INTEGRA LIFESCIENCES HOLDINGS CORP
Form 10-Q
August 05, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

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

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

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

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

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

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

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

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

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

The number of shares of the registrant's Common Stock, $0.01 par value, outstanding as of July 30, 2014 was 32,598,682.

INTEGRA LIFESCIENCES HOLDINGS CORPORATION
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EX-101 LABELS LINKBASE DOCUMENT
EX-101 PRESENTATION LINKBASE DOCUMENT

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013 (As adjusted)*	2014	2013 (As adjusted)*
Total revenue, net	$231,351	$205,547	$446,410	$402,199
Costs and Expenses:				
Cost of goods sold	86,976	81,829	169,359	161,441
Research and development	13,745	11,809	26,312	24,525
Selling, general and administrative	115,253	103,280	223,591	206,243
Intangible asset amortization	2,985	3,073	6,018	6,624
Total costs and expenses	218,959	199,991	425,280	398,833
Operating income	12,392	5,556	21,130	3,366
Interest income	58	289	120	352
Interest expense	(5,382)	(4,965)	(10,524)	(9,765)
Other income (expense), net	118	(307)	435	(1,281)
Income (loss) before income taxes	7,186	573	11,161	(7,328)
Income tax expense (benefit)	2,361	(947)	4,130	(2,820)
Net income (loss)	$4,825	$1,520	$7,031	$(4,508)
Basic net income (loss) per common share	$0.15	$0.05	$0.22	$(0.16)
Diluted net income (loss) per common share	$0.15	$0.05	$0.21	$(0.16)
Weighted average common shares outstanding (See Note 10):				
Basic	32,398	27,873	32,336	27,834
Diluted	32,804	28,118	32,796	27,834
Comprehensive income (loss) (See Note 11)	$4,752	$3,397	$7,957	$(9,115)

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

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

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

	June 30, 2014	December 31, 2013 (As adjusted)*
ASSETS		
Current Assets:		
Cash and cash equivalents	$137,160	$120,614
Trade accounts receivable, net of allowances of $5,223 and $6,194	118,262	118,145
Inventories, net	223,632	206,919
Deferred tax assets	48,349	48,616
Prepaid expenses and other current assets	36,758	26,858
Total current assets	564,161	521,152
Property, plant and equipment, net	206,668	200,310
Intangible assets, net	422,009	197,163
Goodwill	354,977	249,764
Deferred tax assets	6,422	15,412
Other assets	8,786	8,338
Total assets	$1,563,023	$1,192,139
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable, trade	$47,004	$50,752
Deferred revenue	4,411	4,197
Accrued compensation	36,595	28,079
Accrued expenses and other current liabilities	38,892	36,354
Total current liabilities	126,902	119,382
Long-term borrowings under senior credit facility	421,875	186,875
Long-term convertible securities	209,096	205,182
Deferred tax liabilities	81,540	2,083
Other liabilities	34,380	12,527
Total liabilities	873,793	526,049
Commitments and contingencies		
Stockholders' Equity:		
Preferred Stock; no par value; 15,000 authorized shares; none outstanding	—	—
Common stock; $0.01 par value; 60,000 authorized shares; 41,474 and 41,042 issued at June 30, 2014 and December 31, 2013, respectively	415	410
Additional paid-in capital	766,096	750,918
Treasury stock, at cost; 8,903 shares at June 30, 2014 and December 31, 2013	(367,121)	(367,121)
Accumulated other comprehensive income (loss)	1,853	927
Retained earnings	287,987	280,956
Total stockholders' equity	689,230	666,090
Total liabilities and stockholders' equity	$1,563,023	$1,192,139

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

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

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

	Six Months Ended June 30, 2014	2013 (As adjusted)*
OPERATING ACTIVITIES:		
Net income (loss)	$7,031	$(4,508)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	29,164	24,025
Non-cash impairment charges	600	—
Deferred income tax provision (benefit)	(503)	(400)
Amortization of debt issuance costs	1,243	1,094
Non-cash interest expense	3,433	3,232
Loss on disposal of property and equipment	378	1,831
(Gain) from change in fair value of contingent consideration	(998)	—
Share-based compensation	8,302	4,764
Excess tax benefits from stock-based compensation arrangements	(1,164)	(102)
Changes in assets and liabilities, net of business acquisitions:		
Accounts receivable	106	(745)
Inventories	(17,367)	(19,398)
Prepaid expenses and other current assets	(2,832)	(1,294)
Other non-current assets	(1,846)	(368)
Accounts payable, accrued expenses and other current liabilities	4,848	2,893
Deferred revenue	188	278
Other non-current liabilities	(2,952)	(538)
Net cash provided by operating activities	27,631	10,764
INVESTING ACTIVITIES:		
Purchases of property and equipment	(20,691)	(24,475)
Sales of property and equipment	—	530
Cash used for business acquisition, net of cash acquired	(235,000)	(2,830)
Net cash used in investing activities	(255,691)	(26,775)
FINANCING ACTIVITIES:		
Borrowings under senior credit facility	235,000	20,000
Payment of debt issuance costs	—	(1,013)
Principal payments under capital lease obligations	(245)	—
Proceeds from exercised stock options	8,317	234
Excess tax benefits from stock-based compensation arrangements	1,164	102
Net cash provided by financing activities	244,236	19,323
Effect of exchange rate changes on cash and cash equivalents	370	(1,614)
Net change in cash and cash equivalents	16,546	1,698
Cash and cash equivalents at beginning of period	120,614	96,938
Cash and cash equivalents at end of period	$137,160	$98,636

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

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

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INTEGRA LIFESCIENCES HOLDINGS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

General

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

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

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent liabilities, and the reported amounts of revenues and expenses. Significant estimates affecting amounts reported or disclosed in the consolidated financial statements include allowances for doubtful accounts receivable and sales returns and allowances, net realizable value of inventories, valuation of intangible assets including in-process research and development, amortization periods for acquired intangible assets, discount rates and estimated projected cash flows used to value and test impairments of long-lived assets and goodwill, estimates of projected cash flows and depreciation and amortization periods for long-lived assets, computation of taxes, valuation allowances recorded against deferred tax assets, the valuation of stock-based compensation, valuation of pension assets and liabilities, valuation of derivative instruments, valuation of the equity component of convertible debt instruments, valuation of contingent liabilities, the fair value of debt instruments and loss contingencies. These estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the current circumstances. Actual results could differ from these estimates.

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

Change in Accounting Principle

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

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

The medical device excise tax applies to sales beginning January 1, 2013; therefore, this change affected only 2013 financial results. The cumulative effect of the change in the prior year is included in retained earnings as of December 31, 2013. We have revised the comparative periods for the three- and six-month periods ended June 30, 2013 to reflect the retrospective application of the change in accounting principle had the new method been in effect for all periods, as follows:

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

Condensed Consolidated Statements of Operations and Comprehensive Income:

	Three Months Ended June 30, 2013			Six Months Ended June 30, 2013		
	Originally Reported	Adjustments	As Adjusted	Originally Reported	Adjustments	As Adjusted
	(In thousands, except per share amounts)					
Cost of goods sold	$83,068	$(1,239)	$81,829	$163,336	$(1,895)	$161,441
Selling, general and administrative	99,619	3,661	103,280	199,780	6,463	206,243
Income tax expense (benefit)	(445)	(502)	(947)	(2,150)	(670)	(2,820)
Net income (loss)	3,440	(1,920)	1,520	(610)	(3,898)	(4,508)
Basic net income (loss) per common share	$0.12		$0.05	$(0.02)		$(0.16)
Diluted net income (loss) per common share	0.12		0.05	(0.02)		(0.16)
Comprehensive income (loss)	$5,317	$(1,920)	$3,397	$(5,217)	$(3,898)	$(9,115)

Condensed Consolidated Balance Sheets:

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

Condensed Consolidated Statements of Cash Flows:

	Six Months Ended June 30, 2013		
	Originally Reported	Adjustments	As Adjusted
	(In thousands)		
Net income (loss)	$(610)	$(3,898)	$(4,508)
Inventories	(23,966)	4,568	(19,398)
Prepaid and other current assets	(624)	(670)	(1,294)

Realignment of Segment Revenues

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

Recently Issued Accounting Standards

In July 2013, the FASB issued ASU No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. This updated guidance requires an unrecognized tax benefit to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, similar tax loss, or a tax credit carryforward. To the extent the tax benefit is not available at the reporting date under the governing tax law or if the entity does not intend to use the deferred tax asset for such purpose, the unrecognized tax benefit should be presented as a liability and not combined with deferred tax assets. This ASU is effective for fiscal years and interim periods within those years beginning after December 15, 2013 for public entities and early adoption is permitted. The amendments are to be applied to all unrecognized tax benefits that exist as of the effective date and may be applied retrospectively to each prior reporting period presented. The standard adoption does not have a material impact on the Company's financial statements.

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

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

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

2. BUSINESS ACQUISITIONS

Confluent Surgical, Inc.

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

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

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

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

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

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

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

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

The Company accounted for the contingent consideration by recording its fair value as a liability on the date of the acquisition. The contingent consideration relates to the Company obtaining certain U.S. and European regulatory approvals. At the date of the acquisition, both of these milestones were valued using a discount rate of 2.2%, which is equivalent to the cost of debt for the estimated time horizon, and an overall probability of occurring of 95%. Accordingly, on January 15, 2014 the Company recorded a $20.9 million liability representing the initial fair value estimate of the probability weighted contingent consideration that management believes will be paid between early 2017 and late 2018. Depending on the expected timing of the estimated payments, the acquisition date fair value of the probability adjusted payments could have been $0.3 million higher or $0.4 million lower. These fair value measurements were based on significant inputs not observed in the market and thus represented a Level 3 measurement. The contingent consideration is re-measured to fair value at each reporting date until the contingency is resolved, and those changes in fair value are recognized in earnings.

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

Contingent consideration

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

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

		Location in Statement of Operations
Balance as of January 1, 2014	$1,227	
Contingent consideration from Confluent Surgical acquisition	20,895	
Loss/(gain) from increase/(decrease) in fair value of contingent consideration liabilities	(998)	Selling, general and administrative
Fair value at June 30, 2014	$21,124	

Pro Forma Results

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

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

	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013
	(In thousands)	
Total revenue	$221,946	$434,997
Net income (loss)	$3,438	$(2,032)

3. INVENTORIES

Inventories, net consisted of the following:

	June 30, 2014	December 31, 2013
	(In thousands)	
		(As adjusted)*
Finished goods	$139,427	$123,786
Work in process	48,221	47,403
Raw materials	35,984	35,730
	$223,632	$206,919

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

4. GOODWILL AND OTHER INTANGIBLE ASSETS

The Company reviews goodwill for impairment annually during its third quarter and whenever events or changes in circumstances indicate the carrying value of goodwill may not be recoverable. The Company performed its most recent annual assessment on July 31, 2013 which resulted in a non-cash goodwill impairment charge of $46.7 million for its U.S. Spine reporting unit, which is a part of the U.S. Spine and Other reportable segment.

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

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

	U.S. Neurosurgery	U.S. Instruments	U.S. Extremities	U.S. Spine and Other	International	Total
	(In thousands)					
Goodwill, gross	$95,165	$58,033	$61,079	$56,325	$25,900	$296,502
Accumulated impairment losses	—	—	—	(46,738)	—	(46,738)
Goodwill at December 31, 2013	95,165	58,033	61,079	9,587	25,900	249,764
Confluent Surgical acquisition	95,373	—	—	—	9,958	105,331
Foreign currency translation	(63)	(19)	(20)	(3)	(13)	(118)
Goodwill at June 30, 2014	$190,475	$58,014	$61,059	$9,584	$35,845	$354,977

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

	June 30, 2014 Weighted Average Life	Cost	Accumulated Amortization	Net
	(Dollars in thousands)			
Completed technology	18 years	$320,833	$(54,	