

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 30, 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	—	—	—	—	—	—	—	—