

Integer Holdings Corp
Form 10-Q
October 30, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 29, 2017
Commission File Number 1-16137

INTEGER HOLDINGS CORPORATION
(Exact name of Registrant as specified in its charter)

Delaware 16-1531026
(State of (I.R.S. Employer
Incorporation) Identification No.)
2595 Dallas Parkway
Suite 310
Frisco, Texas 75034
(Address of principal executive offices)
(214) 618-5243
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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The number of shares outstanding of the Company's common stock, \$0.001 par value per share, as of October 26, 2017 was: 31,669,830 shares.

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INTEGER HOLDINGS CORPORATION

Form 10-Q

For the Quarterly Period Ended September 29, 2017

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PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INTEGER HOLDINGS CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(in thousands except share and per share data)	September 29, 2017	December 30, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 43,637	\$ 52,116
Accounts receivable, net of allowance for doubtful accounts of \$1.0 million and \$0.7 million, respectively	221,520	204,626
Inventories	246,972	225,151
Refundable income taxes	4	13,388
Prepaid expenses and other current assets	16,167	22,026
Total current assets	528,300	517,307
Property, plant and equipment, net	374,436	372,042
Goodwill	987,316	967,326
Other intangible assets, net	930,644	940,060
Deferred income taxes	4,308	3,970
Other assets	28,468	31,838
Total assets	\$ 2,853,472	\$ 2,832,543
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt	\$ 28,125	\$ 31,344
Accounts payable	94,404	77,896
Income taxes payable	5,419	3,699
Accrued expenses	77,125	72,281
Total current liabilities	205,073	185,220
Long-term debt	1,601,829	1,698,819
Deferred income taxes	207,005	208,579
Other long-term liabilities	16,136	14,686
Total liabilities	2,030,043	2,107,304
Stockholders' equity:		
Common stock, \$0.001 par value; 100,000,000 shares authorized; 31,776,356 and 31,059,038 shares issued, respectively; 31,669,830 and 30,925,496 shares outstanding, respectively	32	31
Additional paid-in capital	662,729	637,955
Treasury stock, at cost, 106,526 and 133,542 shares, respectively	(4,654) (5,834
Retained earnings	121,730	109,087
Accumulated other comprehensive income (loss)	43,592	(16,000
Total stockholders' equity	823,429	725,239
Total liabilities and stockholders' equity	\$ 2,853,472	\$ 2,832,543
The accompanying notes are an integral part of these condensed consolidated financial statements.		

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INTEGER HOLDINGS CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 AND COMPREHENSIVE INCOME (Unaudited)

	Three Months Ended		Nine Months Ended	
(in thousands except per share data)	September 30, 2017	September 30, 2016	September 29, 2017	September 30, 2016
Sales	\$363,308	\$ 346,567	\$1,071,440	\$ 1,027,187
Cost of sales	265,073	248,658	782,707	741,779
Gross profit	98,235	97,909	288,733	285,408
Operating expenses:				
Selling, general and administrative expenses	39,733	36,265	118,956	115,781
Research, development and engineering costs, net	13,607	11,412	39,907	42,358
Other operating expenses, net	6,264	13,370	24,955	50,004
Total operating expenses	59,604	61,047	183,818	208,143
Operating income	38,631	36,862	104,915	77,265
Interest expense, net	26,485	27,870	81,025	83,395
Other (income) loss, net	156	275	11,979	(2,772)
Income (loss) before income taxes	11,990	8,717	11,911	(3,358)
Benefit for income taxes	(1,700)	(2,741)	(430)	(1,386)
Net income (loss)	\$13,690	\$ 11,458	\$12,341	\$ (1,972)
Earnings (loss) per share:				
Basic	\$0.43	\$ 0.37	\$0.39	\$ (0.06)
Diluted	\$0.43	\$ 0.37	\$0.39	\$ (0.06)
Weighted average shares outstanding:				
Basic	31,594	30,782	31,304	30,756
Diluted	32,173	31,153	31,724	30,756
Comprehensive Income				
Net income (loss)	\$13,690	\$ 11,458	\$12,341	\$ (1,972)
Other comprehensive income:				
Foreign currency translation gain	16,728	3,191	57,863	12,250
Net change in cash flow hedges, net of tax	(339)	571	1,729	(309)
Other comprehensive income	16,389	3,762	59,592	11,941
Comprehensive income	\$30,079	\$ 15,220	\$71,933	\$ 9,969

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

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INTEGER HOLDINGS CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(in thousands)	Nine Months Ended	
	September 29, 2017	September 30, 2016
Cash flows from operating activities:		
Net income (loss)	\$12,341	\$ (1,972)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	74,584	67,414
Debt related amortization included in interest expense	8,850	5,387
Stock-based compensation	9,895	7,179
Other non-cash losses	10,666	1,938
Deferred income taxes	(6,821)	(12,519)
Changes in operating assets and liabilities:		
Accounts receivable	(13,958)	12,510
Inventories	(20,259)	(10,010)
Prepaid expenses and other current assets	8,460	(4,663)
Accounts payable	12,905	4,885
Accrued expenses	4,191	(5,650)
Income taxes	14,716	7,300
Net cash provided by operating activities	115,570	71,799
Cash flows from investing activities:		
Acquisition of property, plant and equipment	(34,059)	(46,968)
Purchase of cost and equity method investments	(1,316)	(2,917)
Other investing activities	673	(1,000)
Net cash used in investing activities	(34,702)	(50,885)
Cash flows from financing activities:		
Principal payments of long-term debt	(156,526)	(28,750)
Proceeds from issuance of long-term debt	50,000	57,000
Proceeds from the exercise of stock options	17,074	723
Payment of debt issuance costs	(1,789)	(781)
Distribution of cash and cash equivalents to Nuvectra Corporation	—	(76,256)
Purchase of non-controlling interests	—	(6,818)
Other financing activities	(76)	(3,983)
Net cash used in financing activities	(91,317)	(58,865)
Effect of foreign currency exchange rates on cash and cash equivalents	1,970	468
Net decrease in cash and cash equivalents	(8,479)	(37,483)
Cash and cash equivalents, beginning of period	52,116	82,478
Cash and cash equivalents, end of period	\$43,637	\$ 44,995

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

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INTEGER HOLDINGS CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (Unaudited)

(in thousands)	Common Stock		Additional Paid-In Capital	Treasury Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount		Shares	Amount			
December 30, 2016	31,059	\$ 31	\$637,955	(134)	\$(5,834)	\$109,087	\$ (16,000)) \$ 725,239
Cumulative effect adjustment of the adoption of ASU 2016-09 (Note 16)	—	—	(812)	—	—	302	—	(510)
December 30, 2016, adjusted	31,059	31	637,143	(134)	(5,834)	109,389	(16,000)) 724,729
Comprehensive income:								
Net income	—	—	—	—	—	12,341	—	12,341
Other comprehensive income, net	—	—	—	—	—	—	59,592	59,592
Share-based compensation plans:								
Stock-based compensation	—	—	9,895	—	—	—	—	9,895
Net shares issued	717	1	15,691	27	1,180	—	—	16,872
September 29, 2017	31,776	\$ 32	\$662,729	(107)	\$(4,654)	\$121,730	\$ 43,592	\$ 823,429

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

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INTEGER HOLDINGS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(1.) BASIS OF PRESENTATION

Integer Holdings Corporation (together with its consolidated subsidiaries, “Integer” or the “Company”) is a publicly traded corporation listed on the New York Stock Exchange under the symbol “ITGR.” Integer is one of the largest medical device outsource manufacturers in the world serving the cardiac, neuromodulation, orthopedics, vascular, advanced surgical and portable medical markets. The Company provides innovative, high-quality medical technologies that enhance the lives of patients worldwide. In addition, it develops batteries for high-end niche applications in the energy, military, and environmental markets. The Company’s reportable segments are: (1) Medical and (2) Non-Medical. The Company’s customers include large multi-national original equipment manufacturers (“OEMs”) and their affiliated subsidiaries.

On March 14, 2016, Integer completed the spin-off of a portion of its former QiG segment through a tax-free distribution of all of the shares of its QiG Group, LLC (“QiG”) subsidiary to the stockholders of Integer on a pro rata basis (the “Spin-off”). See Note 2 “Divestiture” for further description of this transaction. The Company’s results include the financial and operating results of QiG until the Spin-off on March 14, 2016.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information (Accounting Standards Codification (“ASC”) 270, Interim Reporting) and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these financial statements do not include all of the information necessary for a full presentation of financial position, results of operations, and cash flows in conformity with accounting principles generally accepted in the United States of America (“GAAP”). In the opinion of management, the condensed consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the results of the Company for the periods presented. Intercompany transactions and balances have been fully eliminated in consolidation.

Certain reclassifications have been made to prior year financial statements to conform to classifications used in the current year. Refer to Note 15 “Segment Information,” for a description of the changes made to reflect the current year product line sales reporting and changes made to the Company’s reportable segment structure during the fourth quarter of 2016.

Operating results for interim periods are not necessarily indicative of results that may be expected for the fiscal year as a whole. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, certain components of equity, sales, expenses, and related disclosures at the date of the financial statements and during the reporting period. Actual results could differ materially from these estimates. For further information, refer to the consolidated financial statements and notes included in the Company’s Annual Report on Form 10-K for the year ended December 30, 2016.

The Company utilizes a fifty-two, fifty-three week fiscal year ending on the Friday nearest December 31. The third quarter and first nine months of 2017 and 2016 each contained 13 weeks and 39 weeks, respectively, and ended on September 29, and September 30, respectively. The Company’s 2017 and 2016 fiscal years will end or ended on December 29, 2017 and December 30, 2016, respectively.

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INTEGER HOLDINGS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(2.) DIVESTITURE

Spin-off of Nuvectra Corporation

On March 14, 2016, Integer completed the spin-off of a portion of its former QiG segment through a tax-free distribution of all of the shares of its QiG Group, LLC subsidiary to the stockholders of Integer on a pro rata basis. Immediately prior to completion of the Spin-off, QiG Group, LLC was converted into a corporation organized under the laws of Delaware and changed its name to Nuvectra Corporation (“Nuvectra”). On March 14, 2016, each of the Company’s stockholders of record as of the close of business on March 7, 2016 received one share of Nuvectra common stock for every three shares of Integer common stock held as of that date. Upon completion of the Spin-off, Nuvectra became an independent publicly traded company whose common stock is listed on the NASDAQ stock exchange under the symbol “NVTR.”

The portion of the QiG segment spun-off consisted of QiG Group, LLC and its subsidiaries: (i) Algostim, LLC (“Algostim”), (ii) PelviStim LLC (“PelviStim”), and (iii) the Company’s NeuroNexus Technologies (“NeuroNexus”) subsidiary. The operations of Centro de Construcción de Cardioestimuladores del Uruguay (“CCC”) and certain other existing QiG research and development capabilities were retained by the Company and not included as part of the Spin-off. As the Company continues to focus on the design and development of complete medical device systems and components, and more specifically on medical device systems and components in the neuromodulation market, the Spin-off was not considered a strategic shift that had a major effect on the Company’s operations and financial results. Accordingly, the Spin-off is not presented as a discontinued operation in the Company’s Condensed Consolidated Financial Statements. The results of Nuvectra are included in the Condensed Consolidated Statements of Operations and Comprehensive Income through the date of the Spin-off.

In connection with the Spin-off, during the first quarter of 2016, the Company made a cash capital contribution of \$75 million to Nuvectra and divested the following assets and liabilities (in thousands):

Assets divested

Cash and cash equivalents	\$76,256
Other current assets	977
Property, plant and equipment, net	4,407
Amortizing intangible assets, net	1,931
Goodwill	40,830
Deferred income taxes	6,446
Total assets divested	130,847

Liabilities transferred

Current liabilities	2,119
Net assets divested	\$128,728

For the first quarter of 2016, Nuvectra contributed a pre-tax loss of \$5.2 million to the Company’s results of operations.

In connection with the Spin-off, on March 14, 2016, Integer entered into several agreements with Nuvectra that govern its post Spin-off relationship with Nuvectra, including a Separation and Distribution Agreement, Tax Matters Agreement, Employee Matters Agreement and Transition Services Agreement. The Transition Services Agreement contains customary mutual indemnification provisions. Amounts earned by Integer under the Transition Services Agreement were immaterial for the nine month periods ended September 29, 2017 and September 30, 2016.

(3.) SUPPLEMENTAL CASH FLOW INFORMATION

(in thousands)	Nine Months Ended	
	September 29, 2017	September 30, 2016
Noncash investing and financing activities:		
Property, plant and equipment purchases included in accounts payable	\$6,406	\$ 5,062
Purchase of technology included in accrued expenses	—	1,000

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Divestiture of noncash assets	—	54,591
Divestiture of liabilities	—	2,119

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INTEGER HOLDINGS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(4.) INVENTORIES

Inventories are comprised of the following (in thousands):

	September 29, 2017	December 30, 2016
Raw materials	\$ 102,247	\$ 100,738
Work-in-process	101,098	89,224
Finished goods	43,627	35,189
Total	\$ 246,972	\$ 225,151

(5.) GOODWILL AND OTHER INTANGIBLE ASSETS, NET

Goodwill

The changes in the carrying amount of goodwill by reportable segment for the nine months ended September 29, 2017 were as follows (in thousands):

	Medical	Non- Medical	Total
December 30, 2016	\$950,326	\$17,000	\$967,326
Foreign currency translation	19,990	—	19,990
September 29, 2017	\$970,316	\$17,000	\$987,316

Intangible Assets

Intangible assets at September 29, 2017 and December 30, 2016 were as follows (in thousands):

	Gross Carrying Amount	Accumulated Amortization	Foreign Currency Translation	Net Carrying Amount
September 29, 2017				
Definite-lived:				
Purchased technology and patents	\$256,719	\$(113,460)	\$4,434	\$147,693
Customer lists	759,987	(80,720)	13,304	692,571
Other	4,534	(5,230)	788	92
Total	\$1,021,240	\$(199,410)	\$18,526	\$840,356
Indefinite-lived:				
Trademarks and tradenames				\$90,288
December 30, 2016				
Definite-lived:				
Purchased technology and patents	\$256,719	\$(100,719)	\$333	\$156,333
Customer lists	759,987	(60,474)	(6,269)	693,244
Other	4,534	(5,142)	803	195
Total	\$1,021,240	\$(166,335)	\$(5,133)	\$849,772
Indefinite-lived:				
Trademarks and tradenames				\$90,288

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INTEGER HOLDINGS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(5.) GOODWILL AND OTHER INTANGIBLE ASSETS, NET (Continued)

Aggregate intangible asset amortization expense is comprised of the following (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Cost of sales	\$4,138	\$ 4,228	\$12,333	\$ 12,708
Selling, general and administrative expenses	6,776	5,109	20,333	15,368
Research, development and engineering costs, net	137	136	409	375
Total intangible asset amortization expense	\$11,051	\$ 9,473	\$33,075	\$ 28,451

Estimated future intangible asset amortization expense based on the carrying value as of September 29, 2017 is as follows (in thousands):

	2017	2018	2019	2020	2021	After 2021
Amortization Expense	\$11,083	\$45,543	\$45,653	\$46,266	\$45,138	\$646,673

(6.) DEBT

Long-term debt is comprised of the following (in thousands):

	September 29, 2017	December 30, 2016
Senior secured term loan A	\$ 342,188	\$ 356,250
Senior secured term loan B	883,286	1,014,750
9.125% senior notes due 2023	360,000	360,000
Revolving line of credit	79,000	40,000
Unamortized discount on term loan B and debt issuance costs	(34,520)	(40,837)
Total debt	1,629,954	1,730,163
Less current portion of long-term debt	28,125	31,344
Total long-term debt	\$ 1,601,829	\$ 1,698,819

Senior Secured Credit Facilities

The Company has senior secured credit facilities (the "Senior Secured Credit Facilities") consisting of (i) a \$200 million revolving credit facility (the "Revolving Credit Facility"), (ii) a \$375 million term loan A facility (the "TLA Facility"), and (iii) a \$1,025 million term loan B facility (the "TLB Facility"). The TLA Facility and TLB Facility are collectively referred to as the "Term Loan Facilities." The TLB facility was issued at a 1% discount.

On March 17, 2017, the Company amended the Senior Secured Credit Facilities to lower the interest rate on the TLB Facility. The amendment reduced the applicable interest rate margins of its TLB Facility for both base rate and adjusted LIBOR borrowings by 75 basis points. The amendment also includes a prepayment fee of 1.00% in the event of another repricing event (as defined in the Senior Secured Credit Facilities) on or before the six-month anniversary of this amendment. There was no change to maturities or covenants under the Senior Secured Credit Facilities as a result of this repricing amendment.

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INTEGER HOLDINGS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(6.) DEBT (Continued)

Revolving Credit Facility

The Revolving Credit Facility matures on October 27, 2020. The Revolving Credit Facility also includes a \$15 million sublimit for swingline loans and a \$25 million sublimit for standby letters of credit. The Company is required to pay a commitment fee on the unused portion of the Revolving Credit Facility, which will range between 0.175% and 0.25%, depending on the Company's Total Net Leverage Ratio (as defined in the Senior Secured Credit Facilities agreement). Interest rates on the Revolving Credit Facility, as well as the TLA Facility, are at the Company's option, either at: (i) the prime rate plus the applicable margin, which will range between 0.75% and 2.25%, based on the Company's Total Net Leverage Ratio, or (ii) the applicable LIBOR rate plus the applicable margin, which will range between 1.75% and 3.25%, based on the Company's Total Net Leverage Ratio.

As of September 29, 2017, the Company had \$79 million of outstanding borrowings on the Revolving Credit Facility and an available borrowing capacity of \$111.7 million after giving effect to \$9.3 million of outstanding standby letters of credit. As of September 29, 2017, the weighted average interest rate on all outstanding borrowings under the Revolving Credit Facility was 4.49%.

Subject to certain conditions, commitments under the Revolving Credit Facility may be increased through an incremental revolving facility so long as, on a pro forma basis, the Company's first lien net leverage ratio does not exceed 4.25:1.00. The outstanding amount of the Revolving Credit Facility approximated its fair value as of September 29, 2017 based upon the debt being variable rate and short-term in nature.

Term Loan Facilities

The TLA Facility and TLB Facility mature on October 27, 2021 and October 27, 2022, respectively. Interest rates on the TLB Facility are, at the Company's option, either at: (i) the prime rate plus 2.50% or (ii) the applicable LIBOR rate plus 3.50%, with LIBOR subject to a 1.00% floor. As of September 29, 2017, the interest rates on the TLA Facility and TLB Facility were 4.49% and 4.74%, respectively. Subject to certain conditions, one or more incremental term loan facilities may be added to the Term Loan Facilities so long as, on a pro forma basis, the Company's first lien net leverage ratio does not exceed 4.25:1.00.

As of September 29, 2017, the estimated fair value of the TLB Facility was approximately \$890 million, based on quoted market prices for the debt, recent sales prices for the debt and consideration of comparable debt instruments with similar interest rates and trading frequency, among other factors, and is classified as Level 2 measurements within the fair value hierarchy. The par amount of the TLA Facility approximated its fair value as of September 29, 2017 based upon the debt being variable rate in nature.

Covenants

The Revolving Credit Facility and TLA Facility contain covenants requiring (A) a maximum Total Net Leverage Ratio of 6.25:1.00, subject to step downs beginning in the first quarter of 2018 and (B) a minimum interest coverage ratio of adjusted EBITDA (as defined in the Senior Secured Credit Facilities) to interest expense of not less than 2.50:1.00 subject to step ups beginning in the first quarter of 2018. The TLB Facility does not contain any financial maintenance covenants. As of September 29, 2017, the Company was in compliance with these financial covenants. The Senior Secured Credit Facilities also contain negative covenants that restrict the Company's ability to (i) incur additional indebtedness; (ii) create certain liens; (iii) consolidate or merge; (iv) sell assets, including capital stock of the Company's subsidiaries; (v) engage in transactions with the Company's affiliates; (vi) create restrictions on the payment of dividends or other amounts from the Company's restricted subsidiaries; (vii) pay dividends on capital stock or redeem, repurchase or retire capital stock; (viii) pay, prepay, repurchase or retire certain subordinated indebtedness; (ix) make investments, loans, advances and acquisitions; (x) make certain amendments or modifications to the organizational documents of the Company or its subsidiaries or the documentation governing other senior indebtedness of the Company; and (xi) change the Company's type of business. These negative covenants are subject to a number of limitations and exceptions that are described in the Senior Secured Credit Facilities agreement. As of September 29, 2017, the Company was in compliance with all negative covenants under the Senior Secured Credit Facilities.

The Senior Secured Credit Facilities provide for customary events of default. Upon the occurrence and during the continuance of an event of default, the outstanding advances and all other obligations under the Senior Secured Credit Facilities become immediately due and payable.

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INTEGER HOLDINGS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(6.) DEBT (Continued)

9.125% Senior Notes due 2023

On October 27, 2015, the Company completed a private offering of \$360 million aggregate principal amount of 9.125% senior notes due on November 1, 2023 (the "Senior Notes"). Interest on the Senior Notes is payable on May 1 and November 1 of each year.

As of September 29, 2017, the estimated fair value of the Senior Notes was approximately \$392 million, based on quoted market prices of these Senior Notes, recent sales prices for the Senior Notes and consideration of comparable debt instruments with similar interest rates and trading frequency, among other factors, and is classified as Level 2 measurements within the fair value hierarchy.

The indenture for the Senior Notes contain certain restrictive covenants and provides for customary events of default, subject in certain cases to customary cure periods, in which the Senior Notes and any unpaid interest would become due and payable. As of September 29, 2017, the Company was in compliance with all restrictive covenants under the indenture governing the Senior Notes.

Contractual maturities under the Senior Secured Credit Facilities and Senior Notes for the remainder of 2017 and the five years and thereafter, excluding any discounts or premiums, as of September 29, 2017 are as follows (in thousands):

	2017	2018	2019	2020	2021	After 2021
Future minimum principal payments	\$7,031	\$30,469	\$37,500	\$116,500	\$229,688	\$1,243,286
Debt Issuance Costs and Discounts						

The change in deferred debt issuance costs related to the Revolving Credit Facility is as follows (in thousands):

December 30, 2016	\$3,800
Amortization during the period (744)	
September 29, 2017	\$3,056

The change in unamortized discount and debt issuance costs related to the Term Loan Facilities and Senior Notes is as follows (in thousands):

	Debt Issuance Costs	Unamortized Discount on TLB Facility	Total
December 30, 2016	\$32,096	\$ 8,741	\$40,837
Financing costs incurred	1,789	—	1,789
Write-off of debt issuance costs and unamortized discount ⁽¹⁾	(2,244)	(1,028)	(3,272)
Amortization during the period	(3,878)	(956)	(4,834)
September 29, 2017	\$27,763	\$ 6,757	\$34,520

(1) The Company prepaid portions of its TLB Facility during 2017. The Company recognized losses from extinguishment of debt during the three and nine months ended September 29, 2017 of \$0.8 million and \$3.3 million, respectively, which is included in Interest Expense, Net in the accompanying Condensed Consolidated Statements of Operations and Comprehensive Income. The loss from extinguishment of debt represents the portion of the unamortized discount and debt issuance costs related to the portion of the TLB Facility that was prepaid.

Interest Rate Swaps

From time to time, the Company enters into interest rate swap agreements in order to hedge against potential changes in cash flows on its outstanding variable rate debt. During 2016, the Company entered into a one-year \$250 million interest rate swap, which expired during the second quarter of 2017, and a three-year \$200 million interest rate swap to hedge against potential changes in cash flows on the outstanding variable rate debt, which is indexed to the one-month LIBOR rate. The variable rate received on the interest rate swap and the variable rate paid on the outstanding debt will have the same rate of interest, excluding the credit spread, and will reset and pay interest on the same date. The swaps are being accounted for as cash flow hedges.

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INTEGER HOLDINGS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(6.) DEBT (Continued)

Information regarding the Company's outstanding interest rate swap designated as a cash flow hedge as of September 29, 2017 is as follows (dollars in thousands):

Notional Amount	Start Date	End Date	Pay Fixed Rate	Receive		Balance Sheet Location
				Current Floating Rate	Fair Value	
\$200,000	Jun-17	Jun-20	1.1325%	1.2367%	\$3,054	Other Long-Term Assets

The estimated fair value of the interest rate swap agreement represents the amount the Company would receive (pay) to terminate the contract. No portion of the change in fair value of the Company's interest rate swap during the nine months ended September 29, 2017 and September 30, 2016 was considered ineffective. The amount recorded to Interest Expense, Net during the nine months ended September 29, 2017 and September 30, 2016 related to the Company's interest rate swaps was a reduction of \$0.4 million and an increase of \$0.05 million, respectively. The estimated Accumulated Other Comprehensive Income related to the Company's interest rate swaps that is expected to be reclassified into earnings within the next twelve months is a \$0.6 million gain.

(7.) BENEFIT PLANS

The Company is required to provide its employees located in Switzerland, Mexico, France, and Germany certain statutorily mandated defined benefits. Under these plans, benefits accrue to employees based upon years of service, position, age and compensation. The defined benefit pension plan provided to the Company's employees located in Switzerland is a funded contributory plan, while the plans that provide benefits to the Company's employees located in Mexico, France, and Germany are unfunded and noncontributory. The liability and corresponding expense related to these benefit plans is based on actuarial computations of current and future benefits for employees.

The change in net defined benefit plan liability is as follows (in thousands):

December 30, 2016	\$7,556
Net defined benefit cost	505
Benefit payments	(70)
Foreign currency translation	927
September 29, 2017	\$8,918

Net defined benefit cost is comprised of the following (in thousands):

	Three Months Ended		Nine Months Ended	
	September 29, 2017	September 30, 2016	September 29, 2017	September 30, 2016
Service cost	\$ 120	\$ 108	\$ 345	\$ 326
Interest cost	42	44	120	132
Amortization of net loss	19	47	55	140
Expected return on plan assets	(5)	(5)	(15)	(14)
Net defined benefit cost	\$ 176	\$ 194	\$ 505	\$ 584

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INTEGER HOLDINGS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(8.) STOCK-BASED COMPENSATION

The Company maintains certain stock-based compensation plans that were approved by the Company's stockholders and are administered by the Board of Directors, or the Compensation and Organization Committee of the Board. The stock-based compensation plans provide for the granting of stock options, shares of restricted stock, restricted stock units ("RSUs"), stock appreciation rights and stock bonuses to employees, non-employee directors, consultants, and service providers.

The components and classification of stock-based compensation expense were as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Stock options	\$372	\$ 663	\$1,365	\$ 1,857
Restricted stock and restricted stock units	1,573	1,554	8,530	5,322
Total stock-based compensation expense	\$1,945	\$ 2,217	\$9,895	\$ 7,179
Cost of sales	\$131	\$ 158	\$612	\$ 505
Selling, general and administrative expenses	1,874	1,677	6,766	4,860
Research, development and engineering costs, net	144	115	428	408
Other operating expenses, net	(204)	267	2,089	1,406
Total stock-based compensation expense	\$1,945	\$ 2,217	\$9,895	\$ 7,179

During the first quarter of 2017, the Company recorded \$2.2 million of accelerated stock-based compensation expense in connection with the transition of its former Chief Executive Officer per the terms of his contract, which was classified as Other Operating Expenses, Net. In connection with the Spin-off, certain awards granted to employees who transferred to Nuvectra were canceled. As required, the Company accelerated the remaining expense related to these canceled awards of \$0.5 million during the first quarter of 2016, which was classified as Other Operating Expenses, Net.

The weighted average fair value and assumptions used to value options granted are as follows:

	Nine Months Ended		
	September 30, 2017	September 30, 2016	
Weighted average fair value	\$12.86	\$ 9.25	
Risk-free interest rate	1.77	% 1.56	%
Expected volatility	37	% 26	%
Expected life (in years)	4.5	5.0	
Expected dividend yield	—	% —	%

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INTEGER HOLDINGS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(8.) STOCK-BASED COMPENSATION (Continued)

The following table summarizes the Company's stock option activity:

	Number of Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (In Years)	Aggregate Intrinsic Value (In Millions)
Outstanding at December 30, 2016	1,739,972	\$ 28.26		
Granted	125,020	38.78		
Exercised	(680,065)	25.11		
Forfeited or expired	(118,167)	45.87		
Outstanding at September 29, 2017	1,066,760	\$ 29.55	5.9	\$ 23.0
Exercisable at September 29, 2017	818,663	\$ 27.24	5.0	\$ 19.6

During the nine months ended September 29, 2017, the Company awarded grants of 0.7 million RSUs to certain members of management, of which 0.4 million are performance-based RSUs ("PSUs") and the remainder are time-based RSUs that vest over three years. Of the PSUs, 0.3 million of the shares subject to each grant will be earned based upon achievement of specific Company performance metrics for the Company's fiscal year ending December 29, 2017, and 0.1 million of the shares subject to each grant will be earned based on the Company's achievement of a relative total shareholder return ("TSR") performance requirement, on a percentile basis, compared to a defined group of peer companies over a two-year performance period ending December 28, 2018. The number of PSUs earned based on the achievement of the Company performance metrics and TSR performance requirements, if any, will vest based on the recipient's continuous service to the Company over a period of generally one to three years from the grant date. The time-based RSUs generally vest ratably over a three-year period. The RSUs do not have rights to dividends or dividend equivalents.

The grant-date fair value of the TSR portion of the PSUs granted during the nine months ended September 29, 2017 was determined using the Monte Carlo simulation model on the date of grant, assuming the following (i) expected term of 1.84 years, (ii) risk free interest rate of 1.14%, (iii) expected dividend yield of 0.0% and (iv) expected stock price volatility over the expected term of the TSR award of 48%. The grant-date fair value of all other restricted stock awards is equal to the closing market price of Integer common stock on the date of grant.

The following table summarizes restricted stock and RSU activity:

	Time-Vested Activity	Weighted Average Fair Value
Nonvested at December 30, 2016	39,394	\$ 45.51
Granted	304,857	33.98
Vested	(62,543)	32.45
Forfeited	(34,525)	37.83
Nonvested at September 29, 2017	247,183	\$ 35.67

The following table summarizes PSU activity:

	Performance- Vested Activity	Weighted Average Fair Value
Nonvested at December 30, 2016	356,586	\$ 31.87
Granted	419,112	31.62
Forfeited	(301,003)	30.76
Nonvested at September 29, 2017	474,695	\$ 32.35

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INTEGER HOLDINGS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(9.) OTHER OPERATING EXPENSES, NET

Other Operating Expenses, Net is comprised of the following (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Investments in capacity and capabilities	\$ 1,542	\$ 4,542	\$ 4,407	\$ 13,821
Lake Region Medical consolidations	1,456	2,908	3,623	7,355
Acquisition and integration costs	2,267	5,319	10,057	23,143
Asset dispositions, severance and other	854	272	6,528	5,057
Other consolidation and optimization initiatives	145	329	340	628
Total other operating expenses, net	\$ 6,264	\$ 13,370	\$ 24,955	\$ 50,004

Investments in Capacity and Capabilities

One of the Company's strategic objectives is to invest in its capacity and capabilities in order to better align its resources to meet its customers' needs and drive organic growth and profitability. Currently this initiative includes the following:

Functions performed at the Company's facility in Plymouth, MN to manufacture catheters and introducers will transfer into the Company's existing facility in Tijuana, Mexico. This initiative is expected to be substantially completed by the end of 2017 and is dependent upon our customers' validation and qualification of the transferred products as well as regulatory approvals worldwide.

Functions performed at the Company's facilities in Beaverton, OR and Raynham, MA to manufacture products for the portable medical market were transferred to a new facility in Tijuana, Mexico. Products manufactured at the Beaverton facility, which do not serve the portable medical market, were transferred to the Company's Raynham facility. This initiative was substantially completed during the first half of 2016. The final closure of the Beaverton, OR site occurred in the fourth quarter of 2016.

The design engineering responsibilities previously performed at the Company's Cleveland, OH facility were transferred to the Company's facilities in Minnesota in 2015.

The realignment of the Company's commercial sales operations was completed in 2015.

The total capital investment expected for these initiatives is between \$24.0 million and \$25.0 million, of which \$23.4 million has been expended through September 29, 2017. Total restructuring charges expected to be incurred in connection with these initiatives are between \$54.0 million and \$56.0 million, of which \$53.5 million has been incurred through September 29, 2017. Expenses related to this initiative are primarily recorded within the Medical segment and include the following:

Severance and retention: \$6.0 million - \$7.0 million;

Accelerated depreciation and asset write-offs: \$3.0 million; and

Other: \$45.0 million - \$46.0 million

Other expenses primarily consist of costs to relocate certain equipment and personnel, duplicate personnel costs, excess overhead, disposal, and travel expenditures. All expenses are cash expenditures except accelerated depreciation and asset write-offs. The change in accrued liabilities related to the Company's investments in capacity and capabilities is as follows (in thousands):

	Severance and Retention	Accelerated Depreciation/Asset Write-offs	Other	Total
December 30, 2016	\$ 66	\$ —	\$ —	\$ 66
Restructuring charges	264	—	4,143	4,407
Cash payments	(259)	—	(4,140)	(4,399)
September 29, 2017	\$ 71	\$ —	\$ 3	\$ 74

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INTEGER HOLDINGS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(9.) OTHER OPERATING EXPENSES, NET (Continued)

Lake Region Medical Consolidations

In 2014, Lake Region Medical initiated plans to close its Arvada, CO site, consolidate its two Galway, Ireland sites into one facility, and other restructuring actions that will result in a reduction in staff across manufacturing and administrative functions at certain locations. This initiative was substantially completed by the end of 2016.

During the third quarter of 2016, the Company announced the planned closure of its Clarence, NY facility. The machined component product lines manufactured in this facility will be transferred to other Integer locations in the U.S. The project is expected to be completed by the first quarter of 2018.

The total capital investment expected to be incurred for these initiatives is between \$5.0 million and \$6.0 million, of which \$3.2 million has been expended through September 29, 2017. Total expense expected to be incurred for these initiatives are between \$20.0 million and \$25.0 million, of which \$14.2 million has been incurred through September 29, 2017. Expenses related to these initiatives have been and will be recorded within the Medical segment and are expected to include the following:

Severance and retention: \$5.0 million - \$7.0 million;

Accelerated depreciation and asset write-offs: approximately \$1.0 million - \$2.0 million; and

Other: \$14.0 million - \$16.0 million.

Other expenses primarily consist of production inefficiencies, moving, revalidation, personnel, training, consulting, and travel costs associated with these consolidation projects. All expenses are cash expenditures except accelerated depreciation and asset write-offs. The change in accrued liabilities related to the Lake Region Medical consolidation initiatives is as follows (in thousands):

	Severance and Retention	Accelerated Depreciation/ Asset Write-offs	Other	Total
December 30, 2016	\$ 729	\$ —	\$ 402	\$ 1,131
Restructuring charges	1,129	—	2,494	3,623
Cash payments	(856)	—	(2,896)	(3,752)
September 29, 2017	\$ 1,002	\$ —	\$ —	\$ 1,002

Acquisition and integration costs

During the first nine months of 2017 and 2016, the Company incurred \$10.1 million and \$23.1 million, respectively, in acquisition and integration costs related to the acquisition of Lake Region Medical, consisting primarily of integration costs. Integration costs primarily include professional, consulting, severance, retention, relocation, and travel costs. The first nine months of 2016 also includes transaction costs, primarily related to change-in-control payments to former Lake Region Medical executives, as well as professional and consulting fees. As of September 29, 2017 and December 30, 2016, \$1.6 million and \$4.5 million, respectively, of acquisition and integration costs related to the Lake Region Medical acquisition were accrued.

Total expense expected to be incurred in connection with the integration of Lake Region Medical is between \$45.0 million and \$50.0 million, of which \$42.6 million were incurred through September 29, 2017. Total capital expenditures for this initiative are expected to be between \$15.0 million and \$20.0 million, of which \$10.6 million were incurred through September 29, 2017.

Asset dispositions, severance and other

During the first nine months of 2017 and 2016, the Company recorded losses in connection with various asset disposals and/or write-downs. The 2017 amount also includes approximately \$5.3 million in expense related to the Company's leadership transitions, which were recorded within the corporate unallocated segment. The 2016 amount also includes legal and professional costs in connection with the Spin-off of \$4.4 million. Expenses related to the Spin-off were primarily recorded within the corporate unallocated and the Medical segment. Refer to Note 2 "Divestiture" for additional information on the Spin-off.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(10.) INCOME TAXES

The income tax provision for interim periods is determined using an estimate of the annual effective tax rate, adjusted for discrete items, if any, that are taken into account in the relevant period. Each quarter, the estimate of the annual effective tax rate is updated, and if the estimated effective tax rate changes, a cumulative adjustment is made. There is a potential for volatility of the effective tax rate due to several factors, including discrete items, changes in the mix and amount of pre-tax income and the jurisdictions to which it relates, changes in tax laws and foreign tax holidays, business reorganizations, settlements with taxing authorities and foreign currency fluctuations.

The Company's worldwide effective tax rate for the third quarter of 2017 was (14.2)% on \$12.0 million of income before the benefit for income taxes compared to (31.4)% on \$8.7 million of income before the benefit for income taxes for the same period in 2016. An income tax benefit for the first nine months of 2017 of \$0.4 million was recorded on \$11.9 million of income before the benefit for income taxes compared to \$1.4 million on \$3.4 million of losses before the benefit for income taxes for the same period of 2016. The difference between the Company's effective tax rate and the U.S. federal statutory income tax rate in the current year is primarily attributable to the Company's overall lower effective tax rate in the foreign jurisdictions in which it operates and where its foreign earnings are derived, including Switzerland, Mexico, Germany, Uruguay, and Ireland. In addition, the Company has positive income before taxes in its foreign jurisdictions but losses before taxes in U.S. jurisdictions. The Company currently has a tax holiday in Malaysia through April 2018, with a potential extension through April 2023 if certain conditions are met.

As of September 29, 2017, the balance of unrecognized tax benefits is approximately \$11.5 million. It is reasonably possible that a reduction of up to \$1.2 million of the balance of unrecognized tax benefits may occur within the next twelve months as a result of potential audit settlements. Approximately \$10.8 million of the balance of unrecognized tax benefits would favorably impact the effective tax rate, net of federal benefit on state issues, if recognized.

(11.) COMMITMENTS AND CONTINGENCIES

Litigation

The Company is subject to litigation arising from time to time in the ordinary course of its business. The Company does not expect that the ultimate resolution of any pending legal actions will have a material effect on its consolidated results of operations, financial position, or cash flows. However, litigation is subject to inherent uncertainties. As such, there can be no assurance that any pending legal action, which the Company currently believes to be immaterial, will not become material in the future.

In April 2013, the Company commenced an action against AVX Corporation and AVX Filters Corporation (collectively "AVX") alleging that AVX had infringed on the Company's patents by manufacturing and selling filtered feedthrough assemblies used in implantable pacemakers and cardioverter defibrillators that incorporate the Company's patented technology. On January 26, 2016, a jury in the U.S. District Court for the District of Delaware returned a verdict finding that AVX infringed two Integer patents and awarded Integer \$37.5 million in damages. On August 10, 2017, a second jury found that AVX infringed an additional Integer patent. The Company has recorded no gains in connection with this litigation as no cash has been received.

Product Warranties

The Company generally warrants that its products will meet customer specifications and will be free from defects in materials and workmanship. The Company does not expect future product warranty claims will have a material effect on its condensed consolidated results of operations, financial position, or cash flows. However, there can be no assurance that any future customer complaints or negative regulatory actions regarding the Company's products, which the Company currently believes to be immaterial, does not become material in the future. The change in product warranty liability was comprised of the following (in thousands):

December 30, 2016	\$3,911
Additions to warranty reserve, net of reversals	2,316
Warranty claims settled	(2,102)
September 29, 2017	\$4,125

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INTEGER HOLDINGS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(11.) COMMITMENTS AND CONTINGENCIES (Continued)

Foreign Currency Contracts

The Company periodically enters into foreign currency forward contracts to hedge its exposure to foreign currency exchange rate fluctuations in its international operations. The Company has designated these foreign currency forward contracts as cash flow hedges; and accordingly, the effective portions of the unrealized gains and losses on these contracts is reported in Accumulated Other Comprehensive Income (Loss) in the Condensed Consolidated Balance Sheets and is reclassified to earnings in the same periods during which the hedged transactions affect earnings. The estimated Accumulated Other Comprehensive Income related to the Company's foreign currency contracts that is expected to be reclassified into earnings within the next twelve months is a \$1.0 million gain.

In connection with the Lake Region Medical acquisition, the Company terminated its outstanding forward contracts resulting in a \$2.4 million payment to the foreign currency contract counterparty during 2015. As of the date the contracts were terminated, the Company had \$1.6 million recorded in Accumulated Other Comprehensive Income related to these contracts. This amount was fully amortized to Cost of Sales during 2016 as the inventory, which the contracts were hedging the cash flows to produce, was sold.

The impact to the Company's results of operations from its forward contract hedges is as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 29, 2017	September 30, 2016	September 29, 2017	September 30, 2016
Increase in sales	\$ 594	\$ —	\$ 733	\$ —
Increase (decrease) in cost of sales	(512)	929	371	2,316
Ineffective portion of change in fair value	—	—	—	—

Information regarding outstanding foreign currency contracts designated as cash flow hedges as of September 29, 2017 is as follows (dollars in thousands):

Aggregate Notional Amount	Start Date	End Date	\$/Foreign Currency	Fair Value	Balance Sheet Location
\$6,163	Jan 2017	Dec 2017	0.0514Peso	\$ 366	Prepaid expenses and other current assets
\$6,448	Feb 2017	Dec 2017	1.0747Euro	\$ 660	Prepaid expenses and other current assets

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INTEGER HOLDINGS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(12.) EARNINGS (LOSS) PER SHARE (“EPS”)

The following table illustrates the calculation of basic and diluted EPS (in thousands, except per share amounts):

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Numerator for basic and diluted EPS:				
Net income (loss)	\$ 13,690	\$ 11,458	\$ 12,341	\$ (1,972)
Denominator for basic EPS:				
Weighted average shares outstanding	31,594	30,782	31,304	30,756
Effect of dilutive securities:				
Stock options, restricted stock and RSUs	579	371	420	—
Denominator for diluted EPS	32,173	31,153	31,724	30,756
Basic EPS	\$ 0.43	\$ 0.37	\$ 0.39	\$ (0.06)
Diluted EPS	\$ 0.43	\$ 0.37	\$ 0.39	\$ (0.06)

The diluted weighted average share calculations do not include the following securities, which are not dilutive to the EPS calculations or the performance criteria have not been met (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Time-vested stock options, restricted stock and RSUs	295	629	850	1,862
Performance-vested restricted stock and PSUs	188	373	320	417

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INTEGER HOLDINGS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(13.) ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated Other Comprehensive Income (Loss) is comprised of the following (in thousands):

	Defined Benefit Plan Liability	Cash Flow Hedges	Foreign Currency Translation Adjustment	Total Pre-Tax Amount	Tax	Net-of-Tax Amount
June 30, 2017	\$(1,475)	\$4,601	\$ 25,475	\$28,601	\$(1,398)	\$ 27,203
Unrealized gain on cash flow hedges	—	633	—	633	(222)	411
Realized gain on foreign currency hedges	—	(1,106)	—	(1,106)	387	(719)
Realized gain on interest rate swap hedges	—	(49)	—	(49)	18	(31)
Foreign currency translation gain	—	—	16,728	16,728	—	16,728
September 29, 2017	\$(1,475)	\$4,079	\$ 42,203	\$44,807	\$(1,215)	\$ 43,592
	Defined Benefit Plan Liability	Cash Flow Hedges	Foreign Currency Translation Adjustment	Total Pre-Tax Amount	Tax	Net-of-Tax Amount
December 30, 2016	\$(1,475)	\$1,420	\$(15,660)	\$(15,715)	\$(285)	\$(16,000)
Unrealized gain on cash flow hedges	—	3,414	—	3,414	(1,195)	2,219
Realized gain on foreign currency hedges	—	(362)	—	(362)	127	(235)
Realized gain on interest rate swap hedges	—	(393)	—	(393)	138	(255)
Foreign currency translation gain	—	—	57,863	57,863	—	57,863
September 29, 2017	\$(1,475)	\$4,079	\$ 42,203	\$44,807	\$(1,215)	\$ 43,592
	Defined Benefit Plan Liability	Cash Flow Hedges	Foreign Currency Translation Adjustment	Total Pre-Tax Amount	Tax	Net-of-Tax Amount
July 1, 2016	\$(1,179)	\$(3,746)	\$ 12,668	\$7,743	\$1,806	\$ 9,549
Unrealized loss on cash flow hedges	—	(101)	—	(101)	35	(66)
Realized loss on foreign currency hedges	—	929	—	929	(324)	605
Realized loss on interest rate swap hedges	—	50	—	50	(18)	32
Foreign currency translation gain	—	—	3,191	3,191	—	3,191
September 30, 2016	\$(1,179)	\$(2,868)	\$ 15,859	\$11,812	\$1,499	\$ 13,311
	Defined Benefit Plan Liability	Cash Flow Hedges	Foreign Currency Translation Adjustment	Total Pre-Tax Amount	Tax	Net-of-Tax Amount
January 1, 2016	\$(1,179)	\$(2,392)	\$ 3,609	\$38	\$1,332	\$ 1,370
Unrealized loss on cash flow hedges	—	(2,842)	—	(2,842)	995	(1,847)
Realized loss on foreign currency hedges	—	2,316	—	2,316	(810)	1,506
Realized loss on interest rate swap hedges	—	50	—	50	(18)	32
Foreign currency translation gain	—	—	12,250	12,250	—	12,250
September 30, 2016	\$(1,179)	\$(2,868)	\$ 15,859	\$11,812	\$1,499	\$ 13,311

The realized loss (gain) relating to the Company's foreign currency hedges were reclassified from Accumulated Other Comprehensive Income (Loss) and included in Cost of Sales or Sales as the transactions they are hedging occur. The realized (gain) loss relating to the Company's interest rate swap hedges were reclassified from Accumulated Other Comprehensive Income (Loss) and included in Interest Expense, Net as interest on the corresponding debt being

hedged is accrued.

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INTEGER HOLDINGS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(14.) FAIR VALUE MEASUREMENTS

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Fair value measurement standards apply to certain financial assets and liabilities that are measured at fair value on a recurring basis (each reporting period). For the Company, these financial assets and liabilities include its derivative instruments. The Company does not have any nonfinancial assets or liabilities that are measured at fair value on a recurring basis.

Foreign Currency Contracts

The fair value of foreign currency contracts were determined through the use of cash flow models that utilize observable market data inputs to estimate fair value. These observable market data inputs included foreign exchange rate and credit spread curves. In addition, the Company received fair value estimates from the foreign currency contract counterparties to verify the reasonableness of the Company's estimates. The Company's foreign currency contracts are categorized in Level 2 of the fair value hierarchy. Refer to Note 11 "Commitments and Contingencies" for further discussion regarding the fair value of the Company's foreign currency contracts.

Interest Rate Swaps

The fair value of the Company's interest rate swap contracts outstanding were determined through the use of a cash flow model that utilizes observable market data inputs. These observable market data inputs include LIBOR, swap rates, and credit spread curves. In addition, the Company received a fair value estimate from the interest rate swap counterparty to verify the reasonableness of the Company's estimate. Refer to Note 6 "Debt" for further discussion regarding the fair value of the Company's interest rate swaps.

The following table provides information regarding assets and liabilities recorded at fair value on a recurring basis (in thousands):

	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 29, 2017				
Assets: Foreign currency contracts	\$ 1,026	\$ —	—\$ 1,026	\$ —
Assets: Interest rate swap	3,054	—	3,054	—
December 30, 2016				
Assets: Interest rate swaps	\$ 3,482	\$ —	—\$ 3,482	\$ —
Liabilities: Foreign currency contracts	2,063	—	2,063	—

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Fair value standards also apply to certain assets and liabilities that are measured at fair value on a nonrecurring basis. The carrying amounts of cash, accounts receivable, accounts payable, and accrued expenses approximate fair value because of the short-term nature of these items. Refer to Note 6 "Debt" for further discussion regarding the fair value of the Company's Senior Secured Credit Facilities and Senior Notes. A summary of the valuation methodologies for assets and liabilities measured on a nonrecurring basis is as follows:

Cost and Equity Method Investments

The Company holds investments in equity and other securities that are accounted for as either cost or equity method investments, which are classified as Other Assets on the Condensed Consolidated Balance Sheets. The total carrying value of these investments is reviewed quarterly for changes in circumstance or the occurrence of events that suggest the Company's investment may not be recoverable. The fair value of cost method investments are not adjusted if there are no identified events or changes in circumstances that may have a material effect on the fair value of the

investments.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(14.) FAIR VALUE MEASUREMENTS (Continued)

Gains and losses realized on cost and equity method investments are recorded in Other (Income) Loss, Net. The aggregate recorded amount of cost and equity method investments at September 29, 2017 and December 30, 2016 was \$19.9 million and \$22.8 million, respectively. The Company's equity method investment is in a Chinese venture capital fund focused on investing in life sciences companies. As of September 29, 2017 and December 30, 2016, the Company's recorded amount of this equity method investment was \$12.9 million and \$10.7 million, respectively. This fund accounts for its investments at fair value with the unrealized change in fair value of these investments recorded as income or loss to the fund in the period of change. As of September 29, 2017, the Company owned 6.8% of this fund.

During the nine months ended September 29, 2017, the Company determined that the fair values of certain of its cost method investments were below their carrying values and that the carrying values of these investments was not expected to be recoverable within a reasonable period of time. As a result, the Company recognized impairment charges of \$0.3 million and \$5.3 million during the three and nine months ended September 29, 2017. The Company did not recognize any impairment charges related to cost method investments during the nine months ended September 30, 2016. The fair value of these investments is primarily determined by reference to recent sales data of similar shares to independent parties in an inactive market. This fair value calculation is categorized in Level 2 of the fair value hierarchy. During the nine month periods ended September 29, 2017 and September 30, 2016, the Company recognized a net loss of \$2.9 million and income of \$0.9 million, respectively, on its cost and equity method investments.

(15.) SEGMENT INFORMATION

As a result of the Lake Region Medical acquisition and Spin-off, during 2016 the Company reorganized its operations including its internal management and financial reporting structure. As a result of this reorganization, the Company reevaluated and revised its reportable business segments during the fourth quarter of 2016 and began to disclose two reportable segments: (1) Medical and (2) Non-Medical. Prior period amounts have been reclassified to conform to the new segment reporting presentation. The two reportable segments, along with their related product lines, are described below:

Medical - includes the (i) Cardio & Vascular product line, which includes introducers, steerable sheaths, guidewires, catheters, and stimulation therapy components, subassemblies and finished devices that deliver therapies for various markets such as coronary and neurovascular disease, peripheral vascular disease, interventional radiology, vascular access, atrial fibrillation, and interventional cardiology, plus products for medical imaging and pharmaceutical delivery; (ii) Cardiac & Neuromodulation product line, which includes batteries, capacitors, filtered and unfiltered feed-throughs, engineered components, implantable stimulation leads, and enclosures used in implantable medical devices; and (iii) Advanced Surgical, Orthopedics & Portable Medical product line, which includes components, sub-assemblies, finished devices, implants, instruments and delivery systems for a range of surgical technologies to the advanced surgical market, including laparoscopy, orthopedics and general surgery, biopsy and drug delivery, joint preservation and reconstruction, arthroscopy, and engineered tubing solutions. Products also include life-saving and life-enhancing applications comprising of automated external defibrillators, portable oxygen concentrators, ventilators, and powered surgical tools.

Non-Medical - includes primary (lithium) cells, and primary and secondary battery packs for applications in the energy, military and environmental markets.

During the first quarter of 2017, the Company revised the method used to present sales by product line in order to align the legacy Greatbatch and Lake Region Medical methodologies. The Company believes the revised presentation will provide improved reporting and better transparency into the operational results of its business and markets. Prior period amounts have been reclassified to conform to the new product line sales reporting presentation.

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INTEGGER HOLDINGS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(15.) SEGMENT INFORMATION (Continued)

The tables below present information about our reportable segments (in thousands):

	Three Months Ended		Nine Months Ended	
	September 29, 2017		September 30, 2016	
	2017	2016	2017	2016
Segment sales by product line:				
Medical				
Cardio & Vascular	\$ 138,982	\$ 129,347	\$ 396,321	\$ 365,271
Cardiac & Neuromodulation	101,616	108,147	311,614	323,599
Advanced Surgical, Orthopedics & Portable Medical	107,581	100,203	321,287	307,956
Total Medical	348,179	337,697	1,029,222	996,826
Non-Medical	15,129	8,870	42,218	30,361
Total sales	\$ 363,308	\$ 346,567	\$ 1,071,440	\$ 1,027,187

There were no sales between segments during the nine months ended September 29, 2017 and September 30, 2016.

	Three Months Ended		Nine Months Ended	
	September 29, 2017		September 30, 2016	
	2017	2016	2017	2016
Segment income from operations:				
Medical				
	\$ 50,168	\$ 54,979	\$ 155,761	\$ 138,151
Non-Medical				
	3,375	(1,425)	9,877	626
Total segment income from operations	53,543	53,554	165,638	138,777
Unallocated operating expenses	(14,912)	(16,692)	(60,723)	(61,512)
Operating income	38,631	36,862	104,915	77,265
Unallocated expenses, net	(26,641)	(28,145)	(93,004)	(80,623)
Income (loss) before income taxes	\$ 11,990	\$ 8,717	\$ 11,911	\$ (3,358)

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INTEGER HOLDINGS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(16.) IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In the normal course of business, management evaluates all new accounting pronouncements issued by the Financial Accounting Standards Board (“FASB”), Securities and Exchange Commission (“SEC”), or other authoritative accounting bodies to determine the potential impact they may have on the Company’s consolidated financial statements. Based upon this review, except as noted below, management does not expect any of the recently issued accounting pronouncements, which have not already been adopted, to have a material impact on the Company’s Consolidated Financial Statements.

Recently Adopted

In March 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-09, “Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.” ASU 2016-09 simplifies various aspects of the accounting for stock-based payments. The simplifications include:

- recording all tax effects associated with stock-based compensation through the income statement, as opposed to recording certain amounts in other paid-in capital, which eliminates the requirements to calculate a windfall pool;
- allowing entities to withhold shares to satisfy the employer’s statutory tax withholding requirement up to the highest marginal tax rate applicable to employees rather than the employer’s minimum statutory rate, without requiring liability classification for the award;
- modifying the requirement to estimate the number of awards that will ultimately vest by providing an accounting policy election to either estimate the number of forfeitures or recognize forfeitures as they occur;
 - changing certain presentation requirements in the statement of cash flows, including removing the requirement to present excess tax benefits as an inflow from financing activities and an outflow from operating activities, and requiring the cash paid to taxing authorities arising from withheld shares to be classified as a financing activity; and
 - the assumed proceeds from applying the treasury stock method when computing EPS is amended to exclude the amount of excess tax benefits that would be recognized in additional paid-in capital.

The Company adopted the provisions of ASU 2016-09 on December 31, 2016, the beginning of its 2017 fiscal year. The adoption of ASU 2016-09 resulted in the Company making an accounting policy election to change how it will recognize the number of stock awards that will ultimately vest. In the past, the Company applied a forfeiture rate to shares granted. With the adoption of ASU 2016-09, the Company will recognize forfeitures as they occur. This change resulted in the Company making a cumulative effect change to retained earnings of \$0.3 million. In addition, the Company recorded the tax effects associated with stock-based compensation through the income statement, which resulted in \$0.4 million, net tax benefit for the first nine months of 2017, and will continue to record amounts prospectively through the income statement in accordance with ASU 2016-09. Finally, the Company adjusted its dilutive shares calculation to remove the excess tax benefits from the calculation of EPS on a prospective basis. The revised calculation is more dilutive, but did not have a material impact on the Company’s diluted EPS calculation for the first nine months of 2017.

In July 2015, the FASB issued ASU 2015-11, “Simplifying the Measurement of Inventory,” which simplifies the subsequent measurement of inventory by requiring inventory to be measured at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This ASU is effective for public business entities for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The Company adopted this standard in the first quarter of fiscal year 2017 on a prospective basis. The adoption of this ASU did not have a material impact on the Company’s consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, “Simplifying the Test for Goodwill Impairment (Topic 350)” to simplify the accounting for goodwill impairment. The guidance removes Step 2 of the goodwill impairment test. A goodwill impairment will now be measured as the amount by which a reporting unit’s carrying value exceeds its fair value, limited to the amount of goodwill allocated to that reporting unit. ASU 2017-04 is effective for interim and annual periods beginning after December 15, 2019, with early adoption permitted for any impairment tests performed

after January 1, 2017. The Company adopted the new guidance on a prospective basis during the first quarter of 2017. The adoption of this ASU did not impact the Company's consolidated financial statements.

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INTEGER HOLDINGS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(16.) IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS (Continued)

Not Yet Adopted

In August 2017, the FASB issued ASU No. 2017-12, “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities.” The amendments in this ASU better align an entity’s risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships, making more hedges eligible for hedge accounting, particularly for rates and commodities hedges. It also aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements by requiring an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the earnings effect of the hedged item is reported. This guidance is effective for the Company in the first quarter of fiscal year 2019, with early adoption permitted. The Company does not believe the adoption of this guidance will have a material impact on its consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, “Stock Compensation - Scope of Modification Accounting,” which provides guidance as to when a modification of a share-based award must be accounted for. In general, if a modification of the terms and conditions of an award does not change the fair value of the award (or calculated value or intrinsic value, if used instead of fair value), does not change the vesting conditions of the award, and does not change the classification of the award as an equity instrument or a liability instrument, then an entity need not account for the modification. This guidance is effective for the Company in the first quarter of fiscal year 2018, with early adoption permitted. The new rules are applied prospectively to awards modified after the adoption date. The Company does not believe the adoption of this guidance will have a material impact on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, “Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (Topic 715),” which requires employers to report the service cost component of net periodic pension cost and net periodic postretirement benefit cost in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. It also requires other components of net periodic pension cost and net periodic postretirement benefit cost, including interest cost, return on plan assets and gains or losses, to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. This guidance is effective for the Company in the first quarter of fiscal year 2018 and is not expected to have a material impact on the Company’s consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, “Business Combinations (Topic 805): Clarifying the Definition of a Business,” which outlines new minimum requirements for a set of assets to be considered a business. The intent of this ASU is to sharpen the distinction between the purchase or disposal of a business versus the purchase or disposal of assets. ASU 2017-01 is effective for the Company in the first quarter of 2018, with early adoption permitted, and prospective application required. The Company does not believe the adoption of this guidance will have a material impact on its consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, “Income Taxes (Topic 740): Intra-entity Transfers of Assets Other Than Inventory,” which requires entities to recognize the income tax consequences of intra-entity transfers of assets other than inventory when the transfers occur. This ASU is effective for the Company for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the impact the adoption of this ASU will have on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15 “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments: A Consensus of the FASB Emerging Issues Task Force.” ASU 2016-15 makes targeted changes to how cash receipts and cash payments are presented in the statement of cash flows. The areas specifically addressed include debt prepayment and debt extinguishment costs, the settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, cash premiums paid for and proceeds from corporate-owned life insurance policies, distributions received from equity method investees and cash receipts from payments on transferor’s beneficial interest on securitized trade receivables. Additionally, the amendment states that, in the absence of other prevailing guidance, cash receipts and payments that have characteristics of more than one class of cash flows should have each separately identifiable

source or use of cash presented within the most predominant class of cash flows based on the nature of the underlying cash flows. This guidance is effective for the Company in the first quarter of fiscal year 2018, with early adoption permitted. The Company is currently evaluating this ASU, but does not believe the adoption of this guidance will have a material impact on its consolidated financial statements.

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INTEGER HOLDINGS CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(16.) IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS (Continued)

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)," which requires companies to recognize a lease liability that represents the discounted obligation to make future minimum lease payments, and a corresponding right-of-use asset on the balance sheet for most leases. This ASU retains a distinction between finance leases and operating leases, and the classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in the current accounting literature. The result of retaining a distinction between finance leases and operating leases is that under the lessee accounting model in Topic 842, the effect of leases in a consolidated statement of comprehensive income and a consolidated statement of cash flows is largely unchanged from previous GAAP. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and are required to be applied on a modified retrospective basis. Earlier application is permitted. The Company expects the adoption of ASU 2016-02 will result in a material increase in the assets and liabilities on its Consolidated Balance Sheets. The Company is currently evaluating the impact that the adoption of this ASU will have on its Consolidated Statements of Operations and Other Comprehensive Income.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." This ASU requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; requires entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset and requires entities to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk (also referred to as "own credit") when the organization has elected to measure the liability at fair value in accordance with the fair value option. The new ASU is effective for public companies for fiscal years beginning after December 15, 2017. Early adoption of the own credit provision is permitted. The Company is currently evaluating the impact that the adoption of this ASU will have on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers," which has been subsequently updated by ASU 2015-14, 2016-08, 2016-10 and 2016-12. The core principle behind ASU 2014-09 is that an entity should recognize revenue in an amount that reflects the consideration to which it expects to be entitled in exchange for delivering goods and services using a five-step model. Enhanced disclosures are required, including revenue recognition policies to identify performance obligations and significant judgments in measurement and recognition. This ASU can be adopted using either a full retrospective approach, where historical financial information is presented in accordance with the new standard, or a modified retrospective approach, where this ASU is applied to the most current period presented in the financial statements. This ASU is effective for the Company in the first quarter of fiscal year 2018.

The Company is continuing to evaluate the effect this guidance will have on its consolidated financial statements, including potential impacts on the amount and timing of revenue recognition and additional information that may be necessary for the required expanded disclosures. The Company has substantially completed its inventory of all outstanding contracts and is in the process of applying the five-step model to those contracts to evaluate the quantitative and qualitative impacts the new standard will have on its business and reported revenues. Based on the assessment completed to date, the Company believes (1) that the warranties offered to its customers are primarily assurance-type warranties and do not represent a separate performance obligation and (2) that the majority of its revenues related to its manufacturing and supply agreements will continue to be recognized at a point in time, as the criteria for over time recognition are not met. Additionally, the Company has begun to assess when to recognize revenues related to its non-recurring engineering service arrangements under the new guidance. At this time, the Company is unable to quantify the impact this new guidance will have on its reported revenues. The Company expects to adopt this ASU, as amended, in the first quarter of fiscal year 2018 on a modified retrospective basis.

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

This Quarterly Report on Form 10-Q should be read in conjunction with the disclosures included in our Annual Report on Form 10-K for the fiscal year ended December 30, 2016. In addition, please read this section in conjunction with our Condensed Consolidated Financial Statements and Notes to Condensed Consolidated Financial Statements contained herein.

Forward-Looking Statements

Some of the statements contained in this report and other written and oral statements made from time to time by us and our representatives are not statements of historical or current fact. As such, they are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We have based these forward-looking statements on our current expectations, and these statements are subject to known and unknown risks, uncertainties and assumptions. Forward-looking statements include statements relating to:

- future sales, expenses, and profitability;
- future development and expected growth of our business and industry;
- our ability to execute our business model and our business strategy;
- our ability to identify trends within our industries and to offer products and services that meet the changing needs of those markets;
- our ability to remain in compliance with the financial covenants contained in the agreement governing our Senior Secured Credit Facilities; and
- projected capital expenditures.

You can identify forward-looking statements by terminology such as "may," "will," "should," "could," "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or "variations" or the negative of these terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially from those stated or implied by these forward-looking statements. In evaluating these statements and our prospects, you should carefully consider the factors set forth below. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary factors and to others contained throughout this report.

Although it is not possible to create a comprehensive list of all factors that may cause actual results to differ from the results expressed or implied by our forward-looking statements or that may affect our future results, some of these factors include the following: our high level of indebtedness, our inability to pay principal and interest on this high level of outstanding indebtedness or to remain in compliance with financial and other covenants under our Senior Secured Credit Facilities, and the risk that this high level of indebtedness limits our ability to invest in our business and overall financial flexibility; our dependence upon a limited number of customers; customer ordering patterns; product obsolescence; our inability to market current or future products; pricing pressure from customers; our ability to timely and successfully implement cost savings and consolidation initiatives; our reliance on third party suppliers for raw materials, products and subcomponents; fluctuating operating results; our inability to maintain high quality standards for our products; challenges to our intellectual property rights; product liability claims; product field actions or recalls; our inability to successfully consummate and integrate acquisitions and to realize synergies and to operate these acquired businesses in accordance with expectations; our unsuccessful expansion into new markets; our failure to develop new products; the timing, progress and ultimate success of pending regulatory actions and approvals; our inability to obtain licenses to key technology; regulatory changes, including health care reform, or consolidation in the healthcare industry; global economic factors, including currency exchange rates and interest rates; the resolution of various legal actions brought against the Company; and other risks and uncertainties that arise from time to time and are described in Item 1A "Risk Factors" of our Annual Report on Form 10-K and in other periodic filings with the Securities and Exchange Commission. Except as required by applicable law, the Company assumes no obligation to update forward-looking statements in this report whether to reflect changed assumptions, the occurrence of unanticipated events or changes in future operating results, financial conditions or prospects, or otherwise.

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INTEGER HOLDINGS CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Our Business

Integer Holdings Corporation is one of the largest medical device outsource (“MDO”) manufacturers in the world serving the cardiac, neuromodulation, orthopedics, vascular and advanced surgical markets. We provide innovative, high-quality medical technologies that enhance the lives of patients worldwide. We also serve the non-medical power solutions market by developing batteries for high-end niche applications in the energy, military, and environmental markets.

On March 14, 2016, we completed the spin-off of a portion of our former QiG segment through a tax-free distribution of all of the shares of our QiG Group, LLC subsidiary to the stockholders of Integer on a pro rata basis (the “Spin-off”). Immediately prior to completion of the Spin-off, QiG Group, LLC was converted into a corporation organized under the laws of Delaware and changed its name to Nuvectra Corporation (“Nuvectra”). Our results include the financial and operating results of Nuvectra until the Spin-off on March 14, 2016.

As a result of our Lake Region Medical acquisition in 2015 and the Spin-off, during 2016 we reorganized our operations including our internal management and financial reporting structure. As a result of this reorganization, we reevaluated and revised our reportable business segments during the fourth quarter of 2016 and began to disclose two reportable segments: (1) Medical and (2) Non-Medical. Prior period amounts in this report have been reclassified to conform to the new segment reporting presentation.

Our Acquisitions

With the acquisition of Lake Region Medical, our main strategic priorities over the next two years include, among others, the integration of the legacy Greatbatch, Inc. and Lake Region Medical companies, driving integration synergies, and paying down our outstanding debt. Our acquisition focus, if any, will be primarily directed at smaller “bolt-on” or adjacent acquisition opportunities that have a strategic fit with our existing core businesses, particularly opportunities that support our enterprise strategy and enhance the value proposition of our product offerings.

Our Customers

Our products are designed to provide reliable, long-lasting solutions that meet the evolving requirements and needs of our customers. The nature and extent of our selling relationships with each customer are different in terms of breadth of products purchased, purchased product volumes, length of contractual commitment, ordering patterns, inventory management, and selling prices.

Our Medical customers include large multi-national medical device original equipment manufacturers (“OEMs”) and their subsidiaries such as Abbott Labs, Biotronik, Boehringer Ingelheim, Boston Scientific, Cardinal Health, Johnson & Johnson, LivaNova, Medtronic, Nevro Corp., Philips Healthcare, Smith & Nephew, Stryker, and Zimmer Biomet. For the nine months ended September 29, 2017, Abbott Labs, Boston Scientific, Johnson & Johnson, and Medtronic collectively accounted for approximately 55% of our total sales. We believe that the diversification of our sales among the various subsidiaries and market segments with those four customers reduces our exposure to negative developments with any one customer. The loss of a significant amount of business from any of these four customers or a further consolidation of such customers could have a material adverse effect on our financial condition and results of operations.

Our Non-Medical customers include large multi-national OEMs and their subsidiaries serving the energy, military and environmental services markets such as Halliburton, Teledyne Technologies and Weatherford International.

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INTEGER HOLDINGS CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Overview

Net income for the third quarter ("QTD") and first nine months ("YTD") of 2017 was \$13.7 million, or \$0.43 per diluted share, and \$12.3 million, or \$0.39 per diluted share, respectively, compared to net income of \$11.5 million, or \$0.37 per diluted share, and a net loss of \$2.0 million, or \$0.06 per diluted share, for the third quarter and first nine months of 2016, respectively. These year over year variances are primarily the result of the following:

Sales for the third quarter and first nine months of 2017 increased 4.8% and 4.3%, respectively. In comparison to the prior year periods, foreign currency exchange rates increased sales by approximately \$1.6 million for the third quarter and decreased sales by approximately \$1.0 million for the first nine months of 2017. Additionally, the Spin-off decreased sales by \$1.2 million for the first nine months of 2017 compared to 2016. Excluding these amounts, organic sales for the third quarter and first nine months of 2017 increased 4.4% and 4.5%, respectively, primarily driven by market growth, recovery in the energy markets, new business wins, and lower comparables versus 2016 in our Advanced Surgical, Orthopedics & Portable Medical and Cardio & Vascular product lines due to the disruption of supply caused by the transfer of certain product lines in 2016;

- Gross profit for the third quarter and first nine months of 2017 increased \$0.3 million and \$3.3 million, respectively, primarily due to the increase in sales discussed above as well as production efficiencies, partially offset by price concessions given to our larger OEM customers (approximately \$5.5 million QTD; \$14 million YTD) and higher incentive compensation based upon current year results;

Operating expenses for the third quarter and first nine months of 2017 were lower by \$1.4 million and \$24.3 million, respectively, primarily due to the results of Nuvectra not being included after the Spin-off (\$4.7 million YTD), lower consolidation and integration charges (\$7.7 million QTD, \$26.5 million YTD), and various efficiencies and synergies gained as a result of our integration and consolidation initiatives partially offset by higher incentive compensation (\$1.6 million QTD, \$3.0 million YTD);

Interest expense for the third quarter and first nine months of 2017 declined \$1.4 million and \$2.4 million, respectively, primarily due to the amendment of our Term Loan B Facility in March 2017, which lowered the interest rate by 75 basis points, as well as the repayment of \$106.5 million of debt during the first nine months of 2017. These reductions were partially offset by the accelerated write-off of deferred fees and original issue discount due to the accelerated pay down of debt during the first half of 2017 (\$0.8 million QTD, \$3.3 million YTD); and

Other (income) loss, net for the third quarter and first nine months of 2017 were lower by \$0.1 million (lower net loss) and higher by \$14.8 million (higher net loss), respectively. The year-to-date change is attributable to higher losses on our cost and equity method investments (\$3.9 million YTD) and higher foreign currency exchange rate losses (\$10.9 million YTD) driven by the remeasurement of intercompany loans and the weakening of the U.S. dollar relative to the Euro during the first nine months of 2017, which are primarily non-cash in nature. During the third quarter of 2017, \$2.0 million of foreign currency exchange rate losses were almost entirely offset by \$1.9 million of gains on our cost and equity method investments.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Use of Non-GAAP Financial Information

We prepare our condensed consolidated financial statements in accordance with generally accepted accounting principles in the United States of America ("GAAP"). Additionally, we consistently report and discuss in our earnings releases and investor presentations adjusted pre-tax income, adjusted net income, adjusted earnings per diluted share, earnings before interest, taxes, depreciation, and amortization ("EBITDA"), adjusted EBITDA and organic sales growth rates. Adjusted pre-tax income, adjusted net income and adjusted earnings per diluted share consist of GAAP amounts adjusted for the following to the extent occurring during the period: (i) acquisition and integration related charges and expenses, (ii) amortization of intangible assets including inventory step-up amortization, (iii) facility consolidation, optimization, manufacturing transfer and system integration charges, (iv) asset write-down and disposition charges, (v) charges in connection with corporate realignments or a reduction in force, (vi) certain litigation expenses, charges and gains, (vii) unusual or infrequently occurring items, (viii) gain/loss on cost and equity method investments, (ix) extinguishment of debt charges, (x) the income tax (benefit) related to these adjustments (not for adjusted pre-tax income) and (xi) certain tax items that are outside the normal provision for the period (not for adjusted pre-tax income). Adjusted earnings per diluted share are calculated by dividing adjusted net income by diluted weighted average shares outstanding. Adjusted EBITDA consists of GAAP net income (loss) plus (i) the same adjustments as listed above except for items (x) and (xi), (ii) GAAP stock-based compensation, interest expense, and depreciation, (iii) GAAP provision (benefit) for income taxes and (iv) cash gains received from cost and equity method investments during the period. To calculate organic sales growth rates, which exclude the impact of changes in foreign currency exchange rates, as well as the impact of any acquisitions or divestitures of product lines on sales growth rates, we convert current period sales from local currency to U.S. dollars using the previous periods foreign currency exchange rates and exclude the amount of sales acquired/divested during the period from the current/previous period amounts, respectively. We believe that the presentation of adjusted net income, adjusted diluted earnings per share, EBITDA, adjusted EBITDA, and organic sales growth rates provides important supplemental information to management and investors seeking to understand the financial and business trends relating to our financial condition and results of operations.

A reconciliation of GAAP net income (loss) and diluted earnings (loss) per share ("EPS") to adjusted amounts is as follows (in thousands, except per share amounts):

	Three Months Ended			September 30, 2016		
	September 29, 2017			September 30, 2016		
	Pre-Tax	Net Income	Per Diluted Share	Pre-Tax	Net Income	Per Diluted Share
As reported (GAAP)	\$11,990	\$13,690	\$0.43	\$8,717	\$11,458	\$0.37
Adjustments:						
Amortization of intangibles ^(a)	11,051	7,840	0.24	9,473	6,702	0.22
IP related litigation (SG&A) ^{(a)(b)}	1,735	1,128	0.04	499	324	0.01
Consolidation and optimization expenses (OOE) ^{(a)(c)}	3,143	2,737	0.09	7,779	6,409	0.21
Acquisition and integration expenses (OOE) ^{(a)(d)}	2,267	1,106	0.03	5,319	3,492	0.11
Asset dispositions, severance and other (OOE) ^{(a)(e)}	854	563	0.02	272	36	—
(Gain) loss on cost and equity method investments, net ^(a)	(1,906)	(1,239)	(0.04)	245	159	0.01
Loss on extinguishment of debt ^{(a)(f)}	778	506	0.02	—	—	—
Tax adjustments ^(g)	—	—	—	—	(2,784)	(0.09)
Adjusted (Non-GAAP)	\$29,912	\$26,331	\$0.82	\$32,304	\$25,796	\$0.83
Diluted weighted average shares for adjusted EPS		32,173			31,153	

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MANAGEMENT'S DISCUSSION AND ANALYSIS

	Nine Months Ended					
	September 29, 2017			September 30, 2016		
	Pre-Tax	Net Income	Per Diluted Share	Pre-Tax	Net Income (Loss)	Per Diluted Share
As reported (GAAP)	\$11,911	\$12,341	\$ 0.39	\$(3,358)	\$(1,972)	\$(0.06)
Adjustments:						
Amortization of intangibles ^(a)	33,075	23,401	0.73	28,451	20,125	0.64
IP related litigation (SG&A) ^{(a)(b)}	3,027	1,968	0.06	2,691	1,749	0.06
Consolidation and optimization expenses (OOE) ^{(a)(c)}	8,370	6,729	0.21	21,804	17,698	0.57
Acquisition and integration expenses (OOE) ^{(a)(d)}	10,057	6,276	0.20	23,143	15,148	0.49
Asset dispositions, severance and other (OOE) ^{(a)(e)}	6,528	4,247	0.13	5,057	4,459	0.14
(Gain) loss on cost and equity method investments, net ^(a)	2,919	1,897	0.06	(932)	(606)	(0.02)
Loss on extinguishment of debt ^{(a)(f)}	3,272	2,127	0.07	—	—	—
Nuvectra results prior to Spin-off ^{(a)(h)}	—	—	—	4,037	2,624	0.08
Tax adjustments ^(g)	—	—	—	—	(2,784)	(0.09)
Adjusted (Non-GAAP)	\$79,159	\$58,986	\$ 1.85	\$80,893	\$56,441	\$ 1.81
Diluted weighted average shares for adjusted EPS ⁽ⁱ⁾		31,947			31,211	

The difference between pre-tax and net income (loss) amounts is the estimated tax impact related to the respective adjustment. Net income amounts are computed using a 35% U.S. tax rate, and the statutory tax rates in Mexico,

(a) Germany, France, Netherlands, Uruguay, Ireland and Switzerland, as adjusted for the existence of net operating losses. Expenses that are not deductible for tax purposes (i.e. permanent tax differences) are added back at 100%.

In 2013, we filed suit against AVX Corporation alleging they were infringing our intellectual property. Given the complexity and significant costs incurred pursuing this litigation, we are excluding these litigation expenses from adjusted amounts. This matter proceeded to trial during the first quarter of 2016 and a federal jury awarded the Company \$37.5 million in damages. To date, no gains have been recognized in connection with this litigation.

(b) During 2017 and 2016, we incurred costs primarily related to the transfer of our Beaverton, OR portable medical and Plymouth, MN vascular manufacturing operations to Tijuana, Mexico, the closure of our Arvada, CO site and the consolidation of our two Galway, Ireland sites. In addition, 2017 costs also include expenses related to the closure of our Clarence, NY facility.

(c) Reflects acquisition and integration costs related to the acquisition of Lake Region Medical, which was acquired in October 2015.

(d) Amounts for the nine months ended September 29, 2017 include approximately \$5.3 million of expense related to our CEO, CFO and Chief Human Resources Officer transitions. Amounts for 2016 primarily include legal and professional fees incurred in connection with the Spin-off, which was completed in March 2016.

(e) Represents debt extinguishment charges in connection with pre-payments made on our Term Loan B Facility during 2017, which are included in Interest Expense, Net.

(f) Tax adjustments for the 2016 periods include a discrete tax benefit related to certain transaction costs of the Lake Region Medical acquisition and the Spin-off.

(g) Represents the results of Nuvectra prior to the Spin-off on March 14, 2016.

(h) The diluted weighted average shares for adjusted EPS for the nine month periods ended September 29, 2017 and September 30, 2016 include 223,000 and 455,000, respectively, of potentially dilutive shares not included in the computation of diluted weighted average common shares for GAAP diluted EPS purposes because their effect would have been anti-dilutive in that period.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Adjusted diluted EPS was \$0.82 and \$1.85 per share for the third quarter and first nine months of 2017, respectively, compared to \$0.83 and \$1.81 per share, respectively, for the same prior year periods. These results reflect the benefit of our increased sales, lower interest expense, and the various efficiencies and synergies gained from our integration and consolidation initiatives, partially offset by higher foreign currency exchange rate losses and higher incentive compensation. The increase in losses from foreign exchange rate changes was \$2.0 million (\$1.6 million net of tax, \$0.05 per diluted share) and \$10.9 million (\$8.7 million net of tax, \$0.27 per diluted share) for the third quarter and first nine months of 2017, respectively, in comparison to the prior year periods.

A reconciliation of GAAP net income (loss) to EBITDA and adjusted EBITDA is as follows (dollars in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2017	2016	2017	2016
Net income (loss) (GAAP)	\$ 13,690	\$ 11,458	\$ 12,341	\$ (1,972)
Interest expense	26,485	27,870	81,025	