cash dividends on our common stock will be at the discretion of our Board of Directors and will depend upon our financial condition, results of operations, cash flows and other factors deemed relevant by the Board of Directors.
Capital Resources
We believe that our cash and available borrowings under the Senior Credit Facility are sufficient to finance our operations and capital expenditures for the foreseeable future. Our future capital requirements will depend on many factors, including the growth of our business, the timing and introduction of new products and investments, strategic plans and acquisitions, among others. Additional sources of liquidity available to us include short term borrowings and the issuance of long term debt and equity securities.
Off-Balance Sheet Arrangements
The Company has no off–balance sheet financing arrangements during the three months ended March 31, 2019 that have or are reasonably likely to have, a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to our interests.
Contractual Obligations and Commitments
As of March 31, 2019, we were obligated to pay the following amounts under various agreements:

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	Payments Due by Calendar Year				
	Total	Remaining 2019	2020-2021	2022-2023	Thereafter
	(In millions)				
Revolving Credit Facility (1)	$350.0	$—	$ —	$ 350.0	$ —
Term Loan	900.0	22.5	101.2	776.3	—
Securitization Facility (1)	126.0	—	126.0	—	—
Interest (2)	136.0	34.5	63.9	37.6	—
Employment Agreements (3)	2.0	1.0	1.0	—	—
Operating Leases (4)	165.8	11.9	27.5	24.4	102.0
Purchase Obligations	13.8	13.7	0.1	—	—
Other	5.3	0.8	1.0	1.3	2.2
Total	$1,698.9	$84.4	$ 320.7	$ 1,189.6	$ 104.2

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

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

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

(4) During 2018, the Company entered into a lease for a new corporate headquarters in Princeton, NJ which is expected to commence during the second quarter of 2019. Total payments over the lease term are approximately $67.0 million. The payments are included in the table above.

The Company has excluded its contingent consideration obligation and related to a prior acquisition from the contractual obligations table above; this liability had a total estimated fair value of $0.2 million at March 31, 2019. This liability has been excluded because the amount to be paid and the potential payment date is not fixed.

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

The Company has excluded its future pension contribution obligations from the table above. This has been excluded because the future amounts to be paid and the potential payment dates are not fixed. As of March 31, 2019, the Company anticipates contributing $1.9 million to its defined benefit plans in 2019.

The Company has excluded the liability for uncertain tax benefits from the contractual obligations table above, including interest and penalties, totaling $0.7 million at March 31, 2019. This liability for uncertain tax benefits has been excluded because we cannot make a reliable estimate of the period in which the uncertain tax benefits may be realized.

OTHER MATTERS

Critical Accounting Estimates

The critical accounting estimates included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 have not materially changed.

Recently Issued Accounting Standards

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

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Foreign Currency Exchange and Other Rate Risks

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

From time to time, we enter into foreign currency forward exchange contracts to manage currency exposures for transactions denominated in a currency other than an entity’s functional currency. As a result, the impact of foreign currency gains/losses recognized in earnings are partially offset by gains/losses on the related foreign currency forward exchange contracts in the same reporting period.

On October 1, 2018, the Company entered into cross-currency swap agreements designated as net investment hedges to partially offset the effects of foreign currency translation on foreign subsidiaries. The total notional amount of our instruments designated as net investment hedges at March 31, 2019 were $354.5 million and GBP 128.3 million. Under the terms of these contracts, which have been designated as net investment hedges, we will make interest payments in GBP and receive interest in U.S. dollars and GBP. Upon the maturity of these contracts, the Company will pay the notional amounts in EUR, GBP and CHF and receive U.S. dollars and GBP from the counterparties.

On October 2, 2017, we entered into cross currency swap agreements to convert a notional amount of $300.0 million equivalent to 291.2 million of Swiss Franc denominated intercompany loans into U.S. dollars. The CHF denominated intercompany loans were the result of the purchase of intellectual property by a subsidiary in Switzerland as part of the Codman Acquisition. The objective of these cross-currency swaps is to reduce volatility of earnings and cash flows associated with changes in the foreign currency exchange rate. Under the terms of these contracts, which have been designated as cash flow hedges, we will make interest payments in CHF and receive interest in U.S. dollars. Upon the maturity of these contracts, the Company will pay the principal amount of the loans in Swiss Francs and receive U.S. dollars from the counterparties. The total notional amount of our cross-currency swap agreements designated as cash flow hedges at March 31, 2019 were $266.7 million.

During the three months ended March 31, 2019, the Company settled a cross-currency swap designated as a cash flow hedge of an intercompany loan with an aggregate notional amount of $33.3 million. The original termination date was October 2, 2020, however, as the intercompany loan settlement was consummated during the three months ended March 31, 2019, the cross-currency swap was settled simultaneously. As a result of the settlement, the Company recorded a loss of $0.4 million in other income, net in the consolidated statement of operations.

We maintain written policies and procedures governing our risk management activities. With respect to cash flow hedges, changes in cash flows attributable to hedged transactions are generally expected to be completely offset by changes in the fair value of hedge instruments. Consequently, foreign currency exchange contracts would not subject us to material risk resulting from exchange rate movements, because gains and losses on these contracts offset gains and losses on the assets, liabilities or transactions being hedged.

The results of operations discussed herein have not been materially affected by inflation.

Interest Rate Risk

Cash and Cash Equivalents - We are exposed to the risk of interest rate fluctuations on the interest income earned on our cash and cash equivalents. A hypothetical 100 basis point movement in interest rates applicable to our cash and

cash equivalents outstanding at March 31, 2019 would increase interest income by approximately $1.6 million on an annual basis. No significant decrease in interest income would be expected as our cash balances are earning interest at rates of approximately one basis point. We are subject to foreign currency exchange risk with respect to cash balances maintained in foreign currencies.

Debt - Our interest rate risk relates primarily to U.S. dollar LIBOR-indexed borrowings. We use interest rate derivative instruments to manage our earnings and cash flow exposure to changes in interest rates. This interest rate swap fixes the interest rate on a

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portion of our expected LIBOR-indexed floating-rate borrowings. See Note 7, Derivative Instruments, for the details of interest rate swaps.

The total notional amount of interest rate swaps in effect as of March 31, 2019 was $900 million. Based on our outstanding borrowings at March 31, 2019, a 100 basis points change in interest rates would have impacted interest expense on the unhedged portion of the debt by $4.6 million on an annualized basis.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

As required by Exchange Act Rule 13a-15(b), we have carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2019. Based upon this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of March 31, 2019 to provide such reasonable assurance.

Changes in Internal Control Over Financial Reporting

During the first quarter of 2019, we implemented new internal controls to support adoption of the new lease accounting standard ASU No. 2016-02, Leases (Topic 842). There were no other changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the quarter ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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.

BioD

On April 7, 2017, the Company's indirect wholly-owned subsidiary, BioD filed an action in the Superior Court of New Jersey, Chancery Division, Middlesex County seeking a declaration that the resignation of Russell Olsen, the former CEO of BioD, was “for Good Reason” (as defined in Olsen’s employment agreement); a finding that Olsen breached the implied covenant of good faith and fair dealing, committed legal fraud, equitable fraud and negligent misrepresentation; and an award of damages for such actions, including a return of severance fees paid to Olsen. BioD was acquired in August 2016 by Derma Sciences, which Integra subsequently acquired in February 2017. After receiving a job offer from Integra that Olsen believed materially diminished his title and authority, on February 24, 2017 Olsen indicated his intention to terminate his position with BioD for Good Reason, as otherwise permitted by his employment agreement with BioD. Shortly thereafter, Cynthia Weatherly (as representative of the former equity owners of BioD) claimed in a letter to Derma Sciences that Olsen’s resignation was a “termination Without Cause” (as

also defined in Olsen's employment agreement), which would arguably trigger an acceleration of the earn out under a merger agreement between Derma Sciences, BioD and other parties (the "BioD Merger Agreement"), which was entered into in July 2016, and require as a result of the acceleration of the payment of $26.5 million by BioD. Integra assumed this contingent liability in connection with its acquisition of Derma Sciences. The action for a declaratory judgment was filed to clarify that Olsen's termination was for Good Reason and not Without Cause. If the employment agreement was terminated for Good Reason, then the Company believes that the earn out provision under the BioD Merger Agreement should not be accelerated.

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

ITEM 1A. RISK FACTORS

There have been no material changes in the Company's risk factors included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

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

There were no repurchases of our common stock under the repurchase program during the three months ended March 31, 2019.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Reference is hereby made to the Exhibit Index on page 40.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INTEGRA LIFESCIENCES HOLDINGS CORPORATION

Date:	April 29, 2019	/s/ Peter J. Arduini Peter J. Arduini President and Chief Executive Officer (Principal Executive Officer)
Date:	April 29, 2019	/s/ Glenn G. Coleman Glenn G. Coleman Corporate Vice President and Chief Financial Officer (Principal Financial Officer)
Date:	April 29, 2019	/s/ Jeffrey A. Mosebrook Jeffrey A. Mosebrook Vice President, Corporate Controller (Principal Accounting Officer)

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Exhibits

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

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

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

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

*†101.INS XBRL Instance Document

*†101.SCH XBRL Taxonomy Extension Schema Document

*†101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

*†101.DEF XBRL Definition Linkbase Document

*†101.LAB XBRL Taxonomy Extension Labels Linkbase Document

*†101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith

† The financial information of Integra LifeSciences Holdings Corporation Quarterly Report on Form 10-Q for the quarter ended March 31, 2019 filed on April 29, 2019 formatted in XBRL (Extensible Business Reporting Language): (i) the Condensed Consolidated Statements of Operations and Comprehensive Income, (ii) the Condensed Consolidated Balance Sheets, (iii) Parenthetical Data to the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Cash Flows, and (v) Notes to Condensed Consolidated Financial Statements, is furnished electronically herewith.