NUVECTRA™

# 2016 Annual Report

Notice of 2017 Annual Stockholders' Meeting and Proxy Statement

Dear Fellow Stockholders,

Nuvectra completed a year of milestone achievements in 2016. On March 14th the company completed its spin out from Integer Holdings Corporation (formerly Greatbatch, Inc.) and began trading under NVTR: NASDAQ. This event initiated our journey as an independent public company focused on the high growth neurostimulation market.

The company spun with a core team of approximately ninety people with extensive medical device experience across all functional areas. This included the R&D team who designed and developed the Algovita Spinal Cord Stimulation (SCS) system. The Algovita SCS system is a proprietary neurostimulation platform for the management of chronic, intractable pain. This system features a number of unique elements, including the world's first stretchable leads, and is supported by an extensive patent portfolio.

Since the spin, we have built out our U.S. commercial team, including significantly growing our sales, marketing and training teams, to serve the chronic pain community that implants SCS devices. Today our field team of nearly seventy people, many who are SCS veterans, includes regional sales directors, territory managers, clinical specialists, a training team and a national accounts team. This team is penetrating accounts, gaining hospital approvals, supporting trial and permanent implant procedures and converting new business across the U.S. The company also continues to actively sell Algovita in European markets and is looking to expand our presence through additional distribution partners.

As we grow our SCS business, we are also focused on our SCS clinical study strategy through our Medial Advisory Board. This strategy will help the company clinically validate our technology and provide new evidence to help expand the overall SCS market. The company also received third-party/outside validation of the technological advances of our Algovita SCS system, when we were awarded the 2016 Frost & Sullivan New Product Innovation award.

The company is also continuing to effectively grow, on both the top and bottom line, our neural clinical products through our subsidiary NeuroNexus. This unique business is not only rich with core intellectual property, but also gives Nuvectra an early view of neural animal experiments and clinical studies in clinical labs around the world.

Nuvectra has also grown and matured in other critical functional areas. We have ramped our customer service, reimbursement support, operations, finance and IT teams that support our day-to-day business efforts. In addition, critical contracts were negotiated and implemented with key supply partners providing economic benefit and improving our supply chain.

While focused on the present we are also preparing for our future. Recently, we submitted our Virtis Sacral Nerve Stimulation (SNS) system for the treatment of chronic urinary retention and the symptoms of overactive bladder to both CE Mark and FDA regulatory authorities. The Virtis system was also developed by our internal R&D team and will serve patients in the SNS market, which we believe is currently underserved today.

For 2017, we are highly focused on increasing top-line revenue growth with Algovita and NeuroNexus, while advancing our R&D pipeline priorities and planning for future Virtis SNS market opportunities. We will also continue to closely manage our expenses and cash resources while executing on our strategic growth plans.

At Nuvectra, we believe in the field of neurostimulation and helping physicians improve patient's lives. I would like to thank our investors, customers, employees, critical suppliers and our Board of Directors for their support and commitment to our exciting early stage multi-indication neurostimulation company and the patients that we all serve.

Sincerely,

Scott F. Drees
Chief Executive Officer

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NUVECTRA

**5830 Granite Parkway, Suite 1100**
**Plano, Texas 75024**

**NOTICE OF 2017 ANNUAL MEETING OF STOCKHOLDERS AND PROXY STATEMENT**

Dear stockholder:

The annual meeting of stockholders of Nuvectra Corporation ("Nuvectra," the "Company," "we," "us" and "our") will be held via a virtual meeting on Tuesday, May 23, 2017, at 10:00 a.m. Central Time (the "Annual Meeting"). You may attend the Annual Meeting, vote and submit a question during the Annual Meeting by visiting www.meetingcenter.io/235646045. If you plan to attend the Annual Meeting, please follow the voting and registration instructions as outlined in this proxy statement.

The Annual Meeting will be held for the following purposes:

1. To elect three Class I directors for a three-year term to expire at the 2020 annual meeting of stockholders.
2. To consider and vote upon the approval of the Company's 2016 Equity Incentive Plan.
3. To ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2017.
4. To transact any other business that may properly come before our annual meeting or any adjournment or postponement thereof.

Information concerning the matters to be voted upon at the Annual Meeting is set forth in the enclosed proxy statement. This proxy statement is furnished to holders of our common stock as of the record date as part of the solicitation of proxies by our Board of Directors (the "Board") in connection with the proposals to be presented at the Annual Meeting. Our Board has set March 30, 3017, as the record date for the Annual Meeting (the "Record Date"). Only holders of our common stock as of the close of business on March 30, 2017, are entitled to notice of, and to vote at, the Annual Meeting. As of the Record Date, there were 10,342,317 shares of our common stock outstanding.

All stockholders are cordially invited to attend the annual meeting. **Whether or not you expect to attend the annual meeting, please vote by mail, Internet or telephone as described in the enclosed proxy materials.** If you plan to attend the annual meeting and wish to vote your shares personally, you may do so at any time before the proxy is voted.

By Order of the Board of Directors,

/s/ MELISSA G. BEARE
Melissa G. Beare
*Vice President, General Counsel and Corporate Secretary*

Plano, Texas
April 5, 2017

**Your vote is important. Please vote your shares whether or not you plan to attend the meeting.**

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NUVECTRA

**5830 Granite Parkway, Suite 1100**
**Plano, Texas 75024**

**PROXY STATEMENT FOR THE 2017 ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON TUESDAY, MAY 23, 2017**

The board of directors of Nuvectra Corporation is soliciting the enclosed proxy for use at the Annual Meeting of stockholders to be held on Tuesday, May 23, 2017, at 10:00 a.m., Central Time, via a virtual meeting. You may attend the Annual Meeting, vote and submit a question during the Annual Meeting by visiting www.meetingcenter.io/235646045. If you plan to attend the Annual Meeting, please follow the voting and registration instructions as outlined in this proxy statement.

This proxy statement is furnished to holders of our common stock as of the record date as part of the solicitation of proxies by our Board in connection with the proposals to be presented at the Annual Meeting. Our Board has set March 30, 3017, as the Record Date. Only holders of our common stock as of the close of business on March 30, 2017, are entitled to notice of, and to vote at, the Annual Meeting. As of the Record Date, there were 10,342,317 shares of our common stock outstanding.

**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to be Held on May 23, 2017:** This proxy statement and our annual report are available electronically at www.edocumentview.com/NVTR.

## GENERAL INFORMATION ABOUT THE ANNUAL MEETING AND VOTING

### What am I voting on?

There are three proposals scheduled for a vote:

***Proposal 1*:** To elect three Class I directors for a three-year term to expire at the 2020 annual meeting of stockholders:

- Mr. David D. Johnson
- Dr. Fred B. Parks, PhD ; and
- Mr. Jon T. Tremmel.

***Proposal 2*:** Approval of the Company's 2016 Equity Incentive Plan (the "Equity Plan").

***Proposal 3*:** Ratification of the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2017.

### How many votes do I have?

Each share of our common stock that you own as of March 30, 2017, entitles you to one vote.

### How do I vote by proxy?

With respect to the election of directors, you may either vote "For" the nominee to the board of directors or you may "Withhold" your vote for such nominee. With respect to each of the other matters to be voted on, you may vote "For" or "Against" or abstain from voting.

*Stockholders of Record: Shares Registered in Your Name*

If your shares are held in your name you are considered, with respect to those shares, the "stockholder of record." If you are a stockholder of record, there are several ways for you to vote your shares. Whether or not you plan to attend the meeting, we urge you to vote by proxy to ensure that your vote is counted:

- By Mail. If you are a stockholder of record, and you will receive your proxy materials by mail, you may vote using your proxy card by completing, signing, dating and returning the proxy card in the self-addressed, postage-paid envelope provided. You should mail the proxy card or voting instruction form in plenty of time to allow delivery prior to the meeting. Do not mail the proxy card or voting instruction form if you are voting over the Internet or by telephone. If you properly complete your proxy card and send it in time to vote, your proxy (one of the individuals named on your proxy card) will vote your shares as you have directed. If you sign the proxy card but do not make specific choices, your shares will be, as permitted, voted as recommended by our board of directors. If any other matter is presented at the Annual Meeting, your proxy (one of the individuals named on your proxy card) will vote in accordance with his or her best judgment. As of the date of this proxy statement, we know of no matters to be acted on at the meeting, other than those discussed in this proxy statement.
- Voting by Telephone or Internet. Please call the toll-free telephone number on the proxy card (1-800-652-VOTE (8683)) and follow the recorded instructions; or access our secure website registration page through the Internet (at www.investorvote.com/NVTR), as identified on the proxy card and follow the instructions, using the unique control number printed on your proxy card.
- In Person at the Virtual Annual Meeting. You may attend the virtual Annual Meeting and vote in person even if you have already voted by proxy. If you are a stockholder of record, you do not need to register. You may attend the Annual Meeting and vote your shares at www.meetingcenter.io/235646045 during the meeting. You will need the unique control number printed on your proxy card. The password for the meeting is NVTR2017. Follow the instructions provided to vote. We encourage you to access the meeting prior to the start time leaving ample time for the check in.

*Beneficial Owners: Shares Registered in the Name of a Broker or Bank*

If your shares are registered in the name of your broker, bank or other agent, you are the "beneficial owner" of those shares and those shares are considered as held in "street name." If you are a beneficial owner of shares registered in the name of your broker, bank or other agent, you should have received a proxy card and voting instructions with these proxy materials from that organization rather than directly from us. Simply complete and mail the proxy card to ensure that your vote is counted. You may be eligible to vote your shares electronically over the Internet or by telephone. A large number of banks and brokerage firms offer Internet and telephone voting. If your bank or brokerage firm does not offer Internet or telephone voting information, please complete and return your proxy card in the self-addressed, postage-paid envelope provided. To vote in person at the virtual Annual Meeting, you must first obtain a valid legal proxy from your broker, bank or other agent and then register in advance to attend the Annual Meeting. Follow the instructions from your broker or bank included with these proxy materials, or contact your broker or bank to request a legal proxy form.

After first obtaining a valid legal proxy from your broker, bank or other agent, to then register to attend the Annual Meeting, you must submit proof of your legal proxy reflecting the number of your shares along with your name and email address to Computershare. Requests for registration should be directed to:

Computershare
NUVECTRA Legal Proxy
P.O. Box 43001
Providence, RI 02940-3001

Requests for registration must be labeled as "Legal Proxy" and be received no later than 5:00 p.m., Eastern Time, on May 16, 2017.

You will receive a confirmation of your registration by email after we receive your registration materials. You may attend the Annual Meeting and vote your shares at www.meetingcenter.io/235646045 during the meeting. The

password for the meeting is NVTR2017. Follow the instructions provided to vote. We encourage you to access the meeting prior to the start time leaving ample time for the check in.

**May I revoke my proxy?**

Stockholders of record may revoke their proxy at any time before it is exercised. You may revoke your proxy and change your vote at any time before votes are cast in any one of the three following ways:

- you may send in another signed proxy with a later date;
- you may authorize a proxy again on a later date on the Internet (only the latest Internet proxy submitted prior to the Annual Meeting will be counted); or
- you may notify our corporate secretary, Melissa G. Beare, in writing before the Annual Meeting that you have revoked your proxy, after which you are entitled to submit a new proxy or vote in person at the meeting.

If you are a beneficial owner, your broker, bank or other agent can provide you with instructions on how to revoke your proxy and/or change your vote.

**What constitutes a quorum?**

The presence at the Annual Meeting, in person or by proxy, of holders representing a majority of our outstanding common stock as of March 30, 2017, or approximately 5,171,159 shares, constitutes a quorum at the meeting, permitting us to conduct our business.

**What vote is required to approve each proposal?**

***Proposal 1: Election of Directors.*** The three nominees who receive the most "For" votes (among votes properly cast in person or by proxy) will be elected. Only votes "For" or "Withheld" will affect the outcome.

***Proposal 2: Approval of the Equity Plan.*** The approval of the Equity Plan requires "For" votes from the holders of a majority of the shares of common stock present or represented by proxy and entitled to vote at the Annual Meeting.

***Proposal 3: Ratification of Independent Registered Public Accounting Firm.*** The ratification of the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2017, must receive "For" votes from the holders of a majority of the shares of common stock present or represented by proxy and entitled to vote at the Annual Meeting in order to pass.

Voting results will be tabulated and certified by Computershare Trust Company, N.A., who also will be responsible for mailing our proxy materials.

**What is the effect of abstentions and broker non-votes?**

Shares of common stock held by persons attending the annual meeting but not voting, and shares represented by proxies that reflect abstentions as to a particular proposal, will be counted as present for purposes of determining the presence of a quorum. Abstentions are treated as shares present in person or by proxy and entitled to vote, so abstaining has the same effect as a negative vote for purposes of determining whether our stockholders have approved the Equity Plan and whether our stockholders have ratified the appointment of Deloitte & Touche LLP as our independent registered public accounting firm. However, because the election of directors is determined by a plurality of votes cast, abstentions will not be counted in determining the outcome of that proposal.

Shares represented by proxies that reflect a "broker non-vote" will be counted for purposes of determining whether a quorum exists. A "broker non-vote" occurs when a nominee holding shares for a beneficial owner has not received instructions from the beneficial owner and does not have discretionary authority to vote the shares for certain non-routine matters. With regard to the election of directors and of the Equity Plan, broker non-votes, if any, will not be

counted as votes cast and will have no effect on the result of the vote. However, ratification of the appointment of Deloitte & Touche LLP is considered a routine matter on which a broker or other nominee has discretionary authority to vote. As a result, broker non-votes will be counted for purposes of this proposal.

**Who is paying the costs of soliciting these proxies?**

We will pay all of the costs of soliciting these proxies. Our directors, officers and other employees may solicit proxies in person or by telephone, fax or email. We will not pay our directors, officers or other employees any additional compensation for these services. We will ask banks, brokers and other institutions, nominees and fiduciaries to forward these proxy materials to their principals and to obtain authority to execute proxies. We will then reimburse them for their expenses. Our costs for forwarding proxy materials will not be significant. The Company has retained Georgeson Inc. to assist in the solicitation of proxies for a base fee of $10,000 plus reimbursement of out-of-pocket expenses. The Company may also engage other third-party firms to assist in the distribution of proxies.

**How do I obtain an Annual Report on Form 10-K?**

If you would like a copy of our annual report on Form 10-K for the fiscal year ended December 30, 2016, that we filed with the SEC on March 9, 2017, we will send you one without charge. Please write to:

Nuvectra Corporation

5830 Granite Parkway, Suite 1100
Plano, Texas 75024
Attn: Corporate Secretary

All of our SEC filings are also available free of charge and can be found under the Investors section of our website at www.nuvectramed.com.

**How can I find out the results of the voting at the Annual Meeting?**

Preliminary voting results will be announced at the Annual Meeting. Final voting results will be published in our current report on Form 8-K to be filed with the SEC within four business days after the Annual Meeting. If final voting results are not available to us in time to file a Form 8-K within four business days after the meeting, we intend to file a Form 8-K to publish preliminary results and, within four business days after the final results are known to us, file an additional Form 8-K to publish the final results.

**Explanatory Note**

Nuvectra was incorporated in Delaware on March 14, 2016, in connection with the spin-off of the neurostimulation business from Integer Holdings Corporation (f/k/a Greatbatch, Inc.) and which we refer to as the "Spin-Off." On March 14, 2016, Nuvectra common stock was distributed, on a pro rata basis, to Integer's stockholders of record as of close of business on March 7, 2016, and each holder of Integer common stock received one share of Nuvectra common stock for every three shares of Integer common stock held by such holder as of close of business on March 7, 2016. Prior to the Spin-Off, Nuvectra did not conduct commercial business operations, but was instead formed to be a separate, independent, publicly traded company to begin conducting commercial business operations after Integer spun off QIG Group, LLC into Nuvectra. Accordingly, the Annual Meeting will be Nuvectra's first annual meeting of stockholders. For more information on the Spin-Off, see "Relationship with Integer" below.

We are an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. We will remain an emerging growth company until the earliest of: (i) December 31, 2021 (the fiscal year-end following the fifth anniversary of the completion of the Spin-Off); (ii) the end of the fiscal year in which the market value of our common stock that is held by non-affiliates exceeds $700 million as of the last business day of the second fiscal quarter of that year; (iii) the end of the fiscal year in which our annual revenues exceed $1.0 billion; and (iv) the date on which we issue more than $1.0 billion in nonconvertible debt in any three-year period. We expect that we will remain an emerging growth company for the foreseeable future, but cannot retain our emerging

growth company status indefinitely and will no longer qualify as an emerging growth company on or before December 31, 2021. For so long as we remain an emerging growth company, we are permitted and intend to rely on exemptions from specified disclosure requirements that are applicable to other public companies that are not emerging growth companies. Examples of these exemptions include:

- being permitted to provide only two years of audited financial statements, in addition to any required unaudited interim financial statements, with correspondingly reduced related disclosure;
- not being required to comply with the requirement of auditor attestation of our internal controls over financial reporting;
- not being required to comply with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements;
- reduced disclosure obligations regarding executive compensation; and
- not being required to hold a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved.

For as long as we continue to be an emerging growth company, we expect that we will take advantage of the reduced disclosure obligations available to us as a result of that classification. We have taken advantage of certain of reduced reporting burdens in this proxy statement. Accordingly, the information contained herein may be different than the information you receive from other public companies in which you hold stock.

An emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933, as amended, or the "Securities Act," for complying with new or revised accounting standards. This allows an emerging growth company to delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. However, we chose to "opt out" of this provision and, as a result, will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. Our decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable.

## PROPOSAL 1:

## ELECTION OF DIRECTORS

Our bylaws currently specify that the number of directors shall be determined from time to time by resolution of our Board of Directors. Our amended and restated certificate of incorporation and our amended and restated bylaws provide for the classification of our Board of Directors into three classes, as nearly equal in number as possible and with staggered terms of office, and provide that upon the expiration of the term of office for a class of directors, nominees for such class shall be elected for a term of three years or until their successors are duly elected and qualified, provided that the term of each director shall continue until the election and qualification of a successor and be subject to such director's earlier death, resignation or removal. At the Annual Meeting, three nominees for director are to be elected as Class I directors for a three-year term expiring at our 2020 annual meeting of stockholders and until such individual's successor is elected and qualified. The nominees, who were recommended for nomination by the Governance and Nomination Committee (the "Nomination Committee") of our Board of Directors, are David D. Johnson, Dr. Fred B. Parks, PhD and Jon T. Tremmel. The Class II and Class III directors have one year and two years, respectively, remaining on their terms of office.

If no contrary indication is made, proxies in the accompanying form are to be voted for Mr. Johnson, Mr. Tremmel and Dr. Parks, or in the event that any of Mr. Johnson, Mr. Tremmel or Dr. Parks is not a candidate or is unable to serve as a director at the time of the election (which is not currently expected), for any nominee who is designated by our Board of Directors to fill the vacancy. Mr. Johnson, Mr. Tremmel and Dr. Parks are currently members of our Board of Directors.

All of our directors bring to our Board of Directors significant leadership experience derived from their professional experience and service as executives or board members of other companies. The process undertaken by the Nomination Committee in recommending qualified director candidates is described below under "Director Nominations Process." Certain individual qualifications and skills of our directors that contribute to the effectiveness of our Board of Directors as a whole are described in the following paragraphs.

### NOMINEES FOR ELECTION TO THE BOARD OF DIRECTORS

### For a Three-Year Term Expiring at the 2020 Annual Meeting of Stockholders (Class I)

| Name | Age | Present Position with Nuvectra Holdings Corporation |
|---|---|---|
| David D. Johnson | 61 | Director |
| Dr. Fred B. Parks, PhD | 69 | Director |
| Jon T. Tremmel | 70 | Director |

**David D. Johnson** is currently a member of the Board of Nuvectra and was appointed to the Board in March 2016. From May 2005 until his retirement on February 1, 2016, Mr. Johnson served as the Executive Vice President, Treasurer and Chief Financial Officer of Molex, LLC (previously Molex Incorporated), which is a manufacturer of electronic connectors and components. Mr. Johnson currently serves as a director, chairman of the audit committee, and member of the compensation committee of MTS Systems Corporation, which is a global supplier of test systems and industrial sensors. Mr. Johnson earned a B.A. in economics from Stanford University and is a Certified Public Accountant (inactive status). We believe Mr. Johnson is well qualified to serve on Nuvectra's Board of Directors given his financial expertise obtained through his service as a chief financial officer for public companies, particularly with respect to accounting, investor relations and securities law issues, and his experience gained from serving on other boards of directors and audit committees.

**Dr. Fred B. Parks, PhD,** is currently a member of the Board of Nuvectra and was appointed to the Board in March 2016. Dr. Parks has been the President and Chief Executive Officer of Analogic Corporation, a medical imaging and aviatiuon security company, since October 2016. Dr. Parks was the Chief Executive Officer of Enovate Medical from July 2015 until October 2016. Prior to joining Enovate Medical, Dr. Parks served as Chief Executive Officer of NDS Surgical Imaging, LLC from August 2011 to 2013 and Chairman and Chief Executive Officer of Urologix, Inc. from May 2003 to February 2008. Prior to joining Urologix, Dr. Parks served as President and Chief

Executive Officer of Marconi Medical Systems, which is currently part of Philips Medical Systems. Dr. Parks previously served as a director of Analogic Corporation and Enovate Medical. Previously, Dr. Parks has served as a director of NDS Surgical Imaging, Urologix, EG&G, Inc. (now PerkinElmer), St. Jude Medical and Steady State Imaging. Mr. Parks received a B.S. in mechanical engineering from University of Missouri-Rolla, a M.S. in mechanical engineering from the University of Arizona and a Ph.D in mechanical engineering from the University of Missouri-Columbia. We believe Dr. Parks is well qualified to serve on Nuvectra's Board of Directors given his substantial experience as a senior executive and as a board member for a number of medical device companies.

**Jon T. Tremmel** is currently a member of the Board of Nuvectra and was appointed to the Board in March 2016. Until his retirement in 2007, Mr. Tremmel held several senior leadership positions with Medtronic plc, or Medtronic, including President of the Neurological Division from March 2003 to April 2007, President of the Physio-Control Division from May 2001 to March 2003 and President of the Tachyarrhythmia Management Division and President of the Interventional Vascular Division from 1992 to 2001. From 1978 until 1992, he served in various positions of increasing responsibility at Medtronic. Mr. Tremmel currently serves as a director EnteroMedics Inc., which is a publicly-traded medical device company, and Flowonix Medical, Inc., which is a privately-held medical device company. He previously served as a director of Nevro Corp., Cyberonics Inc. and ACell, Inc. Mr. Tremmel earned a B.S. in business and engineering from University of Minnesota, a master's degree in engineering from Boston University and an M.B.A. from University of Minnesota. We believe that Mr. Tremmel is well qualified to serve on Nuvectra's Board of Directors due to his leadership experience in the medical device industry and his experience from serving on the board of directors of several medical device and medtech companies.

## MEMBERS OF THE BOARD OF DIRECTORS CONTINUING IN OFFICE

### Term Expiring at the 2018 Annual Meeting of Stockholders (Class II)

| Name | Age | Present Position with Nuvectra Holdings Corporation |
|---|---|---|
| Kenneth G. Hawari | 58 | Director |
| Anthony P. Bihl III | 60 | Director |
| Thomas E. Zelibor | 62 | Director |

**Kenneth G. Hawari** is currently a member of the Board of Nuvectra and was appointed to the Board in March 2016. Since 2007, Mr. Hawari has worked as an attorney and business consultant in private practice. From February 2002 until December 2006, Mr. Hawari was Executive Vice President – Corporate Development and General Counsel for Advanced Neuromodulation Systems, Inc., a division of St. Jude Medical ("ANS"). Prior to joining ANS, Mr. Hawari was an attorney at Hughes & Luce LLP (which subsequently became part of K&L Gates LLP) from 1984 until 2002. Mr. Hawari currently serves as a member of the board of managers of Taos Mountain Energy Foods, LLC, a privately-held limited liability company that formulates, produces, markets and sells food products. Mr. Hawari earned both a B.A. and a J.D. from the University of Texas at Austin. We believe that Mr. Hawari is well qualified to serve on Nuvectra's Board of Directors due to his experience as a former corporate executive in the medical device industry and his understanding of the legal issues that impact the medical device industry generally given his experience as a general counsel and in private practice.

**Anthony P. Bihl III** is currently a member of the Board of Nuvectra and was appointed to the Board in March 2016. Mr. Bihl was formerly a member of Integer's board of directors until March 2016 when he stepped down from immediately before the completion of the Spin-Off. Mr. Bihl has been Chief Executive Officer and a member of the board of managers of Bioventus, LLC, a company that develops, manufactures and sells products that promote active orthopedic healing, since December 2013. From June 2011 through June 2012, he was Group President American Medical Systems, or AMS, a subsidiary of Endo Pharmaceuticals, or Endo. Mr. Bihl was President, Chief Executive Officer and a director of AMS from April 2008 until Endo acquired AMS in June 2011. He served as Chief Executive Officer of the Diagnostics Division of Siemens Medical Solutions from January to November 2007, and as President of the Diagnostics Division of Bayer HealthCare from 2004 through 2006. Prior to that, Mr. Bihl served in a number of operations and finance roles at Bayer HealthCare and for over 20 years at E.I. DuPont. He is a director and chairman of the board of Spectral Medical, Inc., a Canadian company that develops products for the

diagnosis and treatment of severe sepsis and septic shock, and also serves as chair of its human resources and compensation committee. Mr. Bihl is also a former director of SeraCare Life Sciences Inc. We believe that Mr. Bihl is well qualified to serve on Nuvectra's Board of Directors due to his 30 years of experience in the medical device industry in operations, finance and general management roles.

**Thomas E. Zelibor** is currently a member of the Board of Nuvectra and was appointed to the Board in March 2016. Since May 2012, Mr. Zelibor has been the Chief Executive Officer and Chairman of the Board of Lightwave Logic, a publicly traded company focused on utilizing thin film polymers for electro-optic devices employed in the telecom and datacom markets. Mr. Zelibor will step down as the CEO of Lightwave Logic on May 1, 2017 but will continue to serve as its Chairman of the Board. Prior to being appointed as Chief Executive Officer, he served as a director for Lightwave Logic from July 2008 to April 2012. From April 2011 to April 2012, Mr. Zelibor was a private management consultant and from July 2008 to April 2011 was President and Chief Executive Officer of Flatirons Solutions Corp., a professional services and system engineering company. Mr. Zelibor also held the position of Dean, College of Operational and Strategic Leadership, at the Naval War College in Newport, Rhode Island, where he was responsible for senior leadership development, character development, and ethics for Professional Military Education. Prior to joining the private sector, Mr. Zelibor achieved the rank of Rear Admiral in the U.S. Navy and served in numerous senior positions, including Commander, Carrier Group Three, Navy CIO and Director of Global Operations, United States Strategic Command. Mr. Zelibor earned his bachelor's degree from the United States Naval Academy and has been a participant in the Senior Leader in Residence Program and a visiting scholar for the Zell Center for Risk Research at the Kellogg School of Management, Northwestern University. We believe that Mr. Zelibor is well qualified to serve on Nuvectra's Board of Directors due to his operational experience as the chief executive officer of a publicly-traded technology company and his senior leadership experience gained from running large, complex operations for the United States military.

**Term Expiring at the**
**2019 Annual Meeting of Stockholders (Class III)**

| Name | Age | Present Position with Nuvectra Holdings Corporation |
|---|---|---|
| Dr. Joseph A. Miller, Jr. | 75 | Chairman of the Board |
| Scott F. Drees | 59 | Chief Executive Officer and Director |

**Dr. Joseph A. Miller, Jr.** currently serves as the Chairman of the Board of Nuvectra and was appointed in March 2016. He was previously a member of Integer's board of directors and stepped down from Integer's board in March 2016 shortly before the completion of the Spin-Off. Dr. Miller also currently serves as a director of Lightwave Logic, Inc., or Lightwave Logic, and previously served as a director of Dow Corning Corporation. Dr. Miller retired in April 2012 as Executive Vice President and Chief Technology Officer for Corning Incorporated, a position in which he had served since 2001. Before joining Corning in 2001, he served as Senior Vice President of E.I. DuPont de Nemours from 1999 to 2001 and held various executive positions with that company prior to that time. Dr. Miller has significant research and development knowledge and experience gained through his positions at Corning and E.I. DuPont. We believe that Dr. Miller is well qualified to serve on Nuvectra's Board of Directors due to his extensive knowledge and experience gained as a corporate executive and director of Integer and other public companies, which gives him valuable insight into a number of issues important to us.

**Scott F. Drees** currently serves as Chief Executive Officer and a director of Nuvectra. Prior to joining Nuvectra on a full time basis, Mr. Drees served as a consultant to Nuvectra and our subsidiaries Algostim and PelviStim since August 2009. In addition, from January 2008 to July 2015, Mr. Drees also served as President and Chief Executive Officer of Neuromodulation Ventures, LLC, which focused on incubating new neuromodulation companies. Previously in his thirty-four year career in the medical device industry, Mr. Drees served in various executive positions, including, founding division President and, later, Executive Vice President, Worldwide Sales and Marketing, at Advanced Neuromodulation Systems, Inc., or ANS, a neuromodulation company that was acquired by St. Jude Medical, Inc. in 2005, and also various other positions at St. Jude Medical, Boston Scientific Corporation and Johnson & Johnson's Codman Neuro division. Mr. Drees currently serves as a director of Neuros Medical, Inc., a privately-held neuromodulation company. Mr. Drees earned a B.S. from St. Joseph's University in Philadelphia. Mr. Drees has been selected to serve as a director on our Board of Directors due to his in-depth knowledge of our business, extensive experience in the neuromodulation industry and role as our Chief Executive Officer.

**Board Independence**

Our Board of Directors has determined that each of Dr. Miller, Mr. Bihl, Mr. Hawari, Mr. Johnson, Dr. Parks, Mr. Tremmel, and Mr. Zelibor are independent under applicable NASDAQ Stock Market LLC, or NASDAQ rules.

**Board Leadership Structure**

Our leadership is structured such that the chair of our Board of Directors and chief executive officer positions are separated. We separate the roles of chief executive officer and chair of the Board of Directors in recognition of the differences between the two roles. The chief executive officer is responsible for setting the strategic direction for the Company and the day-to-day leadership and performance of the Company, while the chair of the Board of Directors sets the agenda for meetings of our Board of Directors and acts as an interface between our Board of Directors and senior leadership team. Mr. Miller, the chair of our Board of Directors, has extensive executive experience in the medical device industry generally, as well as the specific business segment in which we operate, and brings substantial experience and leadership that enhances the effectiveness of our Board of Directors as a whole.

Pursuant to our corporate governance guidelines, our Board of Directors may choose its chair in any manner that it deems to be in the best interests of our Company. Our corporate governance guidelines do not require that we separate the roles of chair and chief executive officer or that we designate a lead independent director. However, our Board of Directors believes this leadership structure is appropriate for our Company at this time. Based on our current circumstances, this structure, together with our other corporate governance practices, provides strong independent oversight of management, while ensuring clear strategic alignment throughout the Company.

**The Board's Role in Risk Oversight**

Our Board of Directors is responsible for oversight of risks facing our company, while our management is responsible for day-to-day management of risk. Our Board of Directors, as a whole, directly administers its risk oversight function. In addition, the risk oversight function is also administered through the standing committees of our Board of Directors, which oversee risks inherent in their respective areas of responsibility, reporting to our Board of Directors regularly and involving the Board as necessary. For example, the Audit Committee oversees our financial exposure and financial reporting related risks, the Compensation and Organization Committee (the "Compensation Committee") oversees risks related to our compensation programs and practices and our Governance and Nomination Committee (the "Governance & Nomination Committee") oversees risks related to corporate governance and certain compliance matters. Our Board of Directors as a whole directly oversees our strategic and business risk, including financial risk, through regular interactions with our management and, from time to time, input from independent advisors. We believe our leadership structure of our Board of Directors supports its role in risk oversight, with our executive officers responsible for assessing and managing risks facing our company on a day-to-day basis and the chairman of the Board and other independent members of our Board of Directors providing oversight of such risk management.

**Board of Directors Meetings**

Our Board of Directors holds at least four regularly scheduled meetings per year and additional special meetings as necessary. Each director is expected to prepare for and attend all regularly scheduled and special meetings of the Board and all committees on which the director sits (including separate meetings of independent directors), unless unusual circumstances make attendance impractical. The Board of Directors may also take action from time to time by written or electronic consent. Our Board of Directors and committees meet regularly outside the presence of management and the independent directors also hold regular executive sessions without management or any non-independent directors present. The Chairman of the Board, Dr. Miller, chairs executive sessions of the Board and our committee chairmen each chair the executive sessions of their respective committees.

Prior to Nuvectra's Spin-Off on March 14, 2016, our Board of Directors did not hold any meetings but, instead, acted by written consent. From March 14, 2016 (the date of the Spin-Off), through December 30, 2016, our Board of Directors held six meetings; the Audit Committee held five meetings; the Compensation Committee held five meetings; and the Governance & Nomination Committee held one meeting. Each of the directors who served during

the past year attended at least 75% of the aggregate of the total number of meetings of our Board of Directors and meetings of committees on which they served.

**Committees of the Board of Directors**

We have three standing committees: the Audit Committee, the Compensation Committee and the Governance & Nomination Committee. Each of these committees has a written charter approved by our Board of Directors. A copy of each charter can be found under the Investors section of our website at www.nuvectramed.com. The current members of the committees are identified in the following table.

| Director | Audit Committee | Compensation Committee | Governance & Nomination Committee |
|---|---|---|---|
| Dr. Joseph A. Miller | — | — | — |
| Scott F. Drees | — | — | — |
| Anthony P. Bihl III | X | X* | — |
| Kenneth G. Hawari | X | — | X* |
| David D. Johnson | X* | — | — |
| Dr. Fred B. Parks, PhD | — | X | — |
| Jon T. Tremmel | — | — | X |
| Thomas E. Zelibor | — | X | X |

* Indicates chair of the committee.

***Audit Committee***

The Audit Committee of our Board of Directors currently consists of Mr. Johnson, Mr. Hawari and Mr. Bihl. Mr. Johnson serves as chair of the committee. All members of our Audit Committee meet the requirements for financial literacy under applicable SEC and NASDAQ rules. Our Board of Directors has determined that Mr. Johnson, qualifies as an "audit committee financial expert" under applicable SEC rules and has the financial sophistication required under applicable NASDAQ rules. Our Board of Directors also determined that all members of the Audit Committee are independent directors, under applicable SEC and NASDAQ rules, including Section 10A of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"). The purpose of the Audit Committee is to oversee our accounting and financial reporting processes and the audits of our financial statements. This committee's responsibilities include, among other things:

- appointing our independent registered public accounting firm;
- reviewing the qualifications, independence and quality control procedures of our independent auditor and the experience and qualifications of the independent auditor's senior personnel;
- evaluating the performance of our independent registered public accounting firm;
- approving the audit and non-audit services to be performed by our independent registered public accounting firm;
- establishing procedures for the receipt, retention and treatment of complaints we receive regarding accounting, internal accounting controls or auditing matters;
- discussing with management and the independent registered public accounting firm the results of our annual audit and the review of our quarterly unaudited financial statements;
- determining, based upon review of the annual audit and review of our annual financial statements, whether to recommend to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year subject to the audit;
- reviewing, overseeing and monitoring the integrity of our financial statements and our compliance with legal and regulatory requirements as they relate to financial statements or accounting matters;

- discussing with our internal counsel or outside counsel any legal matters brought to the attention of the Audit Committee that could reasonably be expected to have a material impact of our financial statements;
- preparing the report with respect to our audited financial statements that the SEC requires for inclusion in each of our annual proxy statements;
- reviewing and approving any related party transactions on an ongoing basis;
- reviewing and reassessing, at least annually, our Audit Committee charter and submitting any recommended changes to the Board of Directors for its consideration; and
- reviewing and evaluating, at least annually, the performance of the Audit Committee and its members including compliance of the audit committee with its charter.

**Report of the Audit Committee Related of the Board of Directors**

This report of the Audit Committee is required by the SEC and, in accordance with the SEC's rules, will not be deemed to be part of or incorporated by reference by any general statement incorporating by reference this proxy statement into any filing under the Securities Act or under the Exchange Act, except to the extent that we specifically incorporate this information by reference, and will not otherwise be deemed "soliciting material" or "filed" under either the Securities Act or the Exchange Act.

Our management is responsible for the preparation, presentation and integrity of our financial statements; for the appropriateness of the accounting principles and reporting policies that we use; and for establishing and maintaining adequate internal control over financial reporting. Deloitte & Touche LLP, our independent registered public accounting firm for 2016, was responsible for performing an independent audit of our financial statements and expressing an opinion on the conformity of those financial statements with generally accepted accounting principles.

The Audit Committee reviewed and discussed with management our audited financial statements included in our Annual Report on Form 10-K for the year ended December 30, 2016, that was filed with the SEC on March 9, 2017, ("the Form 10-K"). The Audit Committee also reviewed and discussed the audited financial statements in the Form 10-K with Deloitte & Touche LLP. In addition, the Audit Committee discussed with Deloitte & Touche LLP those matters required to be discussed by Auditing Standard No. 61, as amended, as adopted by the Public Company Accounting Oversight Board (the "PCAOB") in Rule 3200T. Additionally, Deloitte & Touche LLP provided to the Audit Committee the written disclosures and the letter required by applicable requirements of the PCAOB regarding Deloitte & Touche LLP's communications with the Audit Committee concerning independence. The Audit Committee also discussed with Deloitte & Touche LLP its independence from the Company.

In reliance on the reviews and discussions described above, the Audit Committee recommended to the Company's Board of Directors that the audited financial statements be included in the Form 10-K and filed with the SEC. The Audit Committee and the Company's Board of Directors have also recommended, subject to stockholder approval, the ratification of the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for 2017.

The foregoing report has been furnished by the Audit Committee of our Board of Directors.

Respectfully submitted,

David D. Johnson, Chair
Kenneth G. Hawari
Anthony P. Bihl

***Compensation Committee***

The Compensation Committee of our Board of Directors currently consists of Mr. Bihl, Dr. Parks and Mr. Zelibor. Mr. Bihl serves as chair of the committee. Our Board of Directors has determined that all members of the

Compensation Committee are independent directors, under applicable NASDAQ rules. The purpose of the Compensation Committee is to discharge the responsibilities of our Board of Directors relating to compensation of our executives. Pursuant to the Compensation Committee's charter, it may delegate any of its responsibilities, along with the authority to take action related to the delegated responsibilities, to a subcommittee consisting of at least one member of the Compensation Committee. However, any delegation by the Compensation Committee may only be to the extent that it is consistent with Section 162(m) of the Internal Revenue Code, as amended (the "Code"), and with applicable laws, regulations and NASDAQ listing rules. The committee's responsibilities include, among other things:

- reviewing, at least annually, the overall compensation strategy, philosophy and practices of the Company;
- reviewing and approving the corporate goals and objectives relating to the compensation of our chief executive officer, evaluating the performance of the chief executive officer in light of these goals, and determining and approving the compensation of the chief executive officer based on such evaluation;
- reviewing and approving, at least annually, all elements of compensation of all other officers and directors, and certain other employees;
- managing, reviewing and approving all annual bonus, long-term incentive compensation, stock option, employee pension, health and welfare benefit plans;
- determining our policy with respect to change of control and "parachute" payments;
- reviewing and approving, at least annually, the risk assessment of our compensation policies and practices;
- reviewing and reassessing, at least annually, our Compensation Committee charter and submitting any recommended changes to the board of directors for its consideration, and
- evaluating the performance of the Compensation Committee and its members, including the compliance with its charter..

***Governance & Nomination Committee***

The Governance & Nomination Committee of our Board of Directors currently consists of Mr. Hawari, Mr. Tremmel and Mr. Zelibor. Mr. Hawari serves as chair of the committee. Our Board of Directors has determined that all members of the Governance & Nomination Committee are independent directors under applicable NASDAQ rules. The purpose of the Governance & Nomination Committee is to assist our Board of Directors in discharging its responsibilities regarding the identification of qualified candidates to become directors, the selection and recommendation to the Board of Directors of nominees for election as directors at our annual meetings of stockholders (or special meetings of stockholders at which directors are to be elected), the selection and recommendation to the Board of Directors of candidates to fill any vacancies on our Board of Directors and any committees thereof, the development and recommendation to our Board of Directors of a set of corporate governance guidelines, oversight of evaluation of our Board of Directors and its committees and taking a leadership role in shaping our corporate governance polices. The committee's responsibilities include, among other things:

- Determination of the qualifications, qualities, skills and other expertise to be a director of the Company;
- reporting and making recommendations to our board of directors concerning governance matters;
- recommending the creation of additional committees of the board of directors or the elimination of certain committees;
- evaluating the performance of the Governance & Nomination Committee and its members, including the compliance with its charter;
- reviewing and reassessing, at least annually, our Governance & Nomination Committee charter and submitting any recommended changes to the Board of Directors for its consideration.

- interact with and provide advice and counsel to the Company's compliance officer regarding the Company's sales and marketing related compliance program.

**Director Nomination Process**

***Director Qualifications***

Our goal is to assemble a group of directors that collectively provide an appropriate balance of experience, skills and characteristics that enable our Board of Directors to fulfill its responsibilities. In evaluating director nominees, the Governance & Nomination Committee and Board of Directors consider, among others, the following factors:

- fundamental qualities of intelligence, honesty, sound judgment, high ethics and standards of integrity, fairness and responsibility;
- experience in corporate management, such as serving as an officer or former officer of a publicly held company and a background in the medical device, healthcare, technology and/or manufacturing industries;
- a general understanding of marketing, finance, legal or regulatory compliance knowledge and audit or risk assessment expertise and other elements relevant to the success of a publicly traded company in today's business environment;
- familiarity with the Company and its business and products;
- experience as a board member or executive officer of other companies; and
- the ability to make independent analytical inquiries.

Other than consideration of the foregoing and other similar factors, there are no stated minimum criteria for director nominees, although the Governance & Nomination Committee may also consider such other factors as it may deem to be in the best interests of our Company and stockholders, including the number of other boards of directors on which an individual serves, the composition of the board and other skills or experiences. The Governance & Nomination Committee does, however, believe it appropriate for at least one, and preferably, more than one, member of our Board of Directors to meet the criteria for an "audit committee financial expert" under applicable SEC rules, and for a majority of the members of our Board of Directors to be "independent" under applicable NASDAQ rules. The Governance & Nomination Committee also believes it appropriate for our chief executive officer to serve as a member of our Board of Directors. Our directors' performance and qualification criteria are reviewed annually by the Governance & Nomination Committee.

***Identification and Evaluation of Nominees for Directors***

The Governance & Nomination Committee identifies nominees for director by first evaluating the current members of our Board of Directors willing to continue in service. Current members who possess qualifications and skills that are consistent with the Governance & Nomination Committee's criteria for service on the Board and who are willing to continue in service are considered for re-nomination, balancing the value of continuity of service by existing members of our Board of Directors with that of obtaining a new perspective or expertise. Before nominating a sitting director for reelection, the Governance & Nomination Committee will also consider the director's performance on, participation in and contributions to the activities of our Board of Directors and the director's past attendance at meeting.

If any member of our Board of Directors does not wish to continue in service or if our Board of Directors decides not to re-nominate a member for re-election, the Governance & Nomination Committee may identify the desired skills and experience of a new nominee in light of the criteria above. The Governance & Nomination Committee will take into account the advice and recommendations of other members of the Board, the chief executive officer and other members of the Company's senior leadership team, and, in its discretion, may seek third-party resources to assist in the selection and/or evaluation process. The Governance & Nomination Committee may also review the composition and qualification of the boards of directors of our competitors, and may seek input from industry experts or analysts. The Governance & Nomination Committee reviews the qualifications, experience and

background of the candidates. In making its determinations, the Governance & Nomination Committee evaluates each individual in the context of our Board of Directors as a whole, with the objective of assembling a group that can best position our Company for success and represent stockholder interests through the exercise of sound business judgment. After review and deliberation of all feedback and data, the Governance & Nomination Committee makes its recommendation to our Board of Directors.

The Governance & Nomination Committee evaluates nominees recommended by stockholders in the same manner as it evaluates other nominees. To date, we have not received director candidate recommendations from our stockholders. In the event that we do receive a director candidate recommendation from a stockholder, the Governance & Nomination Committee will conduct an initial evaluation of the proposed nominee and, if it determines the proposed nominee may be a qualified candidate, it will, along with one or more members of the Company's management team, interview the proposed nominee to determine whether he or she might be suitable to serve as a director. If, based on the criteria set forth above and the Board's specific needs at such time, the Governance & Nomination Committee determines the proposed nominee would be a valuable addition to our Board of Directors, it will recommend to our Board of Directors such proposed nominee's nomination. We do not intend to treat stockholder recommendations in any manner different from other recommendations.

Under our corporate governance guidelines and amended and restated bylaws, stockholders wishing to suggest a candidate for director should write to our corporate secretary and provide such information about the stockholder and the proposed candidate as is set forth in our amended and restated bylaws and as would be required by SEC rules to be included in a proxy statement. In addition, the stockholder must include the consent of the candidate and describe any arrangements or undertakings between the stockholder and the candidate regarding the nomination. In order to give the Governance & Nomination Committee sufficient time to evaluate a recommended candidate and/or include the candidate in our proxy statement for the 2018 annual meeting, the recommendation should be received by our corporate secretary at our principal executive offices in accordance with our procedures detailed in the section below entitled "Stockholder Proposals."

**Director Compensation**

Prior to the Spin-Off, Nuvectra did not compensate its directors for service in their capacity as our directors; however, in connection with the Spin-Off, we adopted a compensation program for our non-employee directors that consists of a combination of annual retainers and long-term equity-based compensation.

***Cash Compensation***

Under the program, each non-employee director is entitled to receive annual retainers in the following amounts, pro-rated for any partial year of service:

| | | |
|---|---|---|
| Board ChairmanAnnual Retainer | $ | 90,000 |
| Non-Chair Director Annual Retainer | $ | 40,000 |
| Chair of Audit Committee Additional Annual Retainer | $ | 20,000 |
| Chair of Compensation Committee Additional Annual Retainer | $ | 15,000 |
| Chair of Governance & Nomination Committee Additional Annual Retainer | $ | 10,000 |
| Audit Committee Member Additional Annual Retainer | $ | 10,000 |
| Compensation Committee Member Additional Annual Retainer | $ | 7,500 |
| Nomination Committee Member Additional Annual Retainer | $ | 5,000 |

Annual retainers generally will be paid in cash quarterly promptly following the beginning of the applicable fiscal quarter, but in no event more than thirty (30) days after the beginning of such quarter. All directors are reimbursed

for their reasonable out-of-pocket expenses incurred because of service on the Board and, if applicable, any committee of the Board. Mr. Drees does not receive compensation for his service on the Board.

***Equity Compensation***

Following the Spin-Off, we provided all newly appointed non-employee directors an initial equity grant in the form of options to purchase 11,802 shares of Nuvectra common stock with a value of $52,519. These stock options will vest in equal annual installments over a three-year period. In addition, we granted each non-employee director an annual equity grant in the form of options to purchase 3,350 shares of Nuvectra common stock with a value of $14,908 and 3,350 restricted stock units ("RSUs") of Nuvectra with a value of $23,015. These stock options and restricted stock units will vest in equal quarterly installments over a one-year vesting period.

The following table sets forth a summary of the compensation paid to our non-employee directors for the fiscal year ended December 30, 2016.

| Name(1) | Fees Earned or Paid in Cash ($) | Stock Awards(2) ($) | Option Awards(3) ($) | Other Compensation ($) | Total ($) |
|---|---|---|---|---|---|
| Dr. Joseph A. Miller, Jr. | 67,500 | 23,015 | 67,427 | - | 157,942 |
| Anthony P. Bihl | 48,750 | 23,015 | 67,427 | - | 139,192 |
| Kenneth G. Hawari | 45,000 | 23,015 | 67,427 | - | 135,442 |
| David D. Johnson | 45,000 | 23,015 | 67,427 | - | 135,442 |
| Dr. Fred B. Parks, PhD | 35,625 | 23,015 | 67,427 | - | 126,067 |
| Jon T. Tremmel | 33,750 | 23,015 | 67,427 | | 124,192 |
| Thomas E. Zelibor | 39,375 | 23,015 | 67,427 | - | 129,817 |

(1) Scott F. Drees, our chief executive officer, is not included in this table because he is an employee and thus receives no compensation for his service as a director. The compensation received by Mr. Drees as an employee is shown in the Summary Compensation Table below.

(2) Represents the grant date fair value of 3,350 RSUs granted to our non-employee directors during 2016 determined in accordance with ASC Topic 718, Compensation—Stock Compensation (ASC Topic 718). Amounts shown are based on the full grant date fair value of the entire award, regardless of vesting requirements. As of December 30, 2016, our non-employee directors held the following aggregate RSU awards outstanding: Dr. Miller, 1,674 RSUs; Mr. Bihl, 1,674 RSUs; Mr. Hawari, 1,674 RSUs; Mr.Johnson, 1,674 RSUs; Dr. Parks, 1,674 RSUs; Mr. Tremmel, 1,674 RSUs; and Mr. Zelibor, 1,674 RSUs.

(3) Represents the grant date fair value of 15,152 option awards granted to our non-employee directors during 2016 determined in accordance with ASC Topic 718, Compensation—Stock Compensation (ASC Topic 718). See Note 5 to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 30, 2016, for details as to the assumptions used to determine the fair value of the option awards. Amounts shown are based on the full grant date fair value of the entire award, regardless of vesting requirements. As of December 30, 2016, our non-employee directors held the following aggregate stock options outstanding: Dr. Miller, 33,938 options (which number includes 18,786 Nuvectra options which were originally granted to Dr. Miller by Integer and converted to Nuvectra options in connection with the Spin-Off); Mr. Bihl, 26,170 options (which number includes 11,018 Nuvectra options which were originally granted to Mr. Bihl by Integer and converted to Nuvectra options in connection with the Spin-Off); Mr. Hawari, 15,152 options; Mr.Johnson, 15,152 options; Dr. Parks, 15,152 options; Mr. Tremmel, 15,152 options; and Mr. Zelibor, 15,152 options. For more information about the treatment of Integer equity awards in the Spin-Off, see "Treatment of Integer Equity Awards in the Spin-Off" above.

**Director Attendance at Annual Meetings**

Although we do not have a formal policy regarding attendance by members of our Board of Directors at the Annual Meeting, we encourage all of our directors to attend.

**Communications with our Board of Directors**

Our stockholders wishing to address questions regarding the business affairs of the Company directly to our Board of Directors, or any individual director, should submit the inquiry in writing to:

Nuvectra Corporation
Attn: Chairman of the Board
5830 Granite Parkway, Suite 1100
Plano, Texas 75024

Stockholders should indicate that they are a stockholder of the Company. Depending on the subject matter, investor relations will (alone or in concert with other personnel of the Company, as appropriate): (1) forward the inquiry to the chair of our Board of Directors or the lead independent director, as appropriate, who may forward the inquiry to a particular director if the inquiry is directed towards a particular director; (2) forward the inquiry to the appropriate personnel within the Company; for instance, if it is primarily commercial in nature; (3) attempt to handle the inquiry directly; for instance, if it is a request for information about the Company or a stock-related matter; or (4) not forward the inquiry, if it relates to an improper or inappropriate topic or is otherwise irrelevant.

**Corporate Governance**

Our code of conduct, code of ethics for our CEO and senior financial officers, Audit Committee charter, Compensation Committee charter and Nomination Committee charter are available, free of charge, under the Investors section of our website at www.nuvectramed.com. Please note, however, that the information contained on the website is not incorporated by reference in, or considered part of, this proxy statement. We will also provide copies of these documents, as well as our Company's other corporate governance documents, free of charge, to any stockholder upon written request to Nuvectra Corporation, 5830 Granite Parkway, Suite 1100, Plano, Texas 75024.

**Vote Required; Recommendation of the Board of Directors**

If a quorum is present at the Annual Meeting, the three nominees receiving the highest number of votes will each be elected to our Board of Directors. Votes withheld from any nominee, abstentions and broker non-votes will be counted only for purposes of determining a quorum. Broker non-votes will have no effect on this proposal as brokers or other nominees are not entitled to vote on such proposal in the absence of voting instructions from the beneficial owner.

**OUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE STOCKHOLDERS VOTE "FOR" THE ELECTION OF DAVID D. JOHNSON, DR. FRED B. PARKS, Ph.D AND JON T. TREMMEL. PROXIES SOLICITED BY THE BOARD OF DIRECTORS WILL BE SO VOTED UNLESS STOCKHOLDERS SPECIFY OTHERWISE ON THEIR PROXY CARD.**

## PROPOSAL 2:

## APPROVAL OF THE EQUITY PLAN

We are asking our stockholders to vote for approval of the Equity Plan. Prior to the Spin-Off, the board of managers of QiG Group adopted, and Greatbatch Ltd., as sole member of QiG Group, approved, the Equity Plan, under which we may grant equity incentive awards to eligible persons in order to attract, motivate and retain the talent for which we compete. On March 14, 2016, we filed a Registration Statement on Form S-8 with the SEC covering 1,950,000 shares issuable under the Equity Plan. The principal features of the Equity Plan are summarized below, but the summary is qualified in its entirety by reference to the Equity Plan itself. The Equity Plan, as in effect on March 14, 2016, and in the form to be voted on by stockholders, is attached to this Proxy Statement as Appendix A.

As of the Record Date, 1,472,959 shares of Nuvectra common stock were the subject of outstanding equity awards under the Equity Plan. The total number of shares available for issuance in connection with future awards is 673,283 (plus any shares that may in the future be returned or added to the Equity Plan in accordance with its terms).

*Eligibility and Administration*

Employees, non-employee consultants or service providers and non-employee directors of Nuvectra are eligible to receive incentive awards under the Equity Plan. In addition, any person who received an incentive award that was originally granted under a Greatbatch equity incentive award plan, which is adjusted into an incentive award covering Nuvectra common stock in accordance with the terms of the Employee Matters Agreement, each, a "Spin-off Award," is eligible to participate in the Equity Plan. We currently have 45 employees and seven non-employee directors that are eligible to participate in the Equity Plan, which includes those individuals that received a Spin-off Award. Following the completion of the Spin-Off, the Equity Plan is now administered by our Compensation Committee. Future awards under the Equity Plan will be in consideration of services rendered to the Company and the corresponding value that those services add to the Company and its stockholders. The Compensation Committee will have the authority to make all determinations and interpretations under, prescribe all forms for use with, and adopt rules for the administration of the Equity Plan, subject to the express terms and conditions set forth in the Equity Plan. The Compensation Committee will also set out the terms and conditions of all incentive awards under the Equity Plan, including any vesting and vesting acceleration conditions.

*Limitation on Awards and Shares Available*

The aggregate number of shares that may be issued pursuant to incentive awards under the Equity Plan is the sum of (i) 1,128,410 shares, or the "Share Limit," and (ii) the number of shares subject to all of the Spin-off Awards outstanding immediately following the completion of the Spin-Off, subject to adjustment only to reflect stock splits or other similar type events. These shares may be authorized but unissued shares, issued shares held in Nuvectra's treasury or shares acquired for purposes of the Equity Plan. The Share Limit will increase on an annual basis on the first day of each fiscal year, for a period of nine years after the effective date of the Equity Plan, in an amount equal to four percent (4%) of the total number of shares of Nuvectra stock outstanding on the last day of the immediately preceding fiscal year. The Compensation Committee may act prior to the first day of each fiscal year to provide that there will be no increase of the Share Limit for that fiscal year or that the increase of the Share Limit for such year will be a smaller number of shares than would otherwise occur. For more information on the Spin-off Award total, please see the table in the "Equity Compensation Plan Information" section below.

Other than with respect to the Spin-off Awards, for purposes of calculating the Share Limit, the aggregate number of shares of our common stock issued under the Equity Plan at any time shall only equal the number of shares of our common stock actually issued upon exercise or settlement of an outstanding award.

Other than with respect to Spin-off Awards, shares underlying incentive awards that are forfeited, expire, cancelled or lapse become available for future grants. Shares that are (i) used to pay the exercise price of a stock option, (ii) delivered or withheld to satisfy tax withholding obligations, (iii) covered by a stock-settled stock appreciation right ("SAR"), that are not issued upon settlement of such SAR or (iv) not issued because cash is issued in lieu of shares will, in each case, not be available for future grants. When a stock-settled SAR is exercised, the shares subject to a

SAR grant agreement will be counted against the shares available for award as one share for every share subject thereto, regardless of the number of shares used to settle the stock appreciation right upon exercise.

Shares issued under the Equity Plan upon the assumption of, or in substitution for, any outstanding awards of an entity acquired in any form of business combination with Nuvectra will not be counted towards the Share Limit. Excluding any Spin-off Awards, the maximum number of shares that may be awarded under the Equity Plan in any single fiscal year to any non-employee director, taken together with any cash fees paid to such non-employee director during the fiscal year, may not exceed $500,000 in total value (calculating the value of any such awards based on the grant date fair value of such awards for financial reporting purposes). Excluding any Spin-off Awards, the maximum number of shares that may be awarded under the Equity Plan as incentive stock options is 1,128,410. Excluding any Spin-off Awards, the aggregate number of shares subject to (i) options or SARs awarded under the Equity Plan to any employee during any fiscal year shall not exceed shares and (ii) any incentive awards, other than options or SARs, awarded under the Equity Plan to any employee during any fiscal year shall not exceed 312,500 shares. The total number of Spin-off Awards is 805,142.

*Awards*

The Equity Plan provides for the grant of stock options, including incentive stock options, restricted stock, RSUs, SARs, and stock bonuses. All incentive awards under the Equity Plan will be set forth in award agreements, which will detail all terms and conditions of the incentive awards, including any applicable vesting and payment terms and post-termination exercise limitations. A brief description of each award type follows:

(1) non-qualified and incentive stock option – the right to purchase a certain number of shares of stock, at a certain exercise price, in the future.

(2) restricted stock – share award conditioned upon continued employment, the passage of time or the achievement of performance objectives.

(3) RSU – a contractual right to receive a share of stock in the future.

(4) SAR – the right to receive the net of the market price of a share of stock and the exercise price of the right, in stock, in the future.

(5) stock bonus – a bonus payable in shares of stock.

Incentive awards granted under the Equity Plan may qualify as “performance-based compensation” under Section 162(m) of the Code and thus preserve federal income tax deductions for Nuvectra with respect to annual compensation required to be taken into account under Section 162(m) of the Code that is in excess of $1 million and paid to one of our most highly compensated executive officers. To qualify, the equity awards must be granted under the Equity Plan by a committee consisting of two or more “outside directors” (as defined under Section 162(m) of the Code) and must satisfy the Equity Plan’s limit on the total number of shares that may be awarded to any one participant during any calendar year. In addition, for equity awards to qualify, the grant, issuance, vesting or retention of the award must be contingent upon satisfying one or more of the performance criteria, as established and certified by a committee consisting solely of two or more outside directors.

For purposes of the Equity Plan, one or more of the following performance criteria will be used in setting performance goals applicable to performance-based compensation, and may be used in setting performance goals applicable to other performance awards: (i) net earnings or net income (either before or after one or more of the following: interest, taxes, depreciation, amortization and/or non-cash equity-based compensation expenses), (ii) economic value-added (as determined by the Compensation Committee), (iii) sales or revenue, (iv) net earnings or net income (either before or after taxes), (v) operating earnings or income, (vi) cash flow (including, but not limited to, operating cash flow and free cash flow), (vii) gross profit or gross profit growth, (viii) cash flow return on capital, (ix) return on investment, (x) return on stockholders’ equity, (xi) return on assets or net assets, (xii) return on capital, (xiii) stockholder returns, (xiv) return on sales, (xv) gross or net profit margin, (xvi) productivity, (xvii) expenses or expense targets, (xviii) margins, (xix) improvement of capital structure, (xx) operating efficiency, (xxi) cost reduction or savings, (xxii) budget and expense management, (xxiii) customer satisfaction, (xxiv) working capital, (xxv) basic or diluted earnings or loss per share (before or after taxes), (xxvi) price per share of Nuvectra’s stock (including, but not limited to growth measures or total stockholder return), (xxvii) completion of acquisitions

or business expansion, (xxviii) regulatory achievements or compliance (including, without limitation, regulatory body approval for commercialization of a product), (xxix) implementation or completion of critical products, (xxx) enterprise value, (xxxi) attainment of objective employee metrics, (xxxii) market share, any of which may be measured either in absolute terms or as compared to any incremental increase or as compared to results of a market index, group of other companies or a combination thereof.

In December 2016, the Compensation Committee approved an additional equity bonus to certain key personnel. These additional equity-only bonuses were intended to reward certain key leadership roles for meeting critical project goals and deadlines in 2016 following the Spin-Off and to provide additional retention incentives. These additional special bonus grants of equity were granted on March 17, 2017, with vesting to occur over a three-year period from the date of grant. No additional or special bonuses of cash or equity were awarded to Messrs. Drees, Berger or Hanchin for 2016.

*Award Terms*

Options and SARs will have terms no longer than ten years. All incentive awards made under the Equity Plan may be subject to vesting and other contingencies as determined by the Compensation Committee and will be evidenced by award agreements which set forth the terms and conditions of each award. The Compensation Committee, in its discretion, may accelerate or extend the period for the exercise or vesting of any awards.

In the event that a change in control (as defined in the Equity Plan) occurs, each outstanding incentive award held by a participant will become fully vested (and, as applicable, exercisable).

*Vesting*

Subject to certain exceptions set forth in the Equity Plan, any restricted stock or RSU (other than any Spin-off Awards) that vests solely on the basis of the passage of time will not fully vest more quickly than over the three-year period beginning on date of grant and any restricted stock or RSU that is a performance-based award (other than any Spin-off Awards) will not vest prior to the first anniversary of the date of grant. Unless the applicable award agreement provides otherwise, no option or SAR (other than any Spin-off Award) shall be exercisable prior to the first anniversary of grant.

Upon consummation of an event constituting a change of control (as defined in the Equity Plan), all incentive awards granted under the Equity Plan will become immediately vested.

*Foreign Participants, Claw-Back Provisions, Transferability, and Participant Payments*

The Compensation Committee may modify award terms and/or adjust other terms and conditions of awards in order to facilitate grants of incentive awards to participants who are foreign nationals or employed outside of the United States. All awards will be subject to deduction or clawback as may be required pursuant to applicable law, the listing standards of the stock exchange on which our shares are listed or any clawback policy adopted by us. Incentive awards granted under the Equity Plan generally are not transferable except by will or the laws of descent and distribution. With regard to tax withholding, exercise price and purchase price obligations arising in connection with awards under the Equity Plan, the Compensation Committee may, in its sole discretion, accept cash or check, shares of our common stock that meet specified conditions, or such other consideration as it deems suitable.

*Equity Plan Amendment and Termination*

Our Board of Directors may at any time, suspend or terminate the Equity Plan or revise or amend it in any respect whatsoever; provided, however, that stockholder approval shall be required if and to the extent required by Exchange Act Rule 16b-3 or by any comparable or successor exemption under that the Board believes it is appropriate for the Equity Plan to qualify, or if and to the extent the Board determines that such approval is appropriate for purposes of satisfying Sections 162(m), 422 or 409A of the Code or any applicable rule or listing standard of any stock exchange, automated quotation system or similar organization. The Equity Plan terminates on the tenth anniversary of its initial effective date.

*Tax Consequences of Stock Incentives to Participants and the Company*

Options. Stock option grants under the Equity Plan may either be granted as incentive stock options, which are governed by Section 422 of the Code, or as non-qualified stock options, which are governed by Section 83 of the Code. Generally, no federal income tax is payable by the participant upon the grant of an incentive stock option and no deduction is taken by us. If certain holding periods are met, the exercise of an incentive stock option does not result in taxation to the participant; rather, the participant is taxed only at the time of sale of the shares received upon exercise. If the shares have been held for at least one year after the date of exercise and at least two years from the date of grant of the option, the participant will be taxed on any appreciation in excess of the exercise price as long-term capital gains. In that event, we are not entitled to a deduction for the amount of the capital gains. The excess of the fair market value of the shares acquired at the time of exercise of an incentive stock option over the aggregate exercise price of the shares is, however, an item of tax preference income potentially subject to the alternative minimum tax.

Under current tax laws, if a participant exercises a non-qualified stock option, the participant will be taxed on the difference between the fair market value of the stock on the exercise date and the exercise price and, thereafter, the participant would receive capital gains on any appreciation in stock value after the exercise date, depending upon the length of time the participant held the stock after exercise. When the option is exercised, we will be entitled to a corresponding tax deduction.

Restricted and Performance Stock and Units. Awards of restricted stock and RSUs, performance stock and performance units under the Equity Plan generally are not subject to federal income tax when awarded, unless the participant properly elects to accelerate the tax recognition. Restricted stock is generally subject to ordinary income tax at the time the restrictions lapse and performance stock is taxed at the time the performance targets are met. Performance units and RSUs are generally subject to ordinary tax at the time of payment, even if vested earlier. We are entitled to a corresponding deduction at the time the participant recognizes taxable income on the restricted or performance stock or units.

*New Plan Benefits*

Benefits to be received in the future by eligible participants as a result of the Equity Plan are not determinable, since the amount of awards other than Spin-off Awards is discretionary. The following table shows the amounts that were awarded under the Equity Plan since it became effective on March 14, 2016, to our named executive officers, all current executive officers as a group, all current directors who are not executive officers as a group and all employees, including all current officers who are not executive officers, as a group.

| Name and Position | Number of shares underlying award |
|---|---|
| Scott F. Drees, Chief Executive Officer and Director | 256,491 |
| Walter Z. Berger, Chief Operating Officer and Chief Financial Officer | 128,245 |
| J. Paul Hanchin, President | 102,596 |
| Current Named Executive Officer Group | 487,332 |
| Non-Executive Officer Director Group | 129,514 |
| Non-Executive Officer Employee Group | 160,606 |

**Stockholder Approval Requirement**

Stockholder approval of the Equity Plan is necessary in order for us to (1) meet the stockholder approval requirements of NASDAQ, (2) take tax deductions for certain compensation resulting from awards granted thereunder intended as qualified performance-based compensation under Section 162(m) of the Code, as discussed above, and (3) grant incentive stock options thereunder.

**OUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE STOCKHOLDERS VOTE "FOR" THE APPROVAL OF THE EQUITY PLAN.**

## PROPOSAL 3:

## RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has selected Deloitte & Touche LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2017 and has further directed that management submit the selection for ratification by the stockholders at the Annual Meeting. Deloitte & Touche LLP audited Nuvectra's financial statements for the fiscal year ending December 30, 2016. One or more representatives of Deloitte & Touche LLP are expected to be present at the Annual Meeting via telephone, will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

Stockholder ratification of the selection of Deloitte & Touche LLP as the Company's independent registered public accounting firm is not required by Delaware law, the Company's amended and restated certificate of incorporation or the Company's amended and restated bylaws. However, the Audit Committee is submitting the selection of Deloitte & Touche LLP to the stockholders for ratification as a matter of good corporate practice. If the stockholders fail to ratify the selection, our Audit Committee will reconsider whether to retain the firm. Even if the selection is ratified, the Audit Committee, in its discretion, may direct the appointment of a different independent registered public accounting firm at any time during the year if the Audit Committee determines that such a change would be in the best interests of the Company and its stockholders.

### Independent Registered Public Accounting Firm's Fees

The following table represents aggregate fees and expenses billed to us for services rendered related to fiscal year 2016 for the period subsequent to March 14, 2016 (the date of the Spin-Off), by Deloitte & Touche, LLP, our independent registered public accounting firm. Prior to the Spin-Off, Integer paid for all accounting fees and other services provided by Deloitte & Touche LLP.

| | Year Ended December 30, 2016 |
|---|---|
| Audit Fees(1) | $ 303,835 |
| Audit Related Fees(2) | - |
| Tax Fees(3) | - |
| All Other Fees(4) | 197,895 |
| | $ 501,730 |

(1) Audit Fees consist of fees billed for professional services performed by Deloitte & Touche LLP since the Spin-Off for audit and the review of our quarterly reports on Form 10-Q and related services that are normally provided in connection with regulatory filings or engagements.

(2) We did not engage Deloitte & Touche LLP to perform audit-related services.

(3) We did not engage Deloitte & Touche LLP to perform tax services.

(4) Represents fees billed for professional services performed by Deloitte & Touche LLP since the Spin-Off for IT program assessment.

Our Audit Committee has considered whether the provision of non-audit services is compatible with maintaining the independence of Deloitte & Touche LLP, and has concluded that the provision of such services is compatible with maintaining the independence of our auditors.

### Pre-Approval Policies and Procedures

Under the Audit Committee charter, the Audit Committee must pre-approve all audit and non-audit services provided by the independent registered public accounting firm. The policy, as described below, sets forth the procedures and conditions for such pre-approval of such services.

Our management submits requests for approval in writing to the Audit Committee, which reviews such requests and approves or declines to approve the requests. The Audit Committee's pre-approval of audit and non-audit services is

not required if the engagement for the services is entered into pursuant to pre-approval policies and procedures established by the Audit Committee regarding the Company's engagement of the independent registered public accounting firm, provided that the policies and procedures are detailed as to the particular service, the Audit Committee is informed of each service provided and such policies and procedures do not include delegation of the Audit Committee's responsibilities under the Exchange Act to the Company's management.

The Audit Committee may delegate to one or more designated members of the Audit Committee the authority to grant pre-approvals, provided that such approvals are presented to the Audit Committee at a subsequent meeting. If the Audit Committee elects to establish pre-approval policies and procedures regarding non-audit services, the Audit Committee must be informed of each non-audit service provided by the Company's independent registered public accounting firm.

The Audit Committee pre-approved all audit and permitted non-audit services provided by Deloitte & Touche LLP in fiscal year 2016 and will do so for all audit and non-audit services provided by Deloitte & Touche LLP in fiscal year 2017, as well. The Audit Committee has determined that the rendering of the services other than audit services by Deloitte & Touche LLP is compatible with maintaining Deloitte & Touche LLP's independence.

**Vote Required; Recommendation of the Board of Directors**

The affirmative vote of a majority of the shares of common stock present or represented by proxy and entitled to vote at the meeting will be required to ratify the selection of Deloitte & Touche LLP. Abstentions will be counted toward the tabulation of votes cast on this proposal and will have the same effect as negative votes. This proposal is a routine proposal on which a broker or other nominee has discretionary authority to vote.

**OUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE STOCKHOLDERS VOTE "FOR" RATIFICATION OF THE SELECTION OF DELOITTE & TOUCHE LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2017. PROXIES SOLICITED BY OUR BOARD OF DIRECTORS WILL BE SO VOTED UNLESS STOCKHOLDERS SPECIFY OTHERWISE ON THEIR PROXY CARDS.**

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the beneficial ownership of our common stock as of March 30, 2017, for:

- each person or group of affiliated persons who, to our knowledge, owns more than 5% of our common stock;
- each of our named executive officers (as defined below);
- each of our directors; and
- all of our current executive officers and directors as a group.

We have determined beneficial ownership in accordance with applicable rules of the SEC, and the information reflected in the table below is not necessarily indicative of beneficial ownership for any other purpose. Under applicable SEC rules, beneficial ownership includes any shares of common stock as to which a person has sole or shared voting power or investment power and any shares of common stock which the person has the right to acquire within 60 days after March 30, 2017, through the exercise of any option, warrant or right or through the conversion of any convertible security. Unless otherwise indicated in the footnotes to the table below and subject to community property laws where applicable, we believe, based on the information furnished to us, that each of the persons named in this table has sole voting and investment power with respect to the shares indicated as beneficially owned.

The information set forth in the table below is based on 10,342,317 shares of our common stock issued and outstanding on March 30, 2017. In computing the number of shares of common stock beneficially owned by a person and the percentage ownership of that person, we deemed to be outstanding all shares of common stock subject to options, warrants, rights or other convertible securities held by that person that are currently exercisable or will be exercisable or convertible within 60 days after March 30, 2017. We did not deem these shares outstanding, however, for the purpose of computing the percentage ownership of any other person. Except as otherwise noted, the address for each person listed in the table below is c/o Nuvectra Corporation, 5830 Granite Parkway, Suite 1100, Plano, Texas 75024.

| Name and Address of Beneficial Owner | Number of Shares Beneficially Owned | Percentage Beneficially Owned |
|---|---|---|
| *5% Beneficial Owners:* | | |
| Accellent Holdings LLC<br>KKR Millennium Fund L.P.<br>KKR Associates Millennium L.P.<br>KKR Millennium GP LLC<br>KKR Fund Holdings L.P.<br>KKR Fund Holdings GP Limited<br>KKR Group Holdings L.P.<br>KKR Group Limited<br>KKR & Co. L.P.<br>KKR Management LLC<br>Henry R. Kravis<br>George R. Roberts<br>c/o Kohlberg Kravis Roberts & Co. L.P.<br>9 West 57th Street, Suite 4200<br>New York, NY 10019 (1) | 982,237 | 9.5% |
| Gilder, Gagnon, Howe & Co. LLC<br>475 10th Avenue<br>New York, NY 10018 (2) | 814,320 | 7.9% |
| Dimensional Fund Advisors LP | 702,472 | 6.8% |

| | | |
|---|---|---|
| Building One<br>6300 Bee Caves Road<br>Austin, TX 78746 (3) | | |
| *Directors and Named Executive Officers:* | | |
| Scott F. Drees(4) | 110,515 | 1.1% |
| Walter Z. Berger (5) | 42,757 | * |
| Dr. Joseph A. Miller (6) | 61,527 | * |
| David D. Johnson (7) | 40,634 | * |
| J. Paul Hanchin (8) | 34,208 | * |
| Anthony P. Bihl (9) | 25,091 | * |
| Kenneth G. Hawari (10) | 27,634 | * |
| Dr. Fred B. Parks, PhD (11) | 10,634 | * |
| Jon T. Tremmel (12) | 10,634 | * |
| Thomas E. Zelibor (13) | 10,634 | * |
| All Current Directors and Executive Officers as a Group (10 persons) (14) | 374,268 | 3.6% |

* Represents beneficial ownership of less than 1.0%.

(1) This information is based solely upon, and without independent investigation of, the disclosures contained in the Schedule 13G filed by Accellent Holdings LLC with the Securities and Exchange Commission on February 10, 2017. Accellent Holdings LLC holds 982,237 shares of Common Stock. Each of KKR Millennium Fund L.P. (as the managing member of Accellent Holdings LLC), KKR Associates Millennium L.P. (as the general partner of KKR Millennium Fund L.P.), KKR Millennium GP LLC (as the general partner of KKR Associates Millennium L.P.), KKR Fund Holdings L.P. (as the designated member of KKR Millennium GP LLC), KKR Fund Holdings GP Limited (as a general partner of KKR Fund Holdings L.P.), KKR Group Holdings L.P. (as a general partner of KKR Fund Holdings L.P. and the sole shareholder of KKR Fund Holdings GP Limited), KKR Group Limited (as the sole general partner of KKR Group Holdings L.P.), KKR & Co. L.P. (as the sole shareholder of KKR Group Limited), KKR Management LLC (as the sole general partner of KKR & Co. L.P.), and Henry R. Kravis and George R. Roberts (as the designated members of KKR Management LLC) may be deemed to share voting and dispositive power with respect to the shares of Common Stock held by Accellent Holdings LLC, but each disclaims beneficial ownership of such shares. The principal business office address for all persons (other than George R. Roberts) is c/o Kohlberg Kravis Roberts & Co. L.P., 9 West 57th Street, Suite 4200, New York, NY 10019. The principal business office address for George R. Roberts is c/o Kohlberg Kravis Roberts & Co. L.P., 2800 Sand Hill Road, Suite 200, Menlo Park, CA 94025.

(2) This information is based solely upon, and without independent investigation of, the disclosures contained in the Schedule 13G filed by Gilder, Gagnon, Howe & Co. LLC with the Securities and Exchange Commission on February 14, 2017. The shares reported include 682,701 shares held in customer accounts over which partners and/or employees of Gilder, Gagnon, Howe & Co. LLC have discretionary authority to dispose of or direct the disposition of the shares, 34,440 shares held in the account of the profit sharing plan of Gilder, Gagnon, Howe & Co. LLC, and 97,179 shares held in accounts owned by the partners of Gilder, Gagnon, Howe & Co. LLC and their families. The principal business office address for Gilder, Gagnon, Howe & Co. LLC is 475 10th Avenue, New York, NY 10018.

(3) This information is based solely upon, and without independent investigation of, the disclosures contained in the Schedule 13G filed by Dimensional Fund Advisors LP with the Securities and Exchange Commission on February 9, 2017. Dimensional Fund Advisors LP, an investment adviser registered under Section 203 of the Investment Advisors Act of 1940, furnishes investment advice to four investment companies registered under the Investment Company Act of 1940, and serves as investment manager or sub-adviser to certain other commingled funds, group trusts and separate accounts (such investment companies, trusts and accounts, collectively referred to as the "Funds"). In certain cases, subsidiaries of Dimensional Fund Advisors LP may act as an adviser or sub-adviser to certain Funds. In its role as investment advisor, sub-adviser and/or manager, Dimensional Fund Advisors LP or its subsidiaries (collectively, "Dimensional") may possess voting and/or

investment power over the shares of common stock that are owned by the Funds, and may be deemed to be the beneficial owner of the shares of common stock held by the Funds. However, all shares of common stock are owned by the Funds. Dimensional disclaims beneficial ownership of such shares of common stock. The Funds have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of the shares held in their respective accounts. To the knowledge of Dimensional Fund Advisors LP, the interest of any one such Fund does not exceed 5% of the class of shares. Dimensional Fund Advisors LP disclaims beneficial ownership of all such shares. The principal business office address for Dimensional Fund Advisors LP is Building One, 6300 Bee Cave Road, Austin, TX 78746.

(4) Consists of 25,000 shares of common stock held by Mr. Drees, 64,136 shares of common stock that Mr. Drees has the right to acquire pursuant to the conversion of outstanding restricted stock units, which are scheduled to vest within 60 days of March 30, 2017, and 21,379 shares of common stock that Mr. Drees has the right to acquire pursuant to outstanding options, which are exercisable within 60 days of March 30, 2017.

(5) Consists of 32,068 shares of common stock that Mr. Berger has the right to acquire pursuant to the conversion of outstanding restricted stock units, which are scheduled to vest within 60 days of March 30, 2017, and 10,689 shares of common stock that Mr. Berger has the right to acquire pursuant to outstanding options, which are exercisable within 60 days of March 30, 2017.

(6) Consists of 35,743 shares of common stock held by Mr. Miller, 837 shares of common stock that Mr. Miller has the right to acquire pursuant to the conversion of outstanding restricted stock units, which are scheduled to vest within 60 days of March 30, 2017, and 24,947 shares of common stock that Mr. Miller has the right to acquire pursuant to outstanding options, which are exercisable within 60 days of March 30, 2017..

(7) Consists of 32,513 shares of common stock held by Mr. Johnson, 837 shares of common stock that Mr. Johnson has the right to acquire pursuant to the conversion of outstanding restricted stock units, which are scheduled to vest within 60 days of March 30, 2017, and 7,284 shares of common stock that Mr. Johnson has the right to acquire pursuant to outstanding options, which are exercisable within 60 days of March 30, 2017

(8) Consists of 17,104 shares of common stock that Mr. Hanchin has the right to acquire pursuant to the conversion of outstanding restricted stock units, which are scheduled to vest within 60 days of March 30, 2017, and 17,104 shares of common stock that Mr. Hanchin has the right to acquire pursuant to outstanding options, which are exercisable within 60 days of March 30, 2017.

(9) Consists of 5,952 shares of common stock held by Mr. Bihl, 837 shares of common stock that Mr. Bihl has the right to acquire pursuant to the conversion of outstanding restricted stock units, which are scheduled to vest within 60 days of March 30, 2017, and 18,302 shares of common stock that Mr. Bihl has the right to acquire pursuant to outstanding options, which are exercisable within 60 days of March 30, 2017.

(10) Consists of 19,513 shares of common stock held by Mr. Hawari, 837 shares of common stock that Mr. Hawari has the right to acquire pursuant to the conversion of outstanding restricted stock units, which are scheduled to vest within 60 days of March 30, 2017, and 7,284 shares of common stock that Mr. Hawari has the right to acquire pursuant to outstanding options, which are exercisable within 60 days of March 30, 2017.

(11) Consists of 2,513 shares of common stock held by Mr. Parks, 837 shares of common stock that Mr. Parks has the right to acquire pursuant to the conversion of outstanding restricted stock units, which are scheduled to vest within 60 days of March 30, 2017, and 7,284 shares of common stock that Mr. Parks has the right to acquire pursuant to outstanding options, which are exercisable within 60 days of March 30, 2017.

(12) Consists of 2,513 shares of common stock held by Mr. Tremmel, 837 shares of common stock that Mr. Tremmel has the right to acquire pursuant to the conversion of outstanding restricted stock units, which are scheduled to vest within 60 days of March 30, 2017, and 7,284 shares of common stock that Mr. Tremmel has the right to acquire pursuant to outstanding options, which are exercisable within 60 days of March 30, 2017.

(13) Consists of 2,513 shares of common stock held by Mr. Zelibor, 837 shares of common stock that Mr. Zelibor has the right to acquire pursuant to the conversion of outstanding restricted stock units, which are scheduled to vest within 60 days of March 30, 2017, and 7,284 shares of common stock that Mr. Zelibor has the right to acquire pursuant to outstanding options, which are exercisable within 60 days of March 30, 2017.

(14) Consists of 126,260 shares of common stock held by the group, 119,167 shares of common stock that the group has the right to acquire pursuant to the conversion of outstanding restricted stock units which are

scheduled to vest within 60 days of March 30, 2017, and 128,841 shares of common stock that the group has the right to acquire pursuant to outstanding options, which are exercisable within 60 days of March 30, 2017.

## EXECUTIVE COMPENSATION AND OTHER INFORMATION

### Our Executive Officers

The table below sets forth the name, age and position of each of our named executive officers, as of March 30, 2017.

| Name | Age | Position |
|---|---|---|
| *Executive Officers:* | | |
| Scott F. Drees | 59 | Chief Executive Officer and Director |
| Walter Z. Berger | 61 | Chief Operating Officer & Chief Financial Officer |
| J. Paul Hanchin | 55 | President |

### Business Experience

The following is a brief account of the education and business experience of our current executive officers:

The biography of Scott F. Drees, can be found above under "*Proposal 1 – Election of Directors*."

**Walter Z. Berger** currently serves as our Chief Operating Officer & Chief Financial Officer. Mr. Berger, age 61, was appointed to serve as our Executive Vice President and CFO in June 2016 and was also appointed as our COO in January 2017. Prior to joining Nuvectra, Mr. Berger served as Chief Financial Officer of AppDynamics Inc., a venture-backed next generation application intelligence company from October 2013 until March 2015. Prior to that, from 2012 until 2013, Mr. Berger was the Chief Financial Officer of private equity-owned SoftLayer, a cloud computing company that was acquired by IBM. From 2008 until 2012, he served as Chief Financial Officer at Leap Wireless International, Inc. (NASDAQ). Mr. Berger has also served as Executive Vice President and Chief Financial Officer for each of CBS Radio, Inc. and Emmis Communications Corporation (NASDAQ). From 1985 to 1999, Mr. Berger held a number of financial and operating management roles in the manufacturing, services and energy fields. Mr. Berger began his career at Arthur Andersen in 1977. Mr. Berger also currently serves on the Board of Sirius Computer Solutions, a national integrator of technology based business solutions. Mr. Berger is a Certified Public Accountant and holds a B.A. in business administration from the University of Massachusetts, Amherst.

**J. Paul Hanchin** currently serves as our President. Mr. Hanchin, age 55, joined Nuvectra effective as of April 5, 2016 as President of Nuvectra Corporation. Prior to joining Nuvectra, Mr. Hanchin was the Executive Vice President at Flowonix Medical, Inc. from January 2015 until March 2016. Mr. Hanchin also served in sales leadership positions at Boston Scientific, Inc. and Cyberonics Inc. and served as the Vice President of Sales at Advanced Neuromodulation Systems, Inc., which was later acquired by St. Jude Medical, Inc. Mr. Hanchin has more than 30 years of medical device experience and has held various executive leadership positions with an emphasis on global sales and marketing functions. Mr. Hanchin has a BBA from Baldwin Wallace University.

### Summary of Executive Compensation

### Introduction

Prior to the Spin-Off, we were not an independent company and each of the named executive officers (as defined below) was employed by our predecessor company, QIG Group, LLC, Integer or one of its subsidiaries. Accordingly, all pre-Spin-Off payments and benefits described below were provided by Integer. Decisions as to the compensation of the named executive officers prior to the Spin-Off were made by Integer. Following the Spin-Off, our Compensation Committee has determined the compensation for our named executive officers. This section describes the material components of the executive compensation programs established by Integer prior to the Spin-Off, to the extent relevant to an understanding of the compensation paid to our named executive officers by Integer prior to the Spin-Off, but will primarily focus on the executive compensation programs approved by our Compensation Committee for the post-Spin-Off portion of 2016 and beyond.

This section discusses the material components of the executive compensation program for our executive officers who are named in the Summary Compensation Table below (our "named executive officers"). These individuals, as well as their positions with us during 2016, are listed below.

- Scott F. Drees, Chief Executive Officer;
- Walter Z. Berger, Chief Operating Officer and Chief Financial Officer;
- J. Paul Hanchin, President

Mr. Drees was hired as QIG Group LLC's Chief Executive Officer in July 2015 and Mr. Berger was hired as Executive Vice President and Chief Financial Officer in June 2016. Mr. Berger's title was changed to include Chief Operating Officer in January 2017. Mr. Hanchin was hired as Nuvectra's President in April 2016.

**Role of the Compensation Committee Following the Spin-Off**

In connection with the Spin-Off, the Compensation Committee was formed and it now establishes our executive compensation philosophy and reviews and approves the compensation of our executive officers, as well as the Company's executive compensation policies and plans. The Compensation Committee considers a broad range of factors in making compensation decisions, including the officer's responsibilities, tenure and performance, the effectiveness of our programs in supporting the Company's annual- and long-term initiatives and our overall financial performance.

The Compensation Committee engaged the an independent compensation consultant, Compensia, LLC (the "Compensation Consultant") in mid-2016 to provide the Compensation Committee with insight regarding compensation trends, program designs, peer group data and broader market survey data. The Compensation Consultant was also directed by the Compensation Committee as part of its duties to provide information on executive compensation trends and implications for the Company, a review of Company compensation levels, performance and incentive program design and information on competitive market data and advice on outside Director compensation. The Compensation Consultant provides an objective perspective to the process of evaluating and developing our executive compensation program and pay practices. During fiscal year 2016, the Compensation Consultant attended two meetings of the Compensation Committee, had numerous discussions with the Chairman of the Compensation Committee and recommended peer group and market survey data and advice.

The Compensation Consultant did not provide any other services to the Company or the executive officers during Fiscal 2016. The Compensation Committee evaluated the independence of the Compensation Consultant by considering each of the independence factors adopted by NASDAQ and the SEC. Based on this evaluation, the Compensation Committee determined that no conflict of interest exists that would prevent the Compensation Consultant from providing compensation advice to the Compensation Committee.

The Compensation Committee will continue to seek input from its stockholders and advisors and review the objectives and elements of our executive compensation program, as well as the methods that the Compensation Committee utilizes to determine both the form and amounts of compensation to award to our named executive officers.

**Summary Compensation Table**

The following table sets forth information concerning the compensation of our named executive officers for the years ended December 30, 2016.

| Name and Principal Position | Year | Salary ($)(1) | Bonus ($) | Stock Awards ($)(2) | Option Awards ($)(2) | Non-Equity Incentive Plan Compensation ($) | All Other Compensation ($)(3) | Total ($) |
|---|---|---|---|---|---|---|---|---|
| Scott F. Drees | 2016 | 419,712 | - | 1,321,568 (4) | 285,347 (4) | 70,646 | 969 | 2,098,242 |
| Chief Executive Officer | 2015 | 169,231 (5) | 101,538 | - | - | - | 1,292 | 272,061 |
| Walter Z. Berger | 2016 | 369,712 | - | 660,784 (6) | 142,671 (6) | 46,672 | 848 | 1,220,687 |
| Chief Operating Officer and Chief Financial Officer | 2015 | 145,385 (7) | 72,692 | - | - | - | 1,131 | 219,208 |
| J. Paul Hanchin | 2016 | 235,000 | - | 352,417 (8) | 228,276 (8) | 29,666 | 1,406 | 846,765 |
| President | 2015 | - (9) | - | - | - | - | - | - |

(1) For 2016, amounts include salary paid by Integer prior to the Spin-Off and salary paid by Nuvectra following the Spin-Off.

(2) Represents the grant date fair value of stock and option awards granted to the named executive officers during the applicable year determined in accordance with ASC Topic 718, Compensation—Stock Compensation (ASC Topic 718). See Note 5 to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 30, 2016 for details as to the assumptions used to determine the fair value of the stock and option awards granted by us. Amounts shown are based on the full grant date fair value of the entire award, regardless of vesting requirements.

(3) "All Other Compensation" consists of matching contributions made by the Company or Integer, as applicable, pursuant to its 401(k) plan. The Summary Compensation Table does not include the cost to the Company of benefits furnished to named executive officers, including premiums for life and health insurance, which are also generally available or provided to all other salaried employees of the Company.

(4) In April 2016, Mr. Drees received an award of 192,368 RSUs with a grant date fair value of $6.87 per share, or $1,321,568. Approximately 33.34%, or 64,136, of the underlying shares vest after one year in April 2017, and the remaining 66.66% will vest in eight substantially equal quarterly installments thereafter. Also in April 2016, Mr. Drees received stock options to purchase 64,123 shares of common stock with an exercise price of $6.87 and grant date fair value of $4.45 per share, or $285,347. Approximately 33.34%, or 21,379, of the stock options vest after one year in April 2017, and the remaining 66.66% will vest in eight substantially equal quarterly installments thereafter.

(5) See the discussion on Base Salaries in the "Narrative to Summary Compensation Table" section below.

(6) In April 2016, Mr. Berger received an award of 96,184 RSUs with a grant date fair value of $6.87 per share, or $660,784. Approximately 33.34%, or 32,068, of the underlying shares vest after one year in April 2017, and the remaining 66.66% will vest in eight substantially equal quarterly installments thereafter. Also in April 2016, Mr. Berger received stock options to purchase 32,061 shares of common stock with an exercise price of $6.87 and grant date fair value of $4.45 per share, or $142,671. Approximately 33.34%, or 10,689, of the stock options vest after one year in April 2017, and the remaining 66.66% will vest in eight substantially equal quarterly installments thereafter.

(7) See the discussion on Base Salaries in the "Narrative to Summary Compensation Table" section below.

(8) In April 2016, Mr. Hanchin received an award of 51,298 RSUs with a grant date fair value of $6.87 per share, or $352,417. Approximately 33.34%, or 17,104, of the underlying shares vest after one year in April 2017, and the remaining 66.66% will vest in eight substantially equal quarterly installments thereafter. Also in April 2016, Mr. Hanchin received stock options to purchase 51,298 shares of common stock with an exercise price of $6.87 and grant date fair value of $4.45 per share, or $228,276. Approximately 33.34%, or 17,104, of the stock options will vest after one year in April 2017, and the remaining 66.66% will vest in eight substantially equal quarterly installments thereafter.

(9) See the discussion on Base Salaries in the "Narrative to Summary Compensation Table" section below.

**Narrative to Summary Compensation Table**

***Base Salaries***

Messrs. Drees and Berger received base salaries from Integer prior to our Spin-Off, from January 1, 2016, until March 14, 2016, to compensate them for services rendered to Integer. The base salary payable to each named executive officer was intended to provide a fixed component of compensation reflecting the executive's skill set, experience, role and responsibilities. Prior to the Spin-Off, the annual base salaries for each of Messrs. Drees and Berger were $400,000 and $350,000, respectively. Mr. Hanchin was hired in April 2016 following the Spin-Off.

Following the Spin-Off, our named executive officers' base salaries were set by our Compensation Committee to be commensurate with their positions as named executive officers of a public company and to reflect their skills, experience, responsibilities and expertise. At the request of the Compensation Committee, our CEO makes annual

recommendations with respect to changes in base salary for our executive officers, other than himself. However, none of our officers participate in the Compensation Committee's decisions regarding the base salaries of any executive officers. Following the Spin-Off, the 2016 annual base salaries for Messrs. Drees, Berger and Hanchin were set at $425,000, $375,000, and $325,000, respectively.

Our Compensation Committee will annually review the salaries of our executive officers. Any future adjustments to the base salary of our named executive officers will be reflective of factors such as the scope of their responsibilities, background, track record, performance against financial and non-financial metrics, training and experience, as well as competitive external market positioning and the overall market demand for such executives at the time compensation decisions are made. As with total executive compensation, we intend that executive base salaries should be competitive with the range of salaries for executives in similar positions and with similar responsibilities. An executive's base salary will be evaluated together with components of the executive's other compensation to ensure that the executive's target and actual total compensation is consistent with our overall compensation philosophy.

***Annual Cash Incentive Program***

*2016 Annual Bonuses.* In 2016, none of our named executive officers received a bonus under Integer's bonus plan. Following the Spin-Off, our named executive officers were eligible to earn cash incentive awards for 2016, which were paid in mid-March 2017, as set by our Compensation Committee. Cash bonuses are expected to incentivize our named executive officers to strive to attain Company and/or individual performance goals that further our interests and the interests of our stockholders. For 2016, the bonus payouts to our named executive officers were determined by our Compensation Committee based on certain financial performance metrics and our named executive officers' individual performance, as further described below. The 2016 bonuses paid to our named executive officers are reflected in the Summary Compensation Table above.

*2016 Annual Incentive Program.* In April 2016, our Compensation Committee established a new annual incentive program under the Equity Plan, as well as guidelines and performance metrics for the 2016 performance period. The annual incentive program provides annual bonus opportunities for the named executive officers and other members of the Company's senior leadership team designated as participants by our Compensation Committee. The methodology and objective for determining annual bonuses under the annual incentive program plan is designed to motivate and reward participants for their contributions to the Company, based on corporate and/or individual performance.

Target bonuses under the annual incentive program for the named executive officers for 2016 were as follows: Mr. Drees, 80% of base salary; Mr. Berger 60% of base salary; and Mr. Hanchin, 60% of base salary. Our Compensation Committee elected to align 100% of the annual cash incentive compensation for the Company's named executive officers to the achievement of established financial goals, specifically the Company's revenue performance and adjusted EBITDA and that payment of the annual cash bonuses would only occur when the financial targets were met. The scope mix of revenue to adjusted EBITDA for payment of the bonuses was weighted at 80% based on revenue performance and 20% of adjusted EBITDA performance for the named executive officers for 2016. The payout level for each executive's annual bonus under the annual incentive program ranged between 0% and 200% of target.

A participant must generally remain employed through the date of payment of his or her annual bonus under the annual incentive program in order to remain eligible to receive such bonus.

***Equity Compensation***

In connection with and following the Spin-Off, (i) Mr. Drees received a one-time equity award from Nuvectra that related to a number of shares of Nuvectra common stock equal to at least two percent of the number of shares of Nuvectra common stock outstanding immediately following the completion of the Spin-Off and (ii) Mr. Berger received a one-time equity award from Nuvectra that related to a number of shares of Nuvectra common stock equal to at least one percent of the number of shares of Nuvectra common stock outstanding immediately following the completion of the Spin-Off. Mr. Drees's and Mr. Berger's respective equity awards were allocated with 25% of the

total equity award granted as non-qualified stock options and the remaining 75% as RSUs. These initial stock options and restricted stock awards will vest as to 33% of the underlying shares on April 7, 2017, and the remaining 67% will vest in eight equal quarterly installments thereafter. These awards are set forth in the "Outstanding Equity Awards at Fiscal Year-End" table below.

In April 2016, the Compensation Committee also made initial equity grants to Mr. Hanchin as part of the Company's total compensation package, which was intended to attract, retain and incentivize employees. Our Compensation Committee made these initial equity awards, including to Mr. Hanchin, in the form of an equal amount of non-qualified stock options and RSUs, in April 2016 to coincide generally with our formation as a new, independent company and to align our executives' interests with those of stockholders at the earliest practicable date. These initial stock options and restricted stock awards are described in the equity compensation table below and will vest as to 33% of the underlying shares on April 8, 2017, with the remaining 67% vesting in equal quarterly installments thereafter. The stock options have a term of ten years from the date of grant and were granted with an exercise price equal to the closing price of the Company's common stock on the date of grant, as determined under the Equity Plan. In general, a named executive officer is required to be employed on a vesting date to be eligible to vest in these time-based awards, subject to acceleration under certain circumstances as described below under "Executive Compensation Arrangements."

***Treatment of Integer Equity Awards in the Spin-Off***

***Stock Options***

Each Integer stock option award held by an individual who was employed or engaged by Nuvectra or its affiliates following the Spin-Off was split into two option awards—an Integer stock option award and a Nuvectra stock option award. Following the Spin-Off, the combined intrinsic value of the resulting Integer and Nuvectra stock option awards was approximately equal to the intrinsic value of the original Integer stock option award immediately prior to the Spin-Off. None of our named executive officers held Integer stock option awards at the time of the Spin-Off. Of our non-employee directors, only Dr. Miller and Mr. Bihl held Integer stock option awards at the time of the Spin-Off. All outstanding stock option awards resulting from the Spin-Off are reflected in the Outstanding Equity Awards at Fiscal Year-End table below.

***Restricted Stock***

Restricted stock refers to both restricted stock shares and RSUs as applicable. Each Integer restricted stock award held by an individual who was employed or engaged by Nuvectra or its affiliates following the Spin-Off was split into two restricted stock awards—an Integer restricted stock award and a Nuvectra restricted stock award. Following the Spin-Off, the combined intrinsic value of the resulting Integer and Nuvectra restricted stock awards was approximately equal to the intrinsic value of the original Integer restricted stock award immediately prior to the Spin-Off. None of our named executive officers held Integer restricted stock awards at the time of the Spin-Off. None of our non-employee directors held any Integer restricted stock awards at the time of the Spin-Off. All outstanding restricted stock awards resulting from the Spin-Off are reflected in the Outstanding Equity Awards at Fiscal Year-End table below.

***Performance Stock***

Each Integer performance stock award held by an individual who was employed or engaged by Nuvectra or its affiliates following the Spin-Off was converted into a time-vesting Nuvectra equity award covering a number of Nuvectra shares such that the pre-Spin-Off value of the underlying Integer performance stock award was approximately preserved. None of our named executive officers or non-employee directors held any Integer or Nuvectra performance stock awards following the Spin-Off.

***General Terms of Adjusted Awards***

The Nuvectra equity awards granted as a result of the conversion are generally subject to the same terms and conditions, including the same vesting and share payment timing provisions, as applied to the applicable Integer awards immediately prior to the Spin-Off. However, Integer performance stock awards held by individuals who

were employed or engaged by Nuvectra or its affiliates following the Spin-Off were converted into time-vesting Nuvectra equity awards. Following the Spin-Off, continued employment or service at Nuvectra will satisfy any continued employment or other continued service requirement for purposes of the newly granted Nuvectra equity awards.

***Other Elements of Compensation***

***Retirement Plans***

Prior to the Spin-Off, our employees who were employed by Integer, including Messrs. Drees and Berger, were eligible to participate in Integer's 401(k) retirement savings plan. Under Integer's 401(k) plan, eligible Integer employees could elect to contribute pre-tax amounts, up to a statutorily prescribed limit, to the 401(k) plan. For 2016, the prescribed annual limit was $18,000.

Following the Spin-Off, we established a 401(k) retirement savings plan for our employees, including our named executive officers, who satisfy certain eligibility requirements. Our named executive officers are eligible to participate in the 401(k) plan on the same terms generally applicable to other full-time employees. We believe that providing a vehicle for tax-deferred retirement savings though our 401(k) plan, and making matching contributions, adds to the overall desirability of our executive compensation package and further incentivizes our employees, including our named executive officers, in accordance with our compensation policies. We provide matching contributions to our employees equal to 25% of the first 6% of their eligible compensation.

***Employee Benefits and Perquisites***

Additional benefits available to our employees in 2016 prior to the Spin-Off, including Messrs. Drees and Berger, included medical, dental, and vision benefits, medical and dependent care flexible spending accounts, short-term and long-term disability insurance, accidental death and dismemberment insurance and basic life insurance coverage. These benefits were provided to Messrs. Drees and Berger during 2016 on the same general terms as they were provided to all of Integer's full-time U.S. employees. In addition, prior to the Spin-Off, Mr. Drees and Mr. Berger were eligible to receive an annual physical medical exam paid by Integer. Following the Spin-Off, we established similar medical and insurance benefits and Messrs. Drees, Berger and Hanchin were entitled to participate in our benefit programs on the same general terms as they were provided to all of our full-time U.S. employees.

**Outstanding Equity Awards at Fiscal Year-End**

The following table summarizes the number of shares of our common stock underlying outstanding equity incentive plan awards for each named executive officer as of December 30, 2016.

| | | Option Awards | | | | Stock Awards | |
|---|---|---|---|---|---|---|---|
| Name | Grant Date | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#)(1) Unexercisable | Option Exercise Price ($) | Option Expiration Date | Number of Shares of Stock Awards That Have Not Vested (#) | Market Value of Shares of Stock Awards that Have Not Vested ($)(2) |
| Scott F. Drees | 4/8/2016 | — | 64,123 | 6.87 | 4/8/2026 | — | — |
| | | - | - | - | | 192,368 | 967,611 |
| Walter Z. Berger | 4/8/2016 | — | 32,061 | 6.87 | 4/8/2026 | — | — |
| | | - | - | - | | 96,184 | 483,806 |
| J. Paul Hanchin | 4/8/2016 | — | 51,298 | 6.87 | 4/8/2026 | — | — |
| | | | | | | 51,298 | 258,029 |

(1) Stock options granted April 2016 will vest as to approximately 33.34% of the underlying shares on April 7, 2017, with the remaining 66.66% vesting in eight substantially equal quarterly installments thereafter.

(2) The market value of restricted stock or performance shares that has not vested is calculated based on the closing trading price of our common stock as reported on NASDAQ on December 30, 2016 ($5.03), the last trading day of 2016.

**Executive Compensation Arrangements**

Following is a summary of the employment and severance arrangements entered into with our named executive officers.

***Scott F. Drees Executive Employment Agreement***

On January 13, 2017, we entered into an executive employment agreement with Scott F. Drees, pursuant to which he serves as our chief executive officer (the "Drees Employment Agreement"). The Drees Employment Agreement was effective as of March 7, 2016. The term of the Drees Employment Agreement is until March 7, 2019, and will renew automatically in successive one-year periods, unless terminated earlier in accordance with its terms. The Drees Employment Agreement replaced and superseded any prior employment agreements or offers of employment between Mr. Drees and Integer.

Under the Drees Employment Agreement, Mr. Drees is entitled to receive an annual base salary of $425,000 and is eligible for an annual bonus opportunity targeted at least at 80% of his annual base salary. Mr. Drees's base salary and annual bonus opportunity are subject to annual review and may be increased in the discretion of the Board of Directors.

The Drees Employment Agreement also provides that Mr. Drees is eligible to receive an annual equity award as determined by our Compensation Committee in its sole discretion. The amount, form and mix of such award will be determined by our Compensation Committee in its discretion after giving consideration to comparable market data for CEO equity grants in companies within our peer group, which was set by the Compensation Committee in September 2016. All such equity grants are subject to approval by the Company's Board and will be subject to the terms of the Equity Plan.

The Drees Employment Agreement provides for severance payments to Mr. Drees in the event that his employment is involuntarily terminated "without cause" or he resigns for "good reason", as such terms are defined in the Drees Employment Agreement. In the event of severance for a termination without "cause" or for "good reason" (as defined in the Drees Employment Agreement), Mr. Drees is entitled to receive (i) a payment equal to one times base salary in effect as of the date of termination, (ii) the target bonus for the current year, (iii) 12 months of COBRA continuation coverage premiums (iv) the accelerated vesting of all stock held by Mr. Drees, subject to certain time limitations, and (v) a lump sum payment of any unpaid annual bonus for any then completed fiscal year, cash LTIP amounts for any completed performance measurement periods, and, if terminated after July 1 of any year, a payment equal to a pro-rata annual bonus based on the actual performance of the Company and of Mr. Drees through the date of termination (. If Mr. Drees (a) is terminated without cause or resigns for good reason within three months prior to, or 12 months following, a change of control or (b) resigns for good reason within six months after a change of control or (c) resigns for any reason in the period beginning six months after and ending 12 months after the effective date of a change of control, he is entitled to receive (i) a payment equal to two times base salary in effect as of the date of termination, (ii) all earned but unpaid annual bonus for any then-completed fiscal year and a payment equal to a pro-rata annual bonus based on the actual performance of the Company and Mr. Drees through the date of termination, (iii) 18 months of COBRA continuation coverage premiums and (iv) the accelerated vesting of all stock held by Mr. Drees, subject to certain time limitations. Severance payments are to be paid in a lump sum within 15 days after the date of termination.

Severance payments also require a written release of any and all claims against the Company as well as agreements by the executive with respect to non-solicitation, non-competition, confidentiality obligations and assignment of intellectual property rights. Mr. Drees is also subject to a covenant not to disclose Company confidential information during his employment term and is subject to a non-compete for a period of 12 months following termination of employment for any reason. If Mr. Drees breaches any of these covenants, in addition to other rights and remedies, the Company will be entitled to injunctive relief.

***Walter Z. Berger Executive Employment Agreement***

On January 13, 2017, we entered into an executive employment agreement with Walter Z. Berger, pursuant to which he serves as our chief financial officer and chief operating officer (the "Berger Employment Agreement"). Mr. Berger's employment agreement was effective as of March 7, 2016. The term of the Berger Employment Agreement is until March 7, 2019, and will renew automatically in successive one-year periods, unless terminated earlier in accordance with its terms. The Berger Employment Agreement replaced and superseded any prior employment agreements or offers of employment between Mr. Berger and Integer.

Under the Berger Employment Agreement, Mr. Berger is entitled to receive an annual base salary of $375,000 and is eligible for an annual bonus opportunity targeted at least at 60% of his annual base salary. Mr. Berger's base salary and annual bonus opportunity are subject to annual review and may be increased in the discretion of the Board of Directors.

The Berger Employment Agreement also provides that Mr. Berger is eligible to receive an annual equity award as determined by our Compensation Committee in its sole discretion. The amount, form and mix of such award will be determined by our Compensation Committee in its discretion after giving consideration to comparable market data for CFO & COO equity grants in companies within our peer group, which was set by the Compensation Committee in September 2016. All such equity grants are subject to approval by the Company's Board and will be subject to the terms of the Equity Plan.

The Berger Employment Agreement provides for severance payments to Mr. Berger in the event that his employment is involuntarily terminated "without cause" or he resigns for "good reason", as such terms are defined in the Berger Employment Agreement. In the event of severance for a termination without "cause" or for "good reason" (as defined in the Berger Employment Agreement), Mr. Berger is entitled to receive (i) a payment equal to one times base salary in effect as of the date of termination, (ii) the target bonus for the current year, (iii) 12 months of COBRA continuation coverage premiums (iv) the accelerated vesting of all stock held by Mr. Berger, subject to certain time limitations, and (v) lump sum payment of any unpaid annual bonus for any then completed fiscal year, cash LTIP amounts for any completed performance measurement periods, and, if terminated after July 1 of any year, a payment equal to a pro-rata annual bonus based on the actual performance of the Company and of Mr. Berger through the date of termination, If Mr. Berger (a) is terminated without cause or resigns for good reason within three months prior to, or 12 months following, a "change of control" or (b) resigns for good reason within six months after a change of control or (c) resigns for any reason in the period beginning six months after and ending 12 months after the effective date of a change of control, he is entitled to receive (i) a payment equal to two times base salary in effect as of the date of termination, (ii) all earned but unpaid annual bonus for any then-completed fiscal year and a payment equal to a pro-rata annual bonus based on the actual performance of the Company and Mr. Berger through the date of termination, (iii) 18 months of COBRA continuation coverage premiums and (iv) the accelerated vesting of all stock held by Mr. Berger, subject to certain time limitations. Severance payments are to be paid in a lump sum within 15 days after the date of termination.

Severance payments also require a written release of any and all claims against the Company as well as agreements by the executive with respect to non-solicitation, non-competition, confidentiality obligations and assignment of intellectual property rights. Mr. Berger is also subject to a covenant not to disclose Company confidential information during his employment term and is subject to a non-compete for a period of 12 months following termination of employment for any reason. If Mr. Berger breaches any of these covenants, in addition to other rights and remedies, the Company will be entitled to injunctive relief.

***Severance Agreement of Mr. J. Paul Hanchin***

In April 2016, our Compensation Committee approved a form of Severance Agreement for certain key senior employees, including Mr. Hanchin (the "Severance Agreement"). The Severance Agreement provides Mr. Hanchin and certain other members of our senior leadership team with certain severance benefits.

Under the Severance Agreement, if a participant's employment is terminated prior to a change in control or more than 12 months following a change in control by us without "cause" (and other than by reason of death or disability)

or by the participant for "good reason" (each as defined in the Severance Agreement), then the participant will be entitled to a lump sum payment equal to his or her annual base salary.

Under the Severance Agreement, if a participant's employment is terminated within 12 months following a change in control by us without cause (and other than by reason of death or disability) or by the participant for good reason, then the participant will be entitled to the following payments and benefits:

- A lump sum payment equal to one time his or her annual base salary in effect at the time of such termination;
- A subsidy payment to cover the cost of the employee's COBRA payments for 12 months following the termination date; and
- All stock options, restricted stock or similar stock incentive awards previously granted to employee that are not vested as of the termination date will vest in accordance with terms of the relevant equity compensation plan in effect as of the date of termination.

A participant's right to receive the severance payments from us pursuant to the Severance Agreement is contingent on his or her executing a general release of claims against us and to compliance with a one-year covenant to not compete, assignment of intellectual property rights, if applicable, and certain confidentiality and non-solicitation obligations.

**Equity Compensation Plan Information**

The following table summarizes securities available under our equity compensation plans as of December 30, 2016 (in thousands, except per share data).

| | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted average exercise price of outstanding options, warrants and rights | Number of securities available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|---|---|---|---|
| **Equity compensation plans approved by security holders:** | | | |
| Equity Plan(1) | 1,420,899 | $ 6.49 | 372,798 |
| Adjusted awards granted by Integer prior to Spin-Off and converted to Nuvectra Awards (2) | 677,019 | $ 6.21 | — |
| Awards granted by Nuvectra following the Spin-Off | 743,880 | $ 6.98 | 372,798(3) |
| **Equity compensation plans not approved by security holders:** | | | |
| — | — | $ — | — |

(1) The material features of the Equity Plan are described in Proposal 2 above.
(2) Does not include 4,317 issued shares of performance based restricted stock awards outstanding and unvested as of December 30, 2016.
(3) An additional 412,785 securities were authorized as available for future issuance by the Equity Plan on January 1, 2017. This increase is described in Proposal 2 above.

**Policies Regarding Tax Deductibility of Compensation**

Within our performance-based compensation program, we aim to compensate the named executive officers in a manner that is tax-effective for us without sacrificing the effectiveness of the incentive programs being offered to executives. Section 162(m) of the Code restricts the ability of publicly held companies to take a federal income tax deduction for compensation paid to certain of their executive officers to the extent that compensation exceeds $1.0 million per covered officer in any fiscal year. However, this limitation does not apply to compensation that is "qualified performance-based compensation" under Section 162(m) of the Code.

The non-performance based compensation paid in cash to our executive officers for the 2016 fiscal year did not exceed the $1.0 million limit per officer. While we consider the tax deductibility of each element of executive compensation as a factor in our overall compensation program, the Compensation Committee retains the discretion to approve compensation that may not qualify for the compensation deduction if, in light of all applicable circumstances, it would be in our best interest for such compensation to be paid without regard to whether it may be tax deductible.

**Compensation Committee Interlocks and Insider Participation**

We did not have a Compensation Committee until March 14, 2016. On that date, Mr. Bihl, Dr. Parks and Mr. Zelibor were appointed to our Compensation Committee. None of the members of our Compensation Committee has ever been one of our officers or employees. None of our executive officers currently serves, or has served, as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of our Board of Directors or Compensation Committee.

## CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Except as described below, and except for compensation for employment or services provided in other roles, since our inception there has not been, nor is there currently proposed, any transaction to which we are or were a party in which the amount involved exceeds the lesser of $120,000 and 1% of the average of our total assets at year-end for the last two completed fiscal years, and in which any of our current directors, executive officers, holders of more than 5% of any class of our voting securities or any of their respective affiliates or immediate family members, had, or will have, a direct or indirect material interest.

We also describe below certain other transactions with our directors, executive officers and stockholders. Pursuant to the written charter of our Audit Committee, the Audit Committee is responsible for reviewing and approving all transactions in which we are a participant and in which any parties related to us, including our executive officers, our directors, beneficial owners of more than 5% of our securities, immediate family members of the foregoing persons and any other persons whom our Board of Directors determines may be considered related parties under Item 404 of Regulation S-K, has or will have a direct or indirect material interest.

We believe that all of the following transactions were entered into with terms as favorable as could have been obtained from unaffiliated third parties in an arm's length transaction.

**Relationship with Integer**

Prior to the Spin-Off, we were an indirect, wholly owned subsidiary of Integer. At March 14, 2016, all of the shares of our issued and outstanding capital stock were owned by Greatbatch, Ltd., a direct, wholly owned subsidiary of Integer. On March 14, 2016, Integer completed the Spin-Off of QIG Group, LLC into Nuvectra, which was created to be a separate, independent, publicly traded medical device company focused on the design, development and commercialization of spinal cord stimulation devices for patients suffering from chronic pain. Following the separation, Integer no longer owns, directly or beneficially, any shares of our common stock.

**Employment Agreements**

We have entered into employment-related agreements with each of Scott F. Drees, our Chief Executive Officer, and Walter Z. Berger, our Chief Operating Officer and Chief Financial Officer. We have also entered into Severance Agreements with certain other of our officers, including Mr. Hanchin, our President. For more information regarding these arrangements, see the section of this proxy statement captioned "Executive Compensation Arrangements" above.

**Potential Conflicts of Interest**

A number of our directors and officers continue to own Integer common stock, as well as, in some cases, equity awards covering Integer stock. The direct interests of our directors and officers and related entities in common stock of Integer could create, or appear to create, potential conflicts of interest with respect to matters involving both Integer and us that could have different implications for Integer than they do for us. As a result, we may be precluded from pursuing certain opportunities on which we would otherwise act, including growth opportunities.

Following the Spin-Off, Integer and Nuvectra have operated, and will continue to operate, independently, and neither will have any ownership interest in the other. Our executive officers and Board of Directors have fiduciary duties to our stockholders. Likewise, any such persons who serve in similar capacities at Integer have fiduciary duties to that company's stockholders. Therefore, such persons may have conflicts of interest or the appearance of conflicts of interest with respect to matters involving or affecting more than one of the companies to which they owe fiduciary duties. For example, there may be the potential for a conflict of interest when Nuvectra or Integer looks at acquisitions and other corporate opportunities that may be suitable for each of them. Any potential conflicts that arise will be addressed on a case-by-case basis, keeping in mind the applicable fiduciary duties owed by the directors of each issuer. From time to time, we may enter into transactions with Integer and/or its subsidiaries or other affiliates. There can be no assurance that the terms of any such transactions will be as favorable to Nuvectra, Integer, or any of their subsidiaries or affiliates as would be the case where there is no overlapping director. See "Policies and Procedures for Related Party Transactions" below for a discussion of certain procedures we will institute to address any such potential conflicts that may arise.

**Policies and Procedures for Related Party Transactions**

Our Board of Directors has adopted a written related person transaction policy to set forth the policies and procedures for the review and approval or ratification of related person transactions. Pursuant to this written policy, we will review all transactions, arrangements or relationships (or any series of similar transactions, arrangements or relationships) in which we are a participant and the amount involved exceeds $100,000, and in which any Related Person had, has or will have a direct or indirect interest. For purposes of the policy, a "Related Person" means:

(a) any person who is, or at any time since the beginning of our last fiscal year was, a director or executive officer or a nominee to become one of our directors;

(b) any person who is known to be the beneficial owner of more than 5% of any class of our voting securities;

(c) any immediate family member of any of the foregoing persons; and

(d) any firm, corporation or other entity in which any of the foregoing persons is employed or is a partner or principal or in a similar position or in which such person has a 5% or greater beneficial ownership interest.

If our legal department determines that a proposed transaction is a transaction for which approval is required under applicable rules and regulations of the SEC, the proposed transaction shall be submitted to the Audit Committee for consideration.

The Audit Committee will consider all of the relevant facts and circumstances available to it, including (if applicable) but not limited to, the benefits to us; the impact on a director's independence in the event the Related Person is a director, an immediate family member of a director or an entity in which a director is a partner, stockholder or executive officer; the availability of other sources for comparable products or services; the terms of the transaction; and the terms available to unrelated third parties or to employees generally. No member of the Audit

Committee shall participate in any review, consideration or approval of any related person transaction with respect to which such member or any of his or her immediate family members is the Related Person. The Audit Committee shall approve only those related person transactions that are in, or are not inconsistent with, our best interests and our stockholders, as the Audit Committee determines in good faith.

The policy provides that the above determination should be made at the next Audit Committee meeting. In those instances in which the legal department, in consultation with our chief executive officer or chief financial officer, determines that it is not practicable or desirable to wait until the next Audit Committee meeting, the transaction shall be presented to the chair of the Audit Committee (who will possess delegated authority to act between Audit Committee meetings).

All related party transactions described in this section occurred prior to adoption of this policy, and as such, these transactions were not subject to the approval and review procedures described above. However, these transactions were reviewed and approved by our Board of Directors, or, for those transactions in which one or more of our directors was an interested party, by a majority of disinterested directors.

**Indemnification of Officers and Directors**

Our amended and restated certificate of incorporation and amended and restated bylaws provide that we will indemnify our directors and officers, and may indemnify our employees and other agents, to the fullest extent permitted by the Delaware General Corporation Law, or DGCL. The DGCL, however, prohibits our amended and restated certificate of incorporation from limiting the liability of our directors for the following:

- any breach of the director's duty of loyalty to us or to our stockholders;
- acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law;
- unlawful payment of dividends or unlawful stock repurchases or redemptions; and
- any transaction from which the director derived an improper personal benefit.

Our amended and restated certificate of incorporation does not eliminate a director's duty of care and, in appropriate circumstances, equitable remedies, such as injunctive or other forms of non-monetary relief, remain available under the DGCL. This provision also does not affect a director's responsibilities under any other laws, such as the federal securities laws or other state or federal laws.

In addition to the indemnification required in our amended and restated certificate of incorporation and amended and restated bylaws, we have entered into indemnification agreements with each of our current directors and officers. These agreements provide for the indemnification of our directors and officers for certain expenses and liabilities incurred in connection with any action, suit, proceeding or alternative dispute resolution mechanism, or hearing, inquiry or investigation that may lead to the foregoing, to which they are a party, or are threatened to be made a party, by reason of the fact that they are or were a director, officer, employee, agent or fiduciary of Nuvectra, or any of our subsidiaries, by reason of any action or inaction by them while serving as an officer, director, agent or fiduciary, or by reason of the fact that they were serving at our request as a director, officer, employee, agent or fiduciary of another entity. In the case of an action or proceeding by or in the right of Nuvectra or any of our subsidiaries, no indemnification will be provided for any claim where a court determines that the indemnified party is prohibited from receiving indemnification, including any determination that any such indemnification by us is against public policy as expressed in the Securities Act. We believe that these amended and restated bylaw provisions and indemnification agreements are necessary to attract and retain qualified persons as directors and officers.

We maintain general liability insurance covering certain liabilities of our directors and officers arising out of claims based on acts or omissions in their capacities as directors or officers, whether or not we would have the power to indemnify such person against such liability under the DGCL or the provisions of our amended and restated certificate of incorporation or amended and restated bylaws.

The limitation of liability and indemnification provisions in our amended and restated certificate of incorporation and amended and restated bylaws may discourage stockholders from bringing a lawsuit against directors for breach of their fiduciary duties. They may also reduce the likelihood of derivative litigation against directors and officers, even though an action, if successful, might benefit us and our stockholders. A stockholder's investment may be harmed to the extent we pay the costs of settlement and damage awards against directors and officers pursuant to these indemnification provisions. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, we have been advised that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act, and is, therefore, unenforceable.

## SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Under Section 16(a) of the Exchange Act, directors, executive officers and beneficial owners of 10% or more of our common stock, or reporting persons, are required to report to the SEC on a timely basis the initiation of their status as a reporting person and any changes with respect to their beneficial ownership of our common stock. Based solely on our review of copies of such forms that we have received, or written representations from reporting persons, we believe that during the fiscal year ended December 30, 2016, all executive officers, directors and greater than 10% stockholders complied with all applicable filing requirements.

## STOCKHOLDER PROPOSALS

Proposals of stockholders intended to be presented at the annual meeting of stockholders to be held in 2018 must be received by us no later than December 7, 2017, which is 120 days prior to the first anniversary of the expected mailing date of this proxy statement, in order to be included in our proxy statement and form of proxy relating to that meeting. These proposals must comply with the requirements as to form and substance established by the SEC for such proposals in order to be included in the proxy statement. In addition, our amended and restated bylaws establish an advance notice procedure with regard to certain matters, including stockholder proposals not included in our proxy statement, to be brought before an annual meeting of stockholders. In general, notice must be received at our principal executive offices not less than 90 calendar days before nor more than 120 calendar days before the first anniversary of the date of our 2017 annual meeting of stockholders. Therefore, to be presented at our 2018 annual meeting of stockholders, such a proposal that will not be included in our proxy statement must be received by us no earlier than January 23, 2018 and no later than February 22, 2018. However, if the date of the annual meeting is more than 30 days earlier or more than 60 days later than such anniversary date, notice must be received not less than 90 calendar days before nor more than 120 calendar days before such annual meeting, or, if later, ten calendar days following the date on which public announcement of the date of such meeting is first made. If the stockholder fails to give notice by these dates, then the persons named as proxies in the proxies solicited by our board of directors for the 2018 annual meeting may exercise discretionary voting power regarding any such proposal. Stockholders are also advised to review our amended and restated bylaws which also specify requirements as to the form and content of a stockholder's notice.

## ANNUAL REPORT

Any person who was a beneficial owner of our common stock on the record date may request a copy of our annual report, and it will be furnished without charge upon receipt of a written request identifying the person so requesting a report as a stockholder of our Company at such date. Requests should be directed to Nuvectra Corporation, 5830 Granite Parkway, Suite 1100, Plano, Texas 75024, Attention: Corporate Secretary.

## OTHER MATTERS

We do not know of any business other than that described in this proxy statement that will be presented for consideration or action by the stockholders at the Annual Meeting. If, however, any other business is properly brought before the meeting, shares represented by proxies will be voted in accordance with the best judgment of the persons named in the proxies or their substitutes.

By Order of the Board of Directors

/s/ MELISSA G. BEARE
Melissa G. Beare
*Vice President, General Counsel and Corporate Secretary*

Plano, Texas
April 5, 2017

NUVECTRA™

*IMPORTANT ANNUAL MEETING INFORMATION*

Using a **black ink** pen, mark your votes with an **X** as shown in this example. Please do not write outside the designated areas. X

## Annual Meeting Proxy Card

▼ PLEASE FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. ▼

**A Proposals — The Board of Directors recommends a vote FOR all the nominees listed and FOR Proposals 2 – 3.**

1. Election of Directors:

| | For | Withhold |
|---|---|---|
| 01 - Mr. David D. Johnson | ☐ | ☐ |
| 02 - Mr. Jon T. Tremmel | ☐ | ☐ |
| 03 - Dr. Fred B. Parks, PhD. | ☐ | ☐ |

+

| | For | Against | Abstain |
|---|---|---|---|
| 2. Approval of the Company's 2016 Equity Incentive Plan. | ☐ | ☐ | ☐ |
| 3. Ratification of the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2017. | ☐ | ☐ | ☐ |

**B Authorized Signatures — This section must be completed for your vote to be counted. — Date and Sign Below**

Please sign exactly as name(s) appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, corporate officer, trustee, guardian, or custodian, please give full title.

| Date (mm/dd/yyyy) — Please print date below. | Signature 1 — Please keep signature within the box. | Signature 2 — Please keep signature within the box. |
|---|---|---|
| / / | | |

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## NOTICE OF 2017 ANNUAL MEETING OF STOCKHOLDERS

The 2017 Annual Meeting of Stockholders of Nuvectra Corporation will be held on Tuesday, May 23, 2017, at 10:00 a.m., Central Time, virtually via the internet at www.meetingcenter.io/235646045. To access the virtual meeting, please follow the instruction outlined in the proxy statement.
The password for the meeting is NVTR2017.

▼ PLEASE FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. ▼

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## Proxy — Nuvectra Corporation

## Notice of 2017 Annual Meeting of Stockholders

### Proxy Solicited by Board of Directors for Annual Meeting — May 23, 2017

Scott F. Drees and Melissa G. Beare, or any of them, each with the power of substitution, are hereby authorized to represent and vote the shares of the undersigned, with all the powers which the undersigned would possess if personally present, at the Annual Meeting of Stockholders of Nuvectra Corporation to be held on Tuesday, May 23, 2017 or at any postponement or adjournment thereof.

**To access the virtual meeting, please follow the instruction outlined in the proxy statement.**

**Shares represented by this proxy will be voted by the stockholder. If no such directions are indicated, the Proxies will have authority to vote FOR the election of the Directors in item 1 and FOR the proposals in items 2 and 3.**

**In their discretion, the Proxies are authorized to vote upon such other business as may properly come before the meeting.**

(Items to be voted appear on reverse side.)

**Appendix A**

**NUVECTRA CORPORATION**

**2016 EQUITY INCENTIVE PLAN**

## 1 PURPOSE

The name of this plan is the Nuvectra Corporation 2016 Equity Incentive Plan (as it may be amended from time to time, the "Plan"). This Plan was adopted by the Board of Managers of QiG Group, LLC in expectation of the Spin-off (as defined below) and QiG Group, LLC's conversion from a Delaware limited liability company to a Delaware corporation with the name of Nuvectra Corporation ("Nuvectra") and approved by Greatbatch Ltd., as sole member of QiG Group, LLC, effective as of March 14, 2016 (the "Effective Date").

The purpose of this Plan is to promote the interests of Nuvectra (together with its Subsidiaries, the "Company"), and its stockholders by providing officers, other employees, non-employee directors and non-employee consultants and service providers of the Company with appropriate incentives and rewards to encourage them to enter into or continue in service to the Company and to acquire a proprietary interest in the long-term success of the Company, while aligning the interests of those officers, other employees, non-employee directors and non-employee consultants and service providers with the interests of the stockholders.

The Plan also governs the terms of Incentive Awards granted pursuant to the terms of the Employee Matters Agreement ("Spin-off Awards") to current and former employees, directors or service providers of Greatbatch, Inc. ("Greatbatch") or any of its subsidiaries in connection with the Spin-off.

## 2 DEFINITIONS

As used in the Plan, the following definitions apply to the terms indicated below:

(a) "Award Agreement" shall mean the written agreement between the Company and a Participant or other document approved by the Committee evidencing an Incentive Award.

(b) "Board of Directors" shall mean the Board of Directors of Nuvectra.

(c) "Cause," and the term "for Cause" shall mean,

(1) with respect to a Participant who is a party to a written employment agreement with the Company, which agreement contains a definition of "for cause" or "cause" (or words of like import) for purposes of termination of employment thereunder by the Company, "for cause" or "cause" as defined in the most recent of such agreements, or

(2) in all other cases, (i) with respect to a Participant, other than a non-employee director, a determination by the Committee, in its sole discretion, that one or more of the following has occurred: (A) any intentional or willful failure, or failure due to bad faith, by such Participant to substantially perform his or her duties to the Company that shall not have been corrected within thirty (30) days following written notice thereof from the Company, (B) any misconduct by such Participant that is significantly injurious to the Company, (C) any breach by such Participant of any covenant contained in a written agreement between the Participant and the Company, including, for avoidance of doubt, an Award Agreement or other instrument pursuant to which an Incentive Award is granted, (D) such Participant's conviction of, or entry of a plea of guilty or nolo contendere in respect of, any felony that results in, or is reasonably expected to result in, economic or reputational injury to the Company or

(E) any material violation of state or federal securities laws or (ii) with respect to a Participant that is a non-employee director, a determination by a majority of the disinterested members of the Board of Directors, in their sole discretion, that that one or more of the following has occurred: (A) any intentional or willful failure, or failure

due to bad faith, by such non-employee director to substantially perform his or her duties to the Company that shall not have been corrected within thirty (30) days following written notice thereof from the Company, (B) any misconduct by such non-employee director that is significantly injurious to the Company, (C) any breach by such non-employee director of any covenant contained in an Award Agreement or other instrument pursuant to which an Incentive Award is granted, (D) such non-employee director's conviction of, or entry of a plea of guilty or nolo contendere in respect of, any felony that results in, or is reasonably expected to result in, economic or reputational injury to the Company or (E) any material violation of state or federal securities laws.

(d) "Change in Control" occurs if

(1) any "Person" or related "Group" of Persons (as such terms are used in Sections 13(d) and 14(d)(2) of the Exchange Act), is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of more than 50% of the total combined voting power of all classes of capital stock of Nuvectra normally entitled to vote for the election of directors of Nuvectra;

(2) a sale of all or substantially all of the assets of the Company is consummated, in one transaction or a series of related transactions;

(3) any merger or consolidation of Nuvectra is consummated in which the stockholders of Nuvectra immediately prior to such transaction own, in the aggregate, less than 50% of the total combined voting power of all classes of capital stock of the surviving entity normally entitled to vote for the election of directors of such surviving entity;

(4) approval by the Company's stockholders of a liquidation or dissolution of the Company; or

(5) a majority of the members of the Board of Directors are replaced during any one-year period by directors whose appointment or election was not endorsed by a majority of the members of the Board of Directors as of immediately prior to the date of such appointment or election.

For purposes hereof, ownership of voting securities shall take into account and shall include ownership as determined by applying the provisions of Rule 13d-3(d)(1)(i) (as in effect on the date hereof) pursuant to the Exchange Act. In addition, notwithstanding the foregoing, the Spin-off shall not constitute a Change in Control for purposes of the Plan. In addition, notwithstanding anything in the Plan to the contrary, to the extent an amount forming all or a portion of an Incentive Award represents deferred compensation under Section 409A of the Code that becomes payable upon the occurrence of a Change in Control, a "Change in Control" will not be considered to have occurred unless the event constitutes a change in control event under Section 409A of the Code.

(e) "Code" shall mean the Internal Revenue Code of 1986, as it may be amended from time to time. Any reference to a section of the Code shall be deemed to include a reference to any applicable regulations promulgated thereunder.

(f) "Committee" shall mean the Compensation and Organization Committee of the Board of Directors or such other committee as the Board of Directors shall appoint from time to time to administer the Plan; provided, that the Committee shall at all times consist of two or more persons, each of whom shall be a member of the Board of Directors and an "independent director" under the rules of any securities exchange on which the Company Stock is listed, quoted or traded. To the extent required for transactions under the Plan to qualify for the exemptions available under Rule 16b-3 (as defined herein), members of the Committee (or any subcommittee thereof) shall be "non-employee directors" within the meaning of Rule 16b-3. To the extent required for compensation realized from Incentive Awards (as defined herein) under the Plan to be deductible by the Company pursuant to Section 162(m) of the Code, members of the Committee (or any subcommittee thereof) shall be "outside directors" within the meaning of Section 162(m) of the Code.

(g) "Company Stock" shall mean the common stock, par value $0.001 per share, of Nuvectra.

(h) “Covered Employee” means a Participant who is, or could be, a “covered employee” within the meaning of Section 162(m) of the Code.

(i) “Disability,” unless otherwise provided in an Award Agreement, shall mean

(1) with respect to a Participant who is a party to a written employment agreement with the Company that contains a definition of “disability” or “permanent disability” (or words of like import) for purposes of termination of employment thereunder by the Company, “disability” or “permanent disability” as defined in the most recent of such agreements, or

(2) in all other cases, means such Participant’s inability to perform substantially his or her duties to the Company by reason of physical or mental illness, injury, infirmity or condition: (A) for a continuous period for 180 days or one or more periods aggregating 180 days in any twelve-month period; (B) at such time as such Participant is eligible to receive disability income payments under any long-term disability insurance plan maintained by the Company; or (C) at such earlier time as such Participant or the Company submits medical evidence, in the form of a physician’s certification, that such Participant has a physical or mental illness, injury, infirmity or condition that will likely prevent such Participant from substantially performing his duties for 180 days or longer.

(j) “Employee Matters Agreement” shall mean that certain employee matters agreement entered into between Greatbatch and Nuvectra in connection with the Spin-off.

(k) “Exchange Act” shall mean the Securities Exchange Act of 1934, as amended.

(l) “Fair Market Value” means, for any particular date, (i) for any period during which the Company Stock shall be (A) listed for trading on a national securities exchange, including, without limitation, the New York Stock Exchange or the NASDAQ Stock Market, (B) listed for trading on a national market system or (C) listed, quoted or traded on any automated quotation system, the closing price per share of Company Stock on such exchange or system as of the close of such trading day as reported in *The Wall Street Journal* or such other source as the Committee deems reliable, or (ii) the market price per share of Company Stock as determined in good faith by the Committee in the event (i) above shall not be applicable. If the Fair Market Value is to be determined as of a day when the securities markets are not open, the Fair Market Value on that day shall be the Fair Market Value on the first prior preceding day when the markets were open.

(m) “Grant Date” shall mean the date or event specified by the Committee on which a grant of an Incentive Award will become effective (which date with respect to an Option or SAR will not be earlier than the date on which the Committee takes action with respect thereto), and, with respect to any Spin-off Award, shall mean the date the corresponding Greatbatch equity incentive award was originally granted.

(n) “Incentive Award” shall mean an Option, SAR, share of Restricted Stock, Restricted Stock Unit or Stock Bonus (each as defined herein) granted pursuant to the terms of the Plan, including any Spin-off Award.

(o) “Incentive Stock Option” shall mean an Option that is an “incentive stock option” within the meaning of Section 422 of the Code.

(p) “Non-Qualified Stock Option” shall mean an Option that is not an Incentive Stock Option.

(q) “Option” shall mean an option to purchase shares of Company Stock granted pursuant to Section 7.

(r) “Participant” shall mean an employee, a non-employee consultant or service provider, or non-employee director of the Company to whom an Incentive Award is granted pursuant to the Plan and, upon his or her death, his or her successors, heirs, executors and administrators, as the case may be. Participant shall also include persons entitled to receive Incentive Awards pursuant to the operation of the Employee Matters Agreement to whom a Spin-off Award has been made under the Plan.

(s) “Performance-Based Award” means an Incentive Award granted to selected Covered Employees pursuant to Sections 7, 8, 9 or 10, but which is subject to the terms and conditions set forth in Section 12. All Performance-Based Awards are intended to qualify as Qualified Performance-Based Compensation.

(t) “Performance Criteria” means the criteria that the Committee selects for purposes of establishing the Performance Goal or Performance Goals for a Participant for a Performance Period. The Performance Criteria that will be used to establish Performance Goals are limited to the following: (i) net earnings or net income (either before or after one or more of the following: interest, taxes, depreciation, amortization and non-cash equity-based compensation expenses), (ii) economic value-added (as determined by the Committee), (iii) sales or revenue, (iv) net earnings or net income (either before or after taxes), (v) operating earnings or income, (vi) cash flow (including, but not limited to, operating cash flow and free cash flow), (vii) gross profit or gross profit growth, (viii) cash flow return on capital, (ix) return on investment, (x) return on stockholders’ equity, (xi) return on assets or net assets, (xii) return on capital, (xiii) stockholder returns, (xiv) return on sales, (xv) gross or net profit margin, (xvi) productivity, (xvii) expenses or expense targets, (xviii) margins, (xix) improvement of capital structure, (xx) operating efficiency, (xxi) cost reduction or savings, (xxii) budget and expense management, (xxiii) customer satisfaction, (xxiv) working capital, (xxv) basic or diluted earnings or loss per share (before or after taxes), (xxvi) price per share of Company Stock (including, but not limited to growth measures or total stockholder return), (xxvii) completion of acquisitions or business expansion, (xxviii) regulatory achievements or compliance (including, without limitation, regulatory body approval for commercialization of a product), (xxix) implementation or completion of critical products, (xxx) enterprise value, (xxxi) attainment of objective employee metrics or (xxxii) market share, any of which may be measured either in absolute terms or as compared to any incremental increase or as compared to results of a market index, group of other companies or a combination thereof. The Committee shall, within the time prescribed by Section 162(m) of the Code, define in an objective fashion the manner of calculating the Performance Criteria it selects to use for such Performance Period for such Participant.

(u) “Performance Goals” means, for a Performance Period, the one or more goals established in writing by the Committee for the Performance Period based upon the Performance Criteria. Depending on the Performance Criteria used to establish such Performance Goals, the Performance Goals may be expressed in terms of overall Company performance or the performance of a division, business unit, operational unit or an individual. The Performance Goals may be subject to a threshold level of performance below which no payment will be made or no vesting will occur, levels of performance at which specified payments will be made or specified vesting will occur, and a maximum level of performance above which no additional payment will be made or no vesting will occur. To the extent consistent with Section 162(m) of the Code, the Committee, in its sole discretion, may adjust or modify the calculation of Performance Goals for such Performance Period in order to prevent the dilution or enlargement of the rights of Participants (i) in the event of, or in anticipation of, any unusual or extraordinary corporate item, transaction, event, or development, (ii) in recognition of, or in anticipation of, any other unusual or nonrecurring events affecting the Company (determined consistent with U.S. generally accepted accounting principles), or the financial statements of the Company, or (iii) in response to, or in anticipation of, changes in applicable laws (including, without limitation, tax laws), regulations, accounting principles, or business conditions.

(v) “Performance Period” means the one or more periods of time, which may be of varying and overlapping durations, as the Committee may select, over which the attainment of one or more Performance Goals will be measured for the purpose of determining a Participant’s right to, and the payment of, a Performance-Based Award.

(w) “Qualified Performance-Based Compensation” means any compensation that is intended to qualify as “qualified performance-based compensation” as described in Section 162(m)(4)(C) of the Code.

(x) “Reprice” shall mean (A) changing the terms of an Incentive Award to lower its exercise price; (B) any other action that is treated as a “repricing” under generally accepted accounting principles; and (C) repurchasing for cash or canceling an Incentive Award at a time when its exercise price is greater than the Fair Market Value of the underlying stock in exchange for another Incentive Award, unless the cancellation and exchange occurs in connection with a Change in Control. Such cancellation and exchange would be considered a Repricing regardless of whether it is treated as a “repricing” under generally accepted accounting principles and regardless of whether it is voluntary on the part of the Participant.

(y) A share of "Restricted Stock" shall mean a share of Company Stock that is granted pursuant to the terms of Section 9 hereof and that is subject to the restrictions set forth in Section 9(c).

(z) "Restricted Stock Unit" means a contractual right to receive a share of Company Stock in the future that is granted pursuant to the terms of Section 10.

(aa) "Rule 16b-3" shall mean the rule thus designated as promulgated under the Exchange Act.

(bb) "SAR" shall mean a stock appreciation right granted pursuant to Section 8.

(cc) "Spin-off" shall mean the spin-off of the Company from Greatbatch into an independent, publicly-traded company, effective as of March 14, 2016.

(dd) "Stock Bonus" shall mean a bonus payable in shares of Company Stock or a payment made in shares of Company Stock pursuant to a deferred compensation plan of the Company.

(ee) "Subsidiary" shall mean any corporation or other entity in which, at the time of reference, the Company owns, directly or indirectly, stock or similar interests comprising more than fifty (50) percent of the combined voting power of all outstanding securities of such entity.

(ff) "Vesting Date" shall mean the date established by the Committee on which a share of Restricted Stock or Restricted Stock Unit may vest.

## 3 STOCK SUBJECT TO THE PLAN

(a) Company Stock Available for Incentive Awards

The total number of shares of Company Stock reserved for issuance under the Plan shall not exceed (i) 1,128,410 shares (the "Share Limit"), and (ii) an additional number of shares of Company Stock equal to the number of shares of Company Stock subject to all Spin-off Awards outstanding immediately following the Spin-off. Such shares may be authorized but unissued Company Stock or authorized and issued Company Stock held in the Company's treasury or acquired by the Company for the purposes of the Plan. The Committee may direct that any stock certificate evidencing shares issued pursuant to the Plan shall bear a legend setting forth such restrictions on transferability as may apply to such shares pursuant to the Plan.

(b) Automatic Share Limit Increase

The Share Limit will automatically increase on January 1st of each year, for nine (9) years following the Effective Date, in an amount equal to four (4%) percent of the total number of shares of Company Stock outstanding on December 31st of the preceding year. The Committee may act prior to January 1st of a given year to provide that there will be no January 1st increase of the Share Limit for such year or that the increase in the Share Limit for such year will be a smaller number of shares of Company Stock than would otherwise occur pursuant to the preceding sentence.

(c) Total Grants by Award Type

Excluding any Spin-off Awards, the aggregate number of shares of Company Stock to be awarded under the Plan as Incentive Stock Options shall not exceed 1,128,410 shares. The number of shares of Company Stock available to be awarded as Incentive Stock Options will automatically increase on January 1st of each year by the lesser of (i) 410,000, or (ii) the number of shares added to the Share Limit under Section 3(b). Any shares of Company Stock added to the Share Limit pursuant to Section 3(b) hereof shall be available for issuance as Incentive Stock Options only to the extent that making such shares of Company available for issuance as Incentive Stock Options would not cause any Incentive Stock Option to cease to qualify as such. With respect to SARs, when a stock settled SAR is exercised, the shares subject to a SAR grant agreement shall be counted against the Share Limit as

one (1) share for every share subject thereto, regardless of the number of shares used to settle the SAR upon exercise.

(d) Non-Employee Director Limitation

Excluding any Spin-off Awards, the maximum number of shares of Company Stock subject to Incentive Awards awarded during any fiscal year to a non-employee director, taken together with any cash fees paid to such non-employee director during the fiscal year, shall not exceed $500,000 in total value (calculating the value of any such Incentive Awards based on the grant date fair value of such Incentive Awards for financial reporting purposes).

(e) Employee Limitation

Excluding any Spin-off Awards, the aggregate number of shares of Company Stock subject to (i) Options and SARs awarded to any one employee during any fiscal year of the Company, including awards made pursuant to Section 12, shall not exceed 312,500 shares and (ii) Incentive Awards, other than Options and SARs, awarded to any one employee during any fiscal year of the Company shall not exceed 312,500 shares. Determinations under the preceding sentence shall be made in a manner that is consistent with Section 162(m) of the Code and regulations promulgated thereunder. The provisions of this Section 3(e) shall not apply in any circumstance with respect to which the Committee determines that compliance with Section 162(m) of the Code is not necessary.

(f) Adjustment for Change in Capitalization

If there is any change in the outstanding shares of Company Stock by reason of a stock dividend or distribution, stock split-up, recapitalization, combination or exchange of shares, or by reason of any merger, consolidation, spinoff or other corporate reorganization in which the Company is the surviving corporation, the number of shares available for issuance both in the aggregate and with respect to each outstanding Incentive Award, the price per share under each outstanding Incentive Award, and the limitations set forth in Sections 3(c), (d) and (e), will be proportionately adjusted by the Committee, whose determination shall be final and binding. After any adjustment made pursuant to this Section 3(f), the number of shares subject to each outstanding Incentive Award shall be rounded to the nearest whole number.

(g) Other Adjustments

In the event of any transaction or event described in Section 3(f) or any unusual or nonrecurring transactions or events affecting the Company, any affiliate of the Company, or the financial statements of the Company or any affiliate of the Company (including, without limitation, any Change in Control), or of changes in applicable laws, regulations or accounting principles, and whenever the Committee determines that action is appropriate in order to preserve the economic intent with respect to any Incentive Award under the Plan, to prevent the dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan or with respect to any Incentive Award under the Plan, to facilitate such transactions or events or to give effect to such changes in laws, regulations or principles, the Committee, in its sole discretion and on such terms and conditions as it deems appropriate, including, if the Committee deems appropriate, the principles of Treasury Regulation Section 1.424-1(a)(5) except to the extent necessary to ensure that the action does not violate Section 409A of the Code, either by amendment of the terms of any outstanding Incentive Awards or by action taken prior to the occurrence of such transaction or event, is hereby authorized to take any one or more of the following actions:

(i) To provide for either (A) termination of any such Incentive Award in exchange for an amount of cash and/or other property, if any, equal to the amount that would have been attained upon the exercise of such Incentive Award or realization of the Participant's rights (and, for the avoidance of doubt, if as of the date of the occurrence of the transaction or event described in this Section 3(g) the Committee determines in good faith that no amount would have been attained upon the exercise of such Incentive Award or realization of the Participant's rights, then such Incentive Award may be terminated by the Company without payment) or (B) the replacement of such Incentive Award with other rights or property selected by the Committee in its sole discretion;

(ii) To provide that such Incentive Award be assumed by the successor or survivor corporation, or a parent or subsidiary thereof, or shall be substituted for by similar options, rights or awards covering the stock of the successor or survivor corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of shares and prices; and

(iii) To make adjustments in the number and type of shares of Company Stock (or other securities or property) subject to outstanding Incentive Awards, and in the number and kind of outstanding Restricted Stock and/or in the terms and conditions of (including the grant or exercise price), and the criteria included in, outstanding options, rights and awards and options, rights and awards which may be granted in the future;

(iv) To provide that such Incentive Award shall be exercisable or payable or fully vested with respect to all shares covered thereby, notwithstanding anything to the contrary in the Plan or the applicable Award Agreement; and

(v) To provide that the Incentive Award cannot vest, be exercised or become payable after such event.

(h) Re-use of Shares

Other than with respect to any Spin-off Award, the aggregate number of shares of Company Stock issued under the Plan at any time shall equal only the number of shares of Company stock actually issued upon exercise or settlement of an Incentive Award. Other than with respect to any Spin-off Award, if an Incentive Award terminates, expires, is cancelled, forfeited, or lapses for any reason, any shares of Company Stock subject to the Incentive Award shall again be available for the grant of an Incentive Award pursuant to the Plan. Shares of Company Stock that are (i) used to pay the exercise price of an Option, (ii) delivered or withheld to satisfy tax withholding obligations with respect to an Incentive Award, (iii) covered by a stock-settled SAR that are not issued upon settlement of such SAR or (iv) not issued because cash (other than with respect to fractional shares) is issued in lieu of such shares of Company Stock pursuant to an Incentive Award will, in each case, not be available for further grants of Incentive Awards pursuant to the Plan. To the extent permitted by applicable law or any stock exchange rule, shares of Company Stock issued in assumption of, or in substitution for, any outstanding awards of any entity acquired in any form of combination by the Company or any Subsidiary shall not be counted towards the Share Limit and shall be available for grant pursuant to this Plan.

(i) No Repricing

Absent stockholder approval, neither the Committee nor the Board of Directors shall have any authority, with or without the consent of the affected holders of Incentive Awards, to Reprice an Incentive Award; provided, however, that nothing in this Section 3(i) shall be construed to apply to the issuance of an Incentive Award that is a Spin-off Award, or the issuance of an Incentive Award in connection with the acquisition by the Company of an unrelated entity. This paragraph may not be amended, altered or repealed by the Board of Directors or the Committee without approval of the stockholders of the Company.

(j) Vesting Limitation on Restricted Stock and Restricted Stock Unit Awards.

Any Restricted Stock or Restricted Stock Unit Incentive Award (other than any Spin-off Awards) that vests solely on the basis of the passage of time (*e.g.*, not on the basis of achievement of Performance Goals) shall not fully vest more quickly than over the three year period beginning on the Grant Date. Any Restricted Stock or Restricted Stock Unit Performance-Based Awards (other than any Spin-off Awards) shall not vest prior to the first anniversary of the Grant Date. Notwithstanding anything to the contrary in this Section 3(j): (i) the Committee may provide that such vesting restrictions may lapse or be waived upon the Participant's death, Disability or termination of service, or upon a Change of Control, (ii) Incentive Awards that result in the issuance of an aggregate of up to five percent (5%) of the Share Limit (as may be adjusted as provided under the terms of the Plan) may be granted to any one or more Participants without respect to such minimal vesting provisions, and (iii) the minimal vesting restrictions shall not apply to any Incentive Award made to any member of the Board of Directors as a component of the payment for his or her service on the Board of Directors.

## 4 ADMINISTRATION OF THE PLAN

The Plan shall be administered by the Committee. The Committee shall from time to time designate the persons who shall be granted Incentive Awards and the amount, type and other features of each Incentive Award.

The Committee shall have full authority to administer the Plan, including authority to interpret and construe any provision of the Plan and the terms of any Award Agreement or any Incentive Award issued under it and to adopt such rules and regulations for administering the Plan as it may deem necessary or appropriate. The Committee shall determine whether an authorized leave of absence or absence due to military or government service shall constitute termination of employment. The determination of whether an individual has a Disability shall be made by the Committee. Decisions of the Committee shall be final and binding on all Participants. Determinations made by the Committee under the Plan need not be uniform but may be made on a Participant-by-Participant basis. Notwithstanding anything to the contrary contained herein, the Board of Directors may, in its sole discretion, at any time and from time to time, resolve to administer the Plan, in which case the term "Committee" as used herein shall be deemed to mean the Board of Directors.

The Committee may, in its absolute discretion, without amendment to the Plan, (i) accelerate the date on which any Option or SAR granted under the Plan becomes exercisable, (ii) waive or amend the operation of Plan provisions respecting exercise after termination of service or otherwise adjust any of the terms of such Option or SAR and (iii) accelerate the Vesting Date, or waive any condition imposed hereunder, with respect to any share of Restricted Stock or Restricted Stock Unit or otherwise adjust any of the terms applicable to such share.

No member of the Committee shall be liable for any action, omission or determination relating to the Plan, and the Company shall indemnify and hold harmless each member of the Committee and each other director or employee of the Company to whom any duty or power relating to the administration or interpretation of the Plan has been delegated against any cost or expense (including counsel fees and expenses) or liability (including any sum paid in settlement of a claim with the approval of the Board of Directors, which approval shall not be unreasonably withheld or delayed) arising out of any action, omission or determination relating to the Plan, unless, in either case, such action, omission or determination was taken or made by such member, director or employee in bad faith and without reasonable belief that it was in the best interests of the Company.

## 5 ELIGIBILITY

The persons who shall be eligible to receive Incentive Awards under the Plan shall be such employees of the Company (including (i) employees who are also directors and (ii) prospective employees conditioned on their becoming employees), non-employee consultants or service providers, and non-employee directors of the Company as the Committee shall designate from time to time. In addition, persons entitled to receive Incentive Awards pursuant to the operation of the Employee Matters Agreement shall be eligible to receive Spin-off Awards under the Plan.

## 6 AWARDS UNDER THE PLAN; AWARD AGREEMENTS

The Committee may grant Options, SARs, shares of Restricted Stock, Restricted Stock Units and Stock Bonuses, in such amounts and with such terms and conditions as the Committee shall determine, subject to the provisions of the Plan.

Each Incentive Award granted under the Plan (except an unconditional Stock Bonus) shall be evidenced by an Award Agreement, which shall contain such provisions as the Committee may in its sole discretion deem necessary or desirable. By accepting an Incentive Award, a Participant thereby agrees that the Incentive Award shall be subject to all of the terms and provisions of the Plan and the applicable Award Agreement.

## 7 OPTIONS

(a) Identification of Options

Each Option shall be clearly identified in the applicable Award Agreement as either an Incentive Stock Option or a Non-Qualified Stock Option. In the absence of such identification, an Option will be deemed to be a Non-Qualified Stock Option.

(b) Exercise Price

Each Award Agreement with respect to an Option shall set forth the amount (the "Exercise Price") payable by the holder to the Company upon exercise of the Option. The Exercise Price for an Option shall be determined by the Committee but shall in no event be less than one hundred percent (100%) of the Fair Market Value of a share of Company Stock on the Grant Date.

(c) Term and Exercise of Options

(1) The applicable Award Agreement will provide the date or dates on which an Option shall become exercisable. The Committee shall determine the expiration date of each Option; provided, however, that no Option shall be exercisable more than ten (10) years after the Grant Date. Unless the applicable Award Agreement provides otherwise, no Option (other than any Spin-off Awards) shall be exercisable prior to the first anniversary of the Grant Date.

(2) An Option may be exercised for all or any portion of the shares as to which it is exercisable; provided, that no partial exercise of an Option shall be for an aggregate exercise price of less than $1,000. The partial exercise of an Option shall not cause the expiration, termination or cancellation of the remaining portion thereof.

(3) Unless the Committee determines otherwise, an Option shall be exercised by delivering notice to the Company's principal office, to the attention of its Secretary (or the Secretary's designee), no less than one nor more than ten (10) business days in advance of the effective date of the proposed exercise. Such notice shall specify the number of shares of Company Stock with respect to which the Option is being exercised and the effective date of the proposed exercise and shall be signed by the Participant or other person then having the right to exercise the Option. Payment for shares of Company Stock purchased upon the exercise of an Option shall be made on the effective date of such exercise by one or a combination of the following means: (i) in cash, by certified check, bank cashier's check or wire transfer; (ii) subject to the approval of the Committee, in shares of Company Stock owned by the Participant for at least six months prior to the date of exercise and valued at their Fair Market Value on the effective date of such exercise; or (iii) by means of a broker assisted cashless exercise procedure complying with applicable law, and (iv) by such other provision as the Committee may from time to time authorize. Any payment in shares of Company Stock shall be effected by the delivery of such shares to the Secretary (or the Secretary's designee) of the Company, duly endorsed in blank or accompanied by stock powers duly executed in blank, together with any other documents and evidences as the Secretary (or the Secretary's designee) of the Company shall require.

(4) Stock certificates for shares of Company Stock purchased upon the exercise of an Option shall be issued in the name of the Participant or other person entitled to receive such shares, and delivered to the Participant or such other person reasonably promptly following the effective date on which the Option is exercised.

(d) Limitations on Incentive Stock Options

(1) Incentive Stock Options may be granted only to employees of the Company or any "subsidiary corporation" thereof (within the meaning of Section 424(f) of the Code and the applicable regulations thereunder).

(2) To the extent that the aggregate Fair Market Value of shares of Company Stock with respect to which Incentive Stock Options are exercisable for the first time by a Participant during any calendar year under the Plan and any other stock option plan of the Company (or any "subsidiary corporation" of the Company within the meaning of Section 424 of the Code) shall exceed $100,000, or such higher value as may be permitted under Section 422 of the Code, such Options shall be treated as Non-Qualified Stock Options to the extent required by Section 422 of the Code. Such Fair Market Value shall be determined as of the Grant Date on which each such Incentive Stock Option is granted.

(3) No Incentive Stock Option may be granted to an individual if, at the time of the grant, such individual owns stock possessing more than 10% of the total combined voting power of all classes of stock of the Company (or any "subsidiary corporation" of the Company within the meaning of Section 424 of the Code), unless (i) the exercise price of such Incentive Stock Option is at least 110% of the Fair Market Value of a share of Company Stock at the time such Incentive Stock Option is granted and (ii) such Incentive Stock Option (other than any Spin-off Awards) is not exercisable after the expiration of five years from the Grant Date on which such Incentive Stock Option is granted.

(e) Effect of Termination of Employment

(1) Unless the applicable Award Agreement provides or the Committee shall determine otherwise, in the event that the employment of a Participant with the Company shall terminate for any reason other than for Cause, on account of Disability of the Participant or death of the Participant: (i) Options granted to such Participant, to the extent that they were exercisable at the time of such termination, shall remain exercisable until the date that is three (3) months after such termination, on which date they shall expire; and (ii) Options granted to such Participant, to the extent that they were not exercisable at the time of such termination, shall expire at the close of business on the date of such termination. The three-month period described in this Section 7(e)(1) shall be extended to one year in the event of the Participant's death during such three-month period. Notwithstanding the foregoing, no Option shall be exercisable after the expiration of its term.

(2) Unless the applicable Award Agreement provides or the Committee shall determine otherwise, in the event that the employment of a Participant with the Company shall terminate on account of the Disability or death of the Participant: (i) Options granted to such Participant, to the extent that they were exercisable at the time of such termination, shall remain exercisable until the first anniversary of such termination, on which date they shall expire; and (ii) Options granted to such Participant, to the extent that they were not exercisable at the time of such termination, shall expire at the close of business on the date of such termination. Notwithstanding the foregoing, no Option shall be exercisable after the expiration of its term.

(3) In the event of the termination of a Participant's employment for Cause, all outstanding Options granted to such Participant shall cease to be exercisable, if applicable, and expire at the commencement of business on the date of such termination.

(f) Acceleration of Exercise Date Upon Change in Control

Upon the occurrence of a Change in Control, each Option granted under the Plan and outstanding at such time shall become fully and immediately exercisable and shall remain exercisable until its expiration, termination or cancellation pursuant to the terms of the Plan. In addition, in the event of a Change in Control, the Committee may in its discretion, cancel any outstanding Options and pay to the holders thereof, in cash or stock, or any combination thereof, the value of such Options based upon the price per share of Company Stock to be received by other stockholders of the Company in the Change in Control less the Exercise Price of each Option. Additionally, in the event of a Change of Control, with respect to any Option with an Exercise Price that equals or exceeds the price per share of Common Stock to be received by the other stockholders of the Company in the Change in Control, the Committee may in its discretion, cancel any outstanding Option without payment of consideration therefor.

(g) Transferability of Option

Except as otherwise provided in an applicable Award Agreement, during the lifetime of a Participant each Option granted to a Participant shall be exercisable only by the Participant and no Option shall be assignable or transferable otherwise than by will or by the laws of descent and distribution. The Committee may in its sole discretion on a case by case basis, in any applicable agreement evidencing an Option (other than, to the extent inconsistent with the requirements of Section 422 of the Code applicable to Incentive Stock Options), permit a Participant to transfer all or some of the Options to (i) the Participant's Immediate Family Members, or (ii) a trust or trusts for the exclusive benefit of such Immediate Family Members. Following any such transfer, any transferred Options shall continue to be subject to the same terms and conditions as were applicable immediately prior to the transfer. "Immediate Family Members" shall mean a Participant's spouse, child(ren) and grandchild(ren).

Notwithstanding the foregoing, Non-Qualified Stock Options may be transferred to a Participant's former spouse pursuant to a property settlement made part of an agreement or court order incident to the divorce.

## 8 SARS

(a) Exercise Price

The exercise price per share of a SAR shall be determined by the Committee at the time of grant, but shall in no event be less than one hundred percent (100%) of the Fair Market Value of a share of Company Stock on the Grant Date.

(b) Benefit Upon Exercise

The exercise of SARs with respect to any number of shares of Company Stock shall entitle the Participant to receive unrestricted, fully transferable shares of Company Stock, which shall be issued reasonably promptly after the date on which the SARs are exercised, equal in value to the number of SARs exercised multiplied by (i) the Fair Market Value of a share of Company Stock on the exercise date over (ii) the exercise price of the SAR. Any fractional share amounts shall be settled in cash. Notwithstanding the foregoing, shares of Company Stock issued may be subject to restrictions on transfer as a result of applicable securities laws or pursuant to Section 15.

(c) Term and Exercise of SARS

(1) The applicable Award Agreement will provide the dates or dates on which a SAR shall become exercisable. The Committee shall determine the expiration date of each SAR; provided, however, that no SAR shall be exercisable more than ten (10) years after the Grant Date. Unless the applicable Award Agreement provides otherwise, no SAR shall be exercisable prior to the first anniversary of the Grant Date.

(2) A SAR may be exercised for all or any portion of the shares as to which it is exercisable; provided, that no partial exercise of a SAR shall be for an aggregate exercise price of less than $1,000. The partial exercise of a SAR shall not cause the expiration, termination or cancellation of the remaining portion thereof.

(3) Unless the Committee determines otherwise, a SAR shall be exercised by delivering notice to the Company's principal office, to the attention of its Secretary (or the Secretary's designee), no less than one nor more than ten (10) business days in advance of the effective date of the proposed exercise. Such notice shall specify the number of shares of Company Stock with respect to which the SAR is being exercised, and the effective date of the proposed exercise, and shall be signed by the Participant.

(d) Effect of Termination of Employment

The provisions set forth in Section 7(e) with respect to the exercise of Options following termination of employment shall apply as well to such exercise of SARs.

(e) Acceleration of Exercise Date Upon Change in Control

Upon the occurrence of a Change in Control, any SAR granted under the Plan and outstanding at such time shall become fully and immediately exercisable and shall remain exercisable until its expiration, termination or cancellation pursuant to the terms of the Plan. In addition, in the event of a Change in Control, the Committee may in its discretion, cancel any outstanding SARs and pay to the holders thereof, in cash or stock, or any combination thereof, the value of such SARs based upon the price per share of Company Stock to be received by other stockholders of the Company in the Change in Control less the exercise price of each SAR. Additionally, in the event of a Change of Control, with respect to any SAR with an exercise price that equals or exceeds the price per share of Common Stock to be received by the other stockholders of the Company in the Change in Control, the Committee may in its discretion, cancel any outstanding SAR without payment of consideration therefor.

## 9 RESTRICTED STOCK

(a) General and Vesting Date

Subject to the provisions of Section 3(j) hereof, on a Grant Date of any shares of Restricted Stock, the Committee shall establish a Vesting Date or Vesting Dates with respect to such shares of Restricted Stock. The Committee may divide such shares of Restricted Stock into classes and assign a different Vesting Date to each class. Reasonably promptly after any shares of Restricted Stock have been granted, the Company shall cause the specified number of shares of Restricted Stock to be issued in the name of the Participant in accordance with the provisions of Section 9(e). Provided that all conditions to

(b) are satisfied, and except as provided in Section 9(g), upon the occurrence of the Vesting Date with respect to a share of Restricted Stock, such share shall vest and the restrictions of Section 9(c) shall cease to apply to such share.

(b) Conditions to Vesting

At the time of the grant of shares of Restricted Stock, the Committee may impose such restrictions or conditions to the vesting of such shares as it, in its sole discretion, deems appropriate. By way of example and not by way of limitation, the Committee may require, as a condition to the vesting of any class or classes of shares of Restricted Stock, that the Participant or the Company achieves such performance goals as the Committee may specify under Section 12.

(c) Restrictions on Transfer Prior to Vesting

Prior to the vesting of a share of Restricted Stock, no transfer of a Participant's rights with respect to such share, whether voluntary or involuntary, by operation of law or otherwise, shall be permitted. Immediately upon any attempt to transfer such rights, such share, and all of the rights related thereto, shall be forfeited by the Participant.

(d) Rights as Stockholder

Upon issuance of Restricted Stock, the Participant shall have, unless otherwise provided by the Committee, all rights of a stockholder with respect to such shares, subject to any restrictions set forth in an Award Agreement, including the right to receive any dividend or other distribution with respect to such shares of Restricted Stock. The Committee in its sole discretion may require that any dividends paid on shares of Restricted Stock shall be held in escrow until all restrictions on such shares have lapsed.

(e) Issuance of Certificates

(1) Reasonably promptly after any shares of Restricted Stock have been granted, the Company shall cause to be issued a stock certificate, registered in the name of the Participant to whom such shares were granted, evidencing such shares; provided, that the Company shall not cause such a stock certificate to be issued to such Participant unless it has received a stock power duly endorsed in blank from the Participant with respect to such shares. Each such stock certificate shall bear any such legend as the Committee may determine. Such legend shall not be removed until such shares vest pursuant to the terms hereof.

(2) Each certificate issued pursuant to this Section 9(e), together with the stock powers relating to the shares of Restricted Stock evidenced by such certificate, shall be held by the Company in such manner as the Company may determine unless the Committee determines otherwise.

(f) Consequences of Vesting

Upon the vesting of a share of Restricted Stock pursuant to the terms of the Plan and the applicable Award Agreement, the restrictions of Section 9(c) shall cease to apply to such share. Reasonably promptly after a share of Restricted Stock vests, the Company shall cause to be delivered to the Participant to whom such shares were granted, a stock certificate evidencing such share, free of the legend set forth in Section 9(e). Notwithstanding the foregoing, such share still may be subject to restrictions on transfer as a result of applicable securities laws or pursuant to Section 15.

(g) Effect of Termination of Employment

(1) Unless the applicable Award Agreement or the Committee determines otherwise, in the event of the termination of a Participant's service to the Company for any reason other than for Cause, all shares of Restricted Stock granted to such Participant which have not vested as of the date of such termination shall immediately be forfeited and returned to the Company. The Committee also shall have the right to require the return of all dividends paid on such shares, whether by termination of any escrow arrangement under which such dividends are held or otherwise.

(2) In the event of the termination of a Participant's employment for Cause, all shares of Restricted Stock granted to such Participant which have not vested prior to the date of such termination shall immediately be forfeited and returned to the Company, together with any dividends credited on such shares by termination of any escrow arrangement under which such dividends are held or otherwise.

(h) Effect of Change in Control

Upon the occurrence of a Change in Control, all outstanding shares of Restricted Stock that have not previously vested shall immediately vest. In addition, in the event of a Change in Control, the Committee may in its discretion, cancel any outstanding shares of Restricted Stock and pay to the holders thereof, in cash or stock, or any combination thereof, the value of such shares of Restricted Stock based upon the price per share of Company Stock to be received by other stockholders of the Company in the Change in Control.

## 10 RESTRICTED STOCK UNITS

(a) Vesting Date

Subject to the provisions of Section 3(j) hereof, at the time of the grant of Restricted Stock Units, the Committee shall establish a Vesting Date or Vesting Dates with respect to such Restricted Stock Units. The Committee may divide such Restricted Stock Units into classes and assign a different Vesting Date to each class. Provided that all conditions to the vesting of a Restricted Stock Unit imposed pursuant to Section 10(c) are satisfied, and except as provided in Section 10(d), upon the occurrence of the Vesting Date with respect to a Restricted Stock Unit, such Restricted Stock Unit shall vest and shares of Company Stock will be delivered pursuant to Section 10(b).

(b) Benefit Upon Vesting

Upon the vesting of a Restricted Stock Unit, the Participant shall be entitled to receive one unrestricted, fully transferable share of Company Stock for each Restricted Stock Unit scheduled to be vested on such date and not previously forfeited. Delivery of the share of Company Stock will occur as soon as practicable following the date of vesting or, if otherwise specified in the applicable Award Agreement, on such later settlement date or dates as specified in the Award Agreement, and a Participant will have only the rights of a general unsecured creditor of the Company with respect to each Restricted Stock Unit until delivery of the share or payment is made as specified in the Award Agreement. If explicitly provided in the applicable Award Agreement, the Committee may, in its sole discretion, elect to (i) pay cash or (ii) pay part in cash and part in Company Stock in lieu of delivering only shares of Company Stock in settlement of the Restricted Stock Unit. If a cash payment is made in lieu of delivering shares of Company Stock, the amount of such payment shall be equal to the Fair Market Value of the Company Stock as of the date on which such Restricted Stock Units vested or, if a later settlement date is specified in the Award Agreement, the Fair Market Value of the Company Stock as of the specified date of settlement. Notwithstanding the foregoing, shares of Company Stock issued may be subject to restrictions on transfer as a result of applicable securities laws or pursuant to Section 15.

(c) Conditions to Vesting

At the time of the grant of Restricted Stock Units, the Committee may impose such restrictions or conditions to the vesting of such Restricted Stock Units as it, in its sole discretion, deems appropriate. By way of example and not by way of limitation, the Committee may require, as a condition to the vesting of any class or classes of

Restricted Stock Units, that the Participant or the Company achieves such performance goals as the Committee may specify under Section 12.

(d) Dividends on Restricted Stock Units

The Committee may, in its sole discretion and as would be set forth in the applicable Award Agreement, require each Restricted Stock Unit to be credited with dividends paid by the Company with respect to one share of Company Stock ("Dividend Equivalents"). Dividend Equivalents shall be withheld by the Company and credited to the Participant's account, and interest may be credited on the amount of cash Dividend Equivalents credited to the Participant's account at a rate and subject to such terms as determined by the Committee in its sole discretion. Dividend Equivalents credited to a Participant's account and attributable to any particular Restricted Stock Unit (and earnings thereon, if applicable) shall be distributed in cash or, at the sole discretion of the Committee, in shares of Common Stock having a Fair Market Value equal to the amount of such Dividend Equivalents and earnings, if applicable, to the Participant upon settlement of such Restricted Stock Unit and, if such Restricted Stock is forfeited, the Participant shall have no right to such Dividend Equivalents.

(e) Effect of Termination of Employment

(1) Unless the applicable Award Agreement or the Committee determines otherwise, Restricted Stock Units that have not vested, together with dividends, if any, credited on such Restricted Stock Units, shall be forfeited upon the Participant's termination of employment for any reason other than for Cause.

(2) In the event of the termination of a Participant's employment for Cause, all Restricted Stock Units granted to such Participant that have not vested as of the date of such termination shall immediately be forfeited, together with dividends, if any, credited on such shares.

(f) Effect of Change in Control

Upon the occurrence of a Change in Control all outstanding Restricted Stock Units that have not theretofore vested shall immediately vest. In addition, in the event of a Change in Control, the Committee may in its discretion, cancel any outstanding Restricted Stock Units and pay to the holders thereof, in cash or stock, or any combination thereof, the value of such Restricted Stock Units based upon the price per share of Company Stock to be received by other stockholders of the Company in the Change in Control.

## 11 STOCK BONUSES

In the event that the Committee grants a Stock Bonus, a certificate for the shares of Company Stock comprising such Stock Bonus shall be issued in the name of the Participant to whom such grant was made and delivered to such Participant as soon as practicable after the date on which such Stock Bonus is payable.

## 12 PERFORMANCE-BASED AWARDS

(a) Purpose.

The purpose of this Section 12 is to provide the Committee the ability to qualify Incentive Awards as Qualified Performance-Based Compensation. If the Committee, in its sole discretion, decides to grant a Performance-Based Award to a Covered Employee, the provisions of this Section 12 shall control over any contrary provision contained in Sections 7, 8, 9 or 10; provided, however, that the Committee may in its sole discretion grant Incentive Awards to Covered Employees and to other Participants that are based on Performance Criteria or Performance Goals, but that do not satisfy the requirements of this Section 12.

(b) Applicability.

This Section 12 shall apply only to those Covered Employees selected by the Committee to receive Performance-Based Awards, which are intended to qualify as Qualified Performance-Based Compensation. The designation of a Covered Employee as a Participant for a Performance Period shall not in any manner entitle the Participant to receive an Incentive Award for the period. Moreover, designation of a Covered Employee as a Participant for a particular Performance Period shall not require designation of such Covered Employee as a Participant in any subsequent Performance Period and designation of one Covered Employee as a Participant shall not require designation of any other Covered Employees as Participants in such period or in any other period.

(c) Procedures with Respect to Performance-Based Awards.

To the extent necessary to comply with the Qualified Performance-Based Compensation requirements of Section 162(m)(4)(C) of the Code, with respect to any Incentive Award granted under Sections 7, 8, 9 or 10 that may be granted to one or more Covered Employees, no later than ninety (90) days following the commencement of any fiscal year in question or any other designated fiscal period or period of service (or such other time as may be required or permitted by Section 162(m) of the Code), the Committee shall, in writing, (a) designate one or more Covered Employees, (b) select the Performance Criteria applicable to the Performance Period, (c) establish the Performance Goals, and amounts of such Incentive Awards, as applicable, which may be earned for such Performance Period, and (d) specify the relationship between Performance Criteria and the Performance Goals and the amounts of such Incentive Awards, as applicable, to be earned by each Covered Employee for such Performance Period. Following the completion of each Performance Period, the Committee shall certify in writing whether the applicable Performance Goals have been achieved for such Performance Period. In determining the amount of an Incentive Award earned by a Covered Employee, the Committee shall have the right to reduce or eliminate (but not to increase) the amount of Incentive Award payable at a given level of performance to take into account additional factors that the Committee may deem relevant to the assessment of individual or corporate performance for the Performance Period.

(d) Payment of Performance-Based Awards.

Unless otherwise provided in the applicable Award Agreement, a Participant must be employed by the Company or a Subsidiary on the day a Performance-Based Award for such Performance Period is paid to the Participant. Furthermore, a Participant shall be eligible to receive payment pursuant to a Performance-Based Award for a Performance Period only if, and to the extent, the Performance Goals for such period are achieved.

(e) Additional Limitations.

Notwithstanding any other provision of the Plan, any Incentive Award that is granted to a Covered Employee and is intended to constitute Qualified Performance-Based Compensation shall be subject to any additional limitations set forth in Section 162(m) of the Code (including any amendment to Section 162(m) of the Code) or any regulations or rulings issued thereunder that are requirements for qualification as qualified performance-based compensation as described in Section 162(m)(4)(C) of the Code, and the Plan shall be deemed amended to the extent necessary to conform to such requirements.

## 13 RIGHTS AS A STOCKHOLDER

Except as provided in the Plan or an Award Agreement, no Participant shall be deemed to be the holder of, or have any rights as a stockholder with respect to, any shares of Company Stock covered by or relating to any Incentive Award until the date of issuance of shares of Company Stock relating to such Incentive Award to such holder of the Incentive Award.

Except as otherwise expressly provided in Sections 3(e) or (f) or as determined by the Committee in its sole discretion, no adjustment to any Incentive Award shall be made as a result of dividends or other rights being issued with respect to Company Stock for which the record date for such dividend or other rights occurred prior to the date on which the shares of Company Stock relating to such Incentive Award were issued to the holder of such Incentive Award.

## 14 SPIN-OFF AWARDS

(a) Notwithstanding anything in the Plan to the contrary, the terms of the Plan will apply to Spin-off Awards only to the extent that such terms are not inconsistent with the Employee Matters Agreement.

(b) Notwithstanding anything in the Plan to the contrary, the exercise price of a Spin-off Award that is an Option or an SAR may be less than the Fair Market Value of Company Stock on the date on which such Option or SAR is granted in order to preserve the intrinsic value, in full, of the outstanding Greatbatch equity award prior to the Spin-off.

(c) For Spin-off Awards granted to Participants who remain active employees, directors or service providers of Greatbatch or any of its subsidiaries after the Spin-off, the Participant will be deemed to have terminated employment or service, as applicable, for purposes of his or her Spin-off Award when he or she terminates employment with or service to Greatbatch or its subsidiaries.

## 15 DEFERRAL OF AWARDS

The Committee may permit or require the deferral of payment or settlement of any Restricted Stock Unit or Stock Bonus subject to such rules and procedures as it may establish in its sole discretion. Payment or settlement of Options or SARs may not be deferred unless such deferral would not cause the provisions of Section 409A of the Code to be violated.

## 16 RESTRICTION ON TRANSFER OF SHARES

The Committee may impose, either in the Award Agreement or at the time shares of Company Stock are issued in settlement of an Incentive Award, restrictions on the ability of the Participant to sell or transfer such shares of Company Stock.

## 17 NO SPECIAL EMPLOYMENT RIGHTS; NO RIGHT TO INCENTIVE AWARD

Nothing contained in the Plan or any Award Agreement shall confer upon any Participant any right with respect to the continuation of employment with the Company or interfere in any way with the right of the Company, subject to the terms of any separate employment agreement to the contrary, at any time to terminate such employment or to increase or decrease the compensation of the Participant.

No person shall have any claim or right to receive an Incentive Award hereunder. The Committee's granting of an Incentive Award to a Participant at any time shall neither require the Committee to grant any other Incentive Award to such Participant or other person at any time nor preclude the Committee from making subsequent grants to such Participant or any other person.

## 18 SECURITIES MATTERS

(a) The Company shall be under no obligation to effect the registration pursuant to the Securities Act of 1933, as amended, of any interests in the Plan or any shares of Company Stock to be issued hereunder or to effect similar compliance under any state laws. Notwithstanding anything herein to the contrary, the Company shall not be obligated to cause to be issued or delivered any certificates evidencing shares of Company Stock pursuant to the Plan unless and until the Company is advised by its counsel that the issuance and delivery of such certificates is in compliance with all applicable laws, regulations of governmental authority and the requirements of the NASDAQ Stock Market or any other securities exchange or automated quotation system on which shares of Company Stock are listed. Certificates evidencing shares of Company Stock issued pursuant to the terms hereof, may bear such legends, as the Committee or the Company, in its sole discretion, deems necessary or desirable to insure compliance with applicable securities laws.

(b) The transfer of any shares of Company Stock hereunder shall be effective only at such time as counsel to the Company shall have determined that the issuance and delivery of such shares is in compliance with all applicable laws, regulations of governmental authority and the requirements of the NASDAQ Stock Market or any other securities exchange or automated quotation system on which shares of Company Stock are listed. The

Committee may, in its sole discretion, defer the effectiveness of any transfer of shares of Company stock hereunder in order to allow the issuance of such shares to be made pursuant to registration or an exemption from registration or other methods for compliance available under federal or state securities laws. The Company shall inform the Participant in writing of the Committee's decision to defer the effectiveness of a transfer. During the period of such a deferral in connection with the exercise of an Option, the Participant may, by written notice, withdraw such exercise and obtain the refund of any amount paid with respect thereto.

(c) It is intended that the Plan be applied and administered in compliance with Rule 16b-3. If any provision of the Plan would be in violation of Rule 16b-3 if applied as written, such provision shall not have effect as written and shall be given effect so as to comply with Rule 16b-3, as determined by the Committee. The Committee is authorized to amend the Plan and to make any such modifications to Award Agreements to comply with Rule 16b-3, as it may be amended from time to time, and to make any other such amendments or modifications deemed necessary or appropriate to better accomplish the purposes of the Plan in light of any amendments made to Rule 16b-3.

## 19 WITHHOLDING TAXES

Whenever cash is to be paid pursuant to an Incentive Award, the Company shall have the right to deduct therefrom an amount sufficient to satisfy any federal, state and local withholding tax requirements related thereto.

Whenever shares of Company Stock are to be delivered pursuant to an Incentive Award, the Company shall have the right to require the Participant to remit to the Company in cash an amount sufficient to satisfy any federal, state and local withholding tax requirements related thereto. With the approval of the Committee, which it shall have sole discretion to grant and which approval may be evidenced by the presence in the Award Agreement of an appropriate reference to such right, a Participant may satisfy the foregoing requirement by electing to have the Company withhold from delivery shares of Company Stock having a value equal to the minimum amount of tax required to be withheld. Such shares shall be valued at their Fair Market Value on the date as of which the amount of tax to be withheld is determined. Any fractional share amounts shall be settled in cash. Such a withholding election may be made with respect to all or any portion of the shares of Company Stock to be delivered pursuant to an Incentive Award. Any tax withholding above the minimum amount of tax required to be withheld must be deducted from other amounts payable to the Participant or must be paid in cash by the Participant.

## 20 NOTIFICATION OF ELECTION UNDER SECTION 83(b) OF THE CODE

If any Participant shall, in connection with the acquisition of shares of Company Stock under the Plan, make the election permitted under Section 83(b) of the Code (i.e., an election to include in gross income in the year of transfer the amounts specified in Section 83(b) of the Code) and permitted under the terms of the Award Agreement, such Participant shall notify the Company of such election within ten days of filing notice of the election with the Internal Revenue Service, in addition to any filing and notification required pursuant to regulations issued under the authority of Code Section 83(b).

## 21 NOTIFICATION UPON DISQUALIFYING DISPOSITION UNDER SECTION 421(b) OF THE CODE

Each Award Agreement with respect to an Incentive Stock Option shall require the Participant to notify the Company of any disposition of shares of Company Stock issued pursuant to the exercise of such Incentive Stock Option under the circumstances described in Section 421(b) of the Code (relating to certain disqualifying dispositions) within ten (10) days of such disposition.

## 22 AMENDMENT OR TERMINATION OF THE PLAN

The Board of Directors may, at any time, suspend or terminate the Plan or revise or amend it in any respect whatsoever; provided, however, that stockholder approval shall be required if and to the extent required by Rule 16b-3 or by any comparable or successor exemption under which the Board of Directors believes it is appropriate for the Plan to qualify, or if and to the extent the Board of Directors determines that such approval is appropriate for purposes of satisfying Section 162(m), Section 422 or Section 409A of the Code or any applicable rule or listing

standard of any stock exchange, automated quotation system or similar organization. Nothing herein shall restrict the Committee's ability to exercise its discretionary authority pursuant to Section 4, which discretion may be exercised without amendment to the Plan. No action hereunder may, without the consent of a Participant, reduce the Participant's rights under any outstanding Incentive Award.

## 23 NO OBLIGATION TO EXERCISE

The grant to a Participant of an Option or SAR shall impose no obligation upon such Participant to exercise such Option or SAR.

## 24 TRANSFERS UPON DEATH; NONASSIGNABILITY

Upon the death of a Participant outstanding Incentive Awards granted to such Participant may be exercised only by the executor or administrator of the Participant's estate or by a person who shall have acquired the right to such exercise by will or by the laws of descent and distribution. No transfer of an Incentive Award by will or the laws of descent and distribution shall be effective to bind the Company unless the Company shall have been furnished with (a) written notice thereof and with a copy of the will and/or such evidence as the Committee may deem necessary to establish the validity of the transfer and (b) an agreement by the transferee to comply with all the terms and conditions of the Incentive Award that are or would have been applicable to the Participant and to be bound by the acknowledgments made by the Participant in connection with the grant of the Incentive Award.

Except as otherwise provided in this Plan, no Incentive Award or interest in it may be transferred, assigned, pledged or hypothecated by the Participant, whether by operation of law or otherwise, or be made subject to execution, attachment or similar process.

## 25 EXPENSES AND RECEIPTS

The expenses of the Plan shall be paid by the Company. Any proceeds received by the Company in connection with any Incentive Award will be used for general corporate purposes.

## 26 FAILURE TO COMPLY

In addition to the remedies of the Company elsewhere provided for herein, failure by a Participant (or beneficiary) to comply with any of the terms and conditions of the Plan or the applicable Award Agreement, unless such failure is remedied by such Participant (or beneficiary) within ten (10) days after notice of such failure by the Committee, shall be grounds for the cancellation and forfeiture of such Incentive Award, in whole or in part, as the Committee, in its sole discretion, may determine.

## 27 EFFECTIVE DATE AND TERM OF PLAN

The Plan shall be effective as of the Effective Date. Unless earlier terminated by the Board of Directors, the right to grant Incentive Awards under the Plan will terminate on the tenth ($10^{th}$) anniversary of the Effective Date. Incentive Awards outstanding at Plan termination will remain in effect according to their terms and the provisions of the Plan.

## 28 FRACTIONAL SHARES

No fractional shares of Company Stock shall be issued or delivered pursuant to the Plan. The Committee shall determine whether cash or other securities or property shall be issued or paid in lieu of fractional shares of Company Stock or whether any fractional shares should be rounded, forfeited or otherwise eliminated.

## 29 CLAWBACK

Any Incentive Award that is subject to recovery under any applicable law, government regulation or rule or listing standard of any stock exchange, will be subject to such deductions and clawback as may be required to be

made pursuant to such applicable law, government regulation or rule or listing standard of any stock exchange (or any policy adopted by the Company pursuant to any such applicable law, government regulation or rule or listing standard of any stock exchange).

## 30 SEVERABILITY

If any of the provisions of the Plan or any Award Agreement is held to be invalid, illegal or unenforceable, whether in whole or in part, such provision shall be deemed modified to the extent, but only to the extent, of such invalidity, illegality or unenforceability and the remaining provisions shall not be affected thereby.

## 31 AWARDS TO NON-U.S. EMPLOYEES

Incentive Awards may be granted to Participants who are foreign nationals or employed outside of the United States, or both, on such terms and conditions different from those applicable to Incentive Awards to Participants employed in the United States as may, in the judgement of the Committee, be necessary or desirable in order to recognize differences in local law or tax policy. The Committee may impose conditions on the exercise or vesting in Incentive Awards in order to minimize the Company's obligations with respect to tax equalization for employees on assignment outside of their home country.

## 32 SECTION 409A

All Incentive Awards granted under this Plan are intended to comply with or to be exempt from Section 409A of the Code and will be construed accordingly. However, the Company will not be liable to any Participant or beneficiary with respect to any adverse tax consequences arising under Section 409A or other provision of the Code. All terms of this Plan that are undefined or ambiguous must be interpreted in a manner that is consistent with Section 409A of the Code if necessary to comply with Section 409A of the Code. A Participant's right to receive any installment payments under this Plan or an Incentive Award Agreement will be treated as a right to receive a series of separate payments for purposes of Section 409A of the Code. To the extent that (i) a Participant is determined to be a "specified employee" within the meaning of Section 409A of the Code, (b) any amounts payable under this Plan or an Award Agreement represent amounts that are subject to Section 409A of the Code, and (c) such amounts are payable solely on the Participant's "separation from service" within the meaning of Section 409A of the Code, then such amounts will not be payable to the Participant before the date that is six months after the Participant's separation from service (or, if earlier, the date of the Participant's death), to the extent necessary to avoid the imposition of tax penalties on the Participant under Section 409A of the Code. Payments subject to the preceding sentence to which the Participant would otherwise be entitled during the first six months following the Participant's separation date will be accumulated and paid on the first business day that is six months after the separation date.

## 33 APPLICABLE LAW

Except to the extent preempted by any applicable federal law, the Plan will be construed and administered in accordance with the laws of the State of Delaware, without reference to the principles of conflicts of laws thereunder.

**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

# FORM 10-K

☒ **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.**
**For the fiscal year ended December 30, 2016.**

☐ **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. 001-37525**

# Nuvectra Corporation

(Exact name of registrant as specified in its charter)

| **Delaware** | **30-0513847** |
|---|---|
| (Jurisdiction of incorporation) | (I.R.S. Employer Identification No.) |

**5830 Granite Parkway, Suite 1100,**
**Plano, Texas 75024**
(Address of principal executive office)
**(214) 474-3103**
(Registrant's telephone number)

**Securities registered pursuant to Section 12(b) of the Act:**

| **Title of each class** | **Name of each exchange on which registered** |
|---|---|
| **Common Stock, par value $0.001 per share** | **NASDAQ Global Market** |

**Securities registered pursuant to section 12(g) of the Act:**
**None**

**Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒**

**Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes ☐ No ☒**

**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 check mark 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 (§229.405 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐**

**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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.**

**Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☒**

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

**Aggregate market value of voting and non-voting common equity of Nuvectra Corporation held by non-affiliates of the registrant as of July 1, 2016, based on the closing price of $7.50, as reported on the NASDAQ Global Market: approximately $73.9 million. Number of Common Stock shares outstanding on February 23, 2017: 10,337,753**

**DOCUMENTS INCORPORATED BY REFERENCE**

**Portions of Registrant's Definitive Proxy Statement to be filed with the Securities and Exchange Commission in connection with its Annual Meeting of Stockholders to be held in 2017 are incorporated by reference into Part III of this Form 10-K.**

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## PART I

### Item 1. Business

### Our History

Following its spin-off from Integer Holdings Corporation, formerly known as Greatbatch, Inc. ("Integer"), Nuvectra Corporation ("Nuvectra," the "Company," "we," "us," or "our") became an independent, publicly-traded company as of March 14, 2016 and our common stock began trading on the NASDAQ Global Market ("NASDAQ"). Prior to the spin-off, we were a wholly-owned subsidiary of Integer. Nuvectra was initially formed as a limited liability company in Delaware on November 14, 2008 and was subsequently named QiG Group, LLC. In connection with the spin-off, QiG Group, LLC converted into a Delaware corporation and changed its name to Nuvectra Corporation. The shares of another Integer subsidiary, NeuroNexus Technologies, Inc., a Michigan corporation, were transferred to Nuvectra as part of the spin-off transaction and it became a wholly-owned subsidiary of Nuvectra.

### Our Mission

Our mission is to help physicians improve the lives of people with chronic neurological conditions through life-enhancing products and services.

### Overview of Business

Nuvectra is a neuromodulation medical device company focused on the development and commercialization of our neurostimulation technology platform for the treatment of various disorders through stimulation of tissues associated with the nervous system. Our neurostimulation technology platform has the capability to provide treatment to patients in several established neurostimulation markets, including spinal cord stimulation ("SCS"), sacral nerve stimulation ("SNS"), deep brain stimulation ("DBS"), and other emerging neurostimulation markets. Our Algovita™ SCS system, or Algovita, is the first application of our neurostimulation technology platform and is indicated for the treatment of chronic pain of the trunk and limbs. Algovita received premarket approval from the FDA in November 2015, and we commercially launched Algovita in the United States ("U.S.") during the first half of 2016. Outside of the United States, Algovita obtained CE mark approval in June 2014 and is indicated for the treatment of chronic intractable pain of the trunk or limbs. Algovita is reimbursable under existing SCS codes in the United States, the European Union ("EU") and Australia, and has been commercially available to patients in Germany and several other European countries since November 2014.

We believe Algovita brings to market a user friendly, robust and flexible design with a broad set of product capabilities and advanced technology and is well positioned to compete in and help grow the existing SCS market, currently estimated at approximately $1.7 billion globally. In addition, we believe our neurostimulation technology platform is well positioned to compete in the SCS, SNS and DBS portions of the worldwide neurostimulation market, currently estimated at approximately $2.8 billion combined.

We have also developed our existing platform for use in the SNS market and have filed regulatory submissions with the FDA and CE Mark authorities in January 2017 and December 2016, respectively, for Virtis™, the Company's sacral nerve stimulation system for the treatment of chronic urinary retention and the symptoms of overactive bladder. In addition, in early 2016, we entered into a development agreement with Aleva Neurotherapeutics S.A. ("Aleva") to develop our neurostimulation technology platform into a complete medical device for use in the DBS market for treatment of Parkinson's disease. This platform is still under development.

Our NeuroNexus subsidiary is the neuroscience and clinical research portion of our business. NeuroNexus works closely with researchers to develop and refine new tools that aid and advance neuroscience research. NeuroNexus designs, manufactures and sells neural interface systems including high quality, high density microelectrode arrays, custom designed probes, electrode instrumentation and accessories. In addition, the NeuroNexus team possesses years of neuroscience research experience to help facilitate successful research projects and provide insight to minimize known challenges.

### Market Overview

The neurostimulation market is comprised of multiple individual markets each focused on the treatment of various indications through delivery of electrical stimulation to a targeted site of the body such as SCS, SNS and DBS. We estimate the combined SCS, SNS, and DBS market size at $2.8 billion in 2015, growing at an estimated 7.5% compound annual growth rate through 2018. We compete in the SCS market with our Algovita product. We intend to compete in the SNS market with our Virtis product, which is based on our neurostimulation technology platform and is currently in the regulatory review and approval process in the United States and Europe. In addition, in early 2016, we entered into a development agreement with Aleva to develop our neurostimulation technology platform into a complete medical device for use in the DBS market for treatment of Parkinson's disease. In connection with our development agreement with Aleva, we expect, upon completion of a complete medical device for use in the DBS market for the treatment of Parkinson's disease, that Aleva will have primary responsibility for the commercialization of the DBS complete medical device using our licensed technology. There are additional and emerging neurostimulation markets that we may compete in with future products.

*Spinal Cord Stimulation*

SCS therapy has been used to treat chronic pain for over 40 years, and is indicated as a treatment option for chronic pain patients who have typically not achieved relief through pharmacological or conventional medical management. SCS therapy operates by delivering electrical signals to the spinal cord through thin wires called leads, which are placed near the spinal cord and are energized by a small battery-powered implantable pulse generator ("IPG") implanted under the skin. Electrodes located at the end of the leads deliver electrical signals to the spinal cord. These electrical signals "override" the pain signals being sent to the brain resulting in relief for the patient.

Approximately 1.5 billion people worldwide and 100 million adults in the United States suffer from some form of chronic pain. Chronic pain can lead to reduced quality of life, increased incidence of depression and sleep deprivation. In the United States, chronic pain results in an estimated incremental cost of health care of approximately $300 billion per year.

According to market research and our internal estimates, in 2015, the size of the worldwide SCS market was estimated at approximately $1.7 billion, with approximately 73% of that market located in the United States. We believe the smaller market opportunity outside the United States is primarily the result of restrictions on procedure reimbursement. The worldwide size of the SCS market is projected to grow to an estimated $2.0 billion by 2018, a 6% compound annual growth rate, supported by additional penetration of the therapy in established markets, a growing base of physician implanters and increasing acceptance of SCS therapy as an effective and viable treatment option in emerging markets.

Based on our estimate of approximately 60,000 SCS systems implanted in the United States in 2015, and our estimate that there are approximately one million potential patients in the United States, we believe SCS therapies have penetrated less than 10% of the United States market. We believe the following factors have limited market adoption of SCS therapies in the United States:

- ***Challenges in sustaining long-term pain therapy*.** SCS therapy historically has experienced challenges maintaining long-term effectiveness due to the limitations of existing systems and the nature of chronic pain. Historically, SCS systems have been prone to early therapy failures as a result of device malfunction, lead and extension breakage and an inability to adjust the system to respond to changes in patient needs, such as the need to deliver additional power to cover new pain locations. For example, in the published literature, SCS systems have been found to have an aggregate 22% failure rate resulting from a 13% failure rate for lead migration, where leads move out of position after being implanted, and a 9% failure rate for lead breakage, where leads break after being implanted. SCS systems are also challenged by the dynamic nature of chronic pain, which can increase in intensity or spread to other areas in the body.

- ***Existing SCS devices are complicated and not user friendly*.** Most existing SCS systems on the market are a continuation of legacy designs. These systems, whether pre-operatively, intra-operatively or during long-term pain management, are generally difficult to use. Market research confirms that physicians and patients both want devices that are easier to use. Patients not only want effective pain relief and ease of use, but also want discreet and comfortable systems.

- ***Lack of market awareness of successful SCS therapies*.** We believe the SCS market is under-penetrated and the patient population is under-served. We believe this results from a lack of awareness by patients and physicians of SCS therapies and their potential benefits, despite four decades of use. We believe referring physicians are generally unaware of recent advances in efficacy of SCS therapies and, in many cases, are unwilling to refer patients to physicians that specialize in chronic pain and the use of SCS therapies.

*Sacral Nerve Stimulation*

SNS is a well-established treatment option for refractory symptoms of overactive bladder, including urinary frequency and/or urgency, with or without urge incontinence, and chronic fecal incontinence. Approved by the FDA in 1997 for initial indications of urinary frequency/urgency and urge incontinence, the American Urologic Association, or the AUA, includes the therapy in its treatment guidelines as a "third line" option along to be considered after failure of first (behavioral) and second (drug) line options. According to the International Continence Society, there are over 400 million people worldwide who suffer from symptoms of urinary and fecal incontinence.

SNS involves sending mild electrical pulses to the sacral nerve, typically sacral spinal nerve S3, through a lead connected to an IPG, similar to the therapy provided by a pacemaker. The impulses modulate the reflexes between the pelvic floor, urethral sphincter, bladder and bowel. SNS helps the brain and nerves to communicate so that the bladder and related muscles can function properly. An advantage of SNS as compared to other potential therapies is that it is tested and evaluated by the patient and physician prior to long-term therapeutic use. This evaluation period gives patients and physicians an opportunity to determine whether adequate symptom relief is achievable, often in as few as three to seven days. Implantation of the SNS device is a minimally invasive procedure performed on an outpatient basis under sedation or general anesthesia, and lead placement is generally considered even easier to perform than lead placement in SCS cases.

According to market research and our internal estimates, the worldwide SNS market in 2015 was estimated at $560 million and is expected to grow to $750 million by 2018, a 9.5% compound annual growth rate. SNS is the second most commonly performed neurostimulation therapy behind SCS with over 175,000 SNS devices implanted for overactive bladder since 1994. Currently, there is only one FDA-approved implantable SNS device available on the market in the United States.

*Deep Brain Stimulation*

DBS uses mild electrical pulses from leads connected to an IPG to stimulate specific targets in the brain. These pulses either inhibit or stimulate nerve signals, thereby offering relief for certain neurological conditions, which include movement and psychiatric disorders. Currently, the FDA has approved certain DBS devices for the treatment of Parkinson's disease and essential tremor. An estimated one million people in the United States and between seven to ten million people worldwide suffer from Parkinson's disease and ten million people in the United States suffer from essential tremor. The FDA has also approved certain DBS devices for treatment of dystonia and obsessive-compulsive disorders under a humanitarian device exemption. DBS is also currently being investigated as a therapy for other neurological disorders, such as epilepsy, treatment-resistant major depression and Alzheimer's disease.

According to market research and our internal estimates, the worldwide DBS market in 2015 was estimated at $590 million and is expected to grow to $790 million by 2018, a 10% compound annual growth rate. DBS is the third most commonly performed neurostimulation therapy behind SCS and SNS, with over 125,000 DBS devices implanted for Parkinson's disease, essential tremor and dystonia since 1995. We expect that the DBS worldwide market will likely continue to experience double-digit growth due to an increasingly aging population and an increase in neurodegenerative disorders.

We believe our multi-current neurostimulation technology platform may provide distinct advantages in providing DBS therapies where specific electrical field control and nerve selectivity can be very important. Our neurostimulation technology platform, in combination with new concepts in DBS lead design, may provide new benefits in DBS therapy delivery. In early 2016, we entered into a development agreement with Aleva to develop our neurostimulation technology platform into a complete medical device for use in the DBS market for treatment of Parkinson's disease. In connection with our development agreement with Aleva, we expect, upon completion of a complete medical device for use in the DBS market for the treatment of Parkinson's disease, that Aleva will have primary responsibility for the commercialization of such DBS complete medical device using our licensed technology in exchange for a royalty payment.

*Additional and Emerging Indications*

There are other established and emerging neurostimulation indications that may be a source of potential opportunity for Nuvectra and our neurostimulation technology platform. We believe we may be able to leverage our neurostimulation technology platform to capitalize on opportunities in indications such as Vagal Nerve Stimulation ("VNS") and Peripheral Nerve Stimulation ("PNS"). VNS is approved for the treatment of epilepsy, depression and eating disorders. Research is ongoing for the use of VNS in the treatment of heart failure and rheumatoid arthritis. PNS is approved outside the United States for treatment of chronic pain. PNS is also an emerging approach to treat chronic headaches and post-amputation "phantom limb" pain. We are not yet commercially engaged in either of these indications.

**Our Neurostimulation Technology Platform**

Our neurostimulation technology platform was developed to provide the most innovative capabilities currently available on the market and to provide physicians and patients with improved solutions and tailored treatment options. Our platform is fundamental to the design of Algovita and provides the foundation for the development of future products. The key elements of our platform include:

- ***Innovative core technology*.** Our neurostimulation technology platform consists of core technology developed using our advanced engineering and design capabilities in IPGs, independent current sources, algorithmic programming, chipsets and leads. We own the patents and patent applications that embody the intellectual property underlying our neurostimulation technology platform.

- ***Durable and flexible leads.*** Our leads feature coil-in-coil technology designed to improve lead durability and flexibility, thereby reducing migration, breakage and kinking. In addition, the coil-in-coil design enhances steerability as compared to the straight wire lead designs used by many existing neurostimulation systems.

- ***Advanced programmability*.** The algorithmic driven technologies in our platform are designed to allow physicians to program Algovita and other products incorporating our platform for rapid and sequential delivery of multiple stimulation programs. These products are capable of capturing feedback from patients, and thereby providing physicians and patients with the flexibility to select from a number of different stimulation programs and optimize treatment.

- ***Multiple independent current sources*.** Our neurostimulation technology platform is capable of delivering multiple independent current sources that optimize current delivery and improve field control allowing for finer resolution and precision of therapy.

- ***Unique safety features.*** Our neurostimulation technology platform was designed with unique safety features. The IPG has a deep discharge recovery battery, bi-directional recharge and impedance checks to improve patient safety. The patient remote control indicates the battery status of the IPG, is paired to a single IPG, has quick "stim-off" functionality that permits immediate cessation of treatment and incorporates a patient feedback tool to encourage greater patient input thus improving safety.

- ***Future offering capabilities.*** Our neurostimulation technology platform incorporates a proprietary chipset and hardware that is capable of being configured for use in next generation treatment offerings for Algovita and in other future neurostimulation systems. It is capable of delivering significantly higher frequencies than most other SCS systems presently available on the market, as well as pulse train stimulation and customized waveforms.

**Our Products - The Algovita System**

Algovita delivers SCS therapy for the treatment of chronic pain. Algovita is based on our neurostimulation technology platform and contains what we believe are innovative capabilities as compared to other products currently available on the market. Algovita was developed to improve on existing SCS designs and utilizes new technologies to improve the patient's and implanting physician's experience, system robustness and overall treatment outcomes. Algovita was designed to permit physicians to implant the leads and the IPG efficiently and patients to operate the device easily. To this end, Algovita has straightforward controls and an interactive display that includes a stimulation diagram for quick visual confirmation of stimulation coverage.

Algovita obtained a CE mark, and is currently available for sale in Germany and several other European countries. On November 30, 2015, Integer announced receipt of premarket approval for Algovita from the FDA. We launched Algovita commercially in the United States during the first half of 2016.

Algovita consists of the following components:


*Implantable Pulse Generator:* The IPG contains a rechargeable battery and electronics that deliver electrical pulses to the leads. The Algovita IPG has 26 output channels available in two different header configurations and can be connected to one, two or three leads. It is a programmable device and can deliver customized programs for each patient. The IPG is rechargeable and is surgically implanted under the skin, usually above the buttocks or in the abdomen.

*Leads:* The leads are thin, insulated wires that conduct electrical pulses to the spinal cord from the IPG. Algovita has both percutaneous and paddle leads that are inserted into the epidural space with a minimally invasive surgical procedure.

*Patient Programmer:* The patient programmer, called the Algovita Pocket Programmer, is a rechargeable, key fob-sized device that works like a remote control and allows patients to adjust their stimulation, change programs and monitor their stimulator battery charge levels.

*Clinician Programmer:* The clinician programmer contains proprietary software that allows customized programming of the IPG. It can non-invasively transmit a signal to the IPG, sending programming information and downloading diagnostic information. The Algovita programmer offers various 3D attributes, including virtual environment, pain mapping, stimulation mapping and stimulation overlap scores, which facilitate ease of use for clinicians.

*Charger:* The charger is a mobile device used to charge the IPG externally and to monitor the IPG battery charge levels. The patient can remain active while charging the IPG. Charging requirements depend on the patient's power requirements.

*Trial Stimulator:* The trial stimulator contains electronics that deliver electrical pulses to the lead. It is a device that is worn externally during the evaluation period, which typically lasts several days.

*Surgical Accessories:* Algovita also contains accessories for implantation. These surgical accessories include components such as epidural needles, stylets, and lead anchors to assist the physician in the surgical procedure.

**Our Competitive Strengths**

We believe a number of competitive advantages distinguish us from our competitors:

- ***Differentiated neurostimulation technology platform.*** Our neurostimulation technology platform incorporates technological advances that we believe provide us with competitive advantages in the marketplace and provide meaningful benefits to both physicians and patients as compared to existing alternatives. The IPG component of our platform is capable of delivering a broad spectrum of outputs and pulse delivery ranges through its 26 independent current sources. The IPG also features a powerful chipset that enables new waveforms, stimulation outputs and embedded features that can be activated in the future. Our diverse lead portfolio provides additional capabilities for tailoring therapy to a wider spectrum of patients, and we believe our leads are easier to implant and steer than our competitors' leads.

- ***Broad range of Algovita capabilities*.** Algovita is based on our differentiated neurostimulation technology platform and features a broad range of technical capabilities, including 26 independent current sources, algorithmic programming, broad pulse delivery ranges and a powerful chip set for targeted SCS therapy delivery. We believe these capabilities provide Algovita with greater flexibility in tailoring therapy to a wider spectrum of SCS patients than the flexibility provided by the current generation of SCS systems that are presently available on the market.

- ***Algovita's robust design helps minimize therapy failures and enables greater control and precision in providing therapy*.** We believe Algovita's robust design, including its leads and advanced programming features, help to minimize early SCS therapy failures and enable greater precision and control in targeting pain sites than the current generation of SCS systems that are presently available on the market. In addition, our advanced leads feature coil-in-coil technology, allowing for elasticity and greater flexibility than the leads of other SCS systems that are presently available on the market, which we believe results in a reduced likelihood of migration, breakage or kinking. Our 12-electrode lead provides the longest span of coverage available on the market and was designed to address loss of pain relief if the stimulation target changes. Additionally, our algorithmic driven clinician programming system allows for rapid localization of pain targets and use of many different stimulation programs. The stimulation field can also be further refined using direct patient inputs gathered through our patient feedback tool.

- ***Algovita's upgradeable technology enables next generation offerings.*** Algovita's proprietary chip set and hardware is capable of being configured for use in next generation treatment offerings. This includes the ability to deliver significantly higher frequencies than most other SCS systems presently available on the market, as well as pulse train stimulation, including burst type stimulation, and customized waveforms. We believe these additional capabilities provide a strong base platform and system for potential new SCS and other treatment options that can be provided via a software or firmware upgrade.

- ***Experienced management and engineering team with a track record of successful performance.*** Our team has a strong track record of successful performance and execution in the neuromodulation field. Collectively, our management team has over 100 years of combined experience in the neuromodulation and chronic pain industry. In addition, we have an experienced engineering team with significant expertise in designing and developing medical devices for the neurostimulation market. We believe physicians and customers value working with a team like ours comprised of highly skilled professionals who have in-depth knowledge of the industry, strong engineering and development capabilities and an understanding of the needs of both patients and physicians.

**Our Strategy**

To achieve our objectives and capitalize on our competitive strengths, we are pursuing the following strategies:

- ***Expand our sales and marketing organization to drive adoption of Algovita*.** We will continue to build and scale our worldwide sales organization consisting of direct sales representatives and independent sales agents in the United States and a network of distributors and independent sales agents outside of the United States. Our direct sales representatives and independent sales agents in the United States target physician specialists involved with SCS treatment decisions located at strategic hospitals and outpatient surgery centers across the United States. Our marketing team offers education programs designed to create awareness and demand among other stakeholders involved in SCS treatment decisions, including third-party payors, hospital administrators and patients and their families. Internationally, specifically in the European Union, we will continue to expand our network of distributors and independent sales agents in target markets that we believe support SCS therapy and have strong reimbursement coverage.

- ***Demonstrate the value of Algovita's capabilities among surgeons, referring physicians and patients*.** Algovita was specifically designed to address the limitations of other currently available SCS technologies, which we believe has slowed adoption of SCS therapies. We are dedicating significant resources to demonstrate the value of Algovita's broad capabilities, focusing on its ability to provide flexible treatment options for chronic pain patients. We are leveraging our growing sales force to promote awareness of Algovita by training and educating physicians, exhibiting at tradeshows and conducting focused advertising.

- ***Invest in clinical and product development to drive product innovation*.** We are investing in clinical and product development to expand the capabilities of our neurostimulation technology platform. We expect this investment will result in further product innovations and expanded labeling and new indications for Algovita. These innovations are expected to include next generation IPG capabilities, additional lead offerings, MRI compatibility and advancements in algorithmic programming. We are also working to expand our product opportunities for our neurostimulation technology platform into other established neurostimulation markets, including SNS and DBS, and intend to invest in other emerging therapies in the future. We submitted a premarket approval application for Virtis to TÜV SÜD America and the FDA in December 2016 and January 2017, respectively.

- ***Pursue strategic partnerships*.** We intend to pursue strategic partnerships to accelerate our expansion into other established neurostimulation markets. These strategic partnerships may partially or fully fund clinical and development costs for new products, expand our product distribution channels, improve our access to physicians and opinion leaders, supplement our product commercialization efforts, provide a partner that will perform or assist in performing clinical studies for new products, help us to add specialized clinical or regulatory expertise or provide access to or enable us to acquire complementary intellectual property. We believe our development agreement with Aleva is an example of this type of strategic partnership.

- ***Leverage infrastructure and achieve operating efficiencies*.** We intend to leverage our existing infrastructure to achieve operating efficiencies as we grow sales volume. In addition, we entered into long-term supply agreements with Integer and Minnetronix, Inc., a Minnesota corporation ("Minnetronix"), to benefit from their world class manufacturing capabilities. We will work with Integer and Minnetronix to continue to decrease our manufacturing costs and increase product quality.

**Sales and Marketing**

*United States*

As of February 23, 2017, we had 48 active territories in the United States. We expect to continue to scale and expand our sales force in the United States using direct sales representatives and independent sales agents. Our sales organization targets physician specialists involved in SCS treatment decisions, including neurosurgeons, interventional pain specialists and orthopedic spine surgeons, who are located at strategic hospitals and outpatient surgery centers across the United States. In addition, we have hired a sales leadership team to oversee our commercial activity including our President, a Vice President of U.S. Sales and a team of Regional Sales Directors. Complementing this group is our Director of National Accounts who facilitates administrative approvals in larger multi-site and regional hospital systems to help accelerate Algovita adoption and experienced SCS Clinical Specialists who support our sales representatives in trial and permanent implant procedures. Furthermore, our marketing team continues to increase awareness and grow demand for Algovita and SCS therapy in general by focusing on branding initiatives, physician and staff training on the use and benefits of Algovita and educating and providing ongoing support to physicians, patients, third-party payors and hospital administrators on the use of Algovita.

*International*

In Europe, we currently have two distributors through which we sell Algovita. As we continue to build our international sales organization, we expect that the sale organization will consist of a network of distributors and independent sales agent. We began our sales in Germany during 2014 and, to date, have expanded our sales efforts into Luxembourg, Switzerland, Austria and the United Kingdom. We expect to expand our Algovita sales efforts into other European countries with health care systems that offer favorable reimbursement rates for SCS therapies, particularly rechargeable SCS systems, and where we believe we can successfully partner with independent sales agents or distributors that meet our qualifications.

We expect sales and marketing of Virtis and other future neurostimulation medical device offerings that leverage our neurostimulation technology platform will be conducted either through a network of distributors and independent sales agents or through partnerships with third parties in specific neurostimulation fields of use. In connection with our development agreement with Aleva, we expect, upon completion of a complete medical device for use in the DBS market for the treatment of Parkinson's disease, that Aleva will have primary responsibility for the commercialization of such DBS complete medical device using our licensed technology.

**Customers**

Algovita was designed to provide pain management solutions to patients who have evolving requirements and needs. We are still developing our customer base for Algovita, which includes a distributor in Europe and hospitals, surgery centers and medical facilities in the U.S. served through a direct sales force and third-party distributors; therefore, the nature and extent of our selling relationships with each customer is different in terms of breadth of products purchased, purchased product volumes, length of contractual commitment, ordering patterns, inventory management, and selling prices. Our NeuroNexus customers include institutions, scientists or universities throughout the world who perform research for the neuroscience and clinical markets. Additionally, our customers include a company in the DBS market serviced through a strategic development agreement.

During fiscal year 2016, sales to Aleva Neurotherapeutics S.A. were $3.1 million (or 25%) of the Company's consolidated revenues. During fiscal year 2015, all Algovita SCS system sales were to one European distributor.

**Competition**

The neuromodulation medical device industry is intensely competitive, subject to rapid change and highly sensitive to the introduction of new products and other market activities of industry participants. We currently compete in the SCS market for chronic pain. In the SCS market, the main competitors are Medtronic, Boston Scientific, St. Jude Medical and Nevro Corp. In addition, SCS therapy also competes against other potential therapies, including spinal surgeries, in particular spinal reoperation. All of the major medical device competitors in the SCS market have obtained United States and European Union regulatory approvals for their SCS systems and are expected to launch new products or release additional clinical evidence supporting their product therapies within the next few years. These major competitors are publicly-traded companies or divisions of publicly-traded companies, all of whom have significantly greater market share and resources than we have. In addition, these competitors also have more established operations, longer commercial histories and more extensive relationships with physicians than we have. Some of these competitors also have wider product offerings within neuromodulation and other medical device product categories. This may provide these competitors with greater negotiating power with customers and suppliers and with more opportunities to interact with the stakeholders involved in purchasing decisions.

We believe the primary competitive factors in the neurostimulation market are:

- Technological innovation, product enhancements and speed of innovation
- Sales force experience and access
- Ease of use
- Product support and service
- Clinical studies
- Effective marketing and education
- Pricing and reimbursement rates
- Product reliability, safety and durability
- Clinical research
- Company brand recognition

**Research and Development**

Our research and development team has significant experience in the design and development of medical devices, particularly in neurostimulation. The team includes specialists in software engineering, mechanical engineering, electrical engineering, graphical user interface design, clinical and regulatory expertise, as well as experts within our NeuroNexus subsidiary. NeuroNexus specializes in neural research, micro-neural interfaces and thin-film technology. NeuroNexus offers high-value neural interface technology and devices across a wide range of functions including neuromonitoring and recording, electrical and optical stimulation, and targeted drug delivery applications. By partnering with entrepreneurs and healthcare providers, we continually evaluate concepts for potential new therapies through early stage feasibility work that we expect will be completed by leveraging our NeuroNexus subsidiary.

The primary objective of our research and development program is to enhance Algovita for use in SCS and may include next generation IPGs, leads and accessories, expanded stimulation delivery methods and MRI compatibility. An additional objective of our research and development program includes enhancements to our neurostimulation technology platform for uses in indications outside of SCS, including Virtis, the second application of our platform and our first product submitted for approval for the SNS market.

In early 2016, we entered into a development agreement with Aleva to develop our neurostimulation technology platform into a complete medical device for use in the DBS market for treatment of Parkinson's disease. In connection with our development agreement with Aleva, we expect, upon completion of a complete medical device for use in the DBS market for the treatment of Parkinson's disease, that Aleva will have primary responsibility for the commercialization of such DBS complete medical device using our licensed technology. In addition to our development agreement with Aleva, as part of our research and development efforts, we also intend to pursue other strategic partnerships with third parties to, among other things, fund clinical and development costs, in part or in full, for new product offerings.

Net investments in research and development totaled $14.5 million and $15.4 million in fiscal year 2016 and 2015, respectively.

**Intellectual Property**

Protection of our intellectual property is important to our business. We rely on a combination of patent, trademark, trade secret, copyright and other intellectual property laws, non-disclosure agreements and other measures to protect our proprietary rights. As of February 23, 2017 we own 265 U.S. and foreign patents and 132 pending U.S. and foreign patent applications. Within our patent portfolio, we own the patents and patent applications that embody the intellectual property underlying our neurostimulation technology platform.

We also own five U.S. trademark registrations, 16 pending U.S. trademark registrations, 17 foreign trademark registrations and 15 pending foreign trademark registrations.

The term of each of our individual patents depends on the legal term for patents in the countries in which they are granted. In most countries, including the United States, the patent term is generally 20 years from the earliest claimed filing date of a non-provisional patent application in the applicable country. The majority of our patents will expire between 2027 and 2034. Further, there has been substantial litigation regarding patent and other intellectual property rights in the medical device industry. In the future, we may need to engage in litigation to enforce patents issued or licensed to us, to protect our trade secrets or know-how, and/or to defend against claims of infringement of the rights of others or to determine the scope and validity of the proprietary rights of others. We also license from various entities, including Integer, and as of February 23, 2017 we license 25 U.S. patents, 13 pending U.S. patents, 11 foreign patents and 33 foreign pending patent applications covering both SCS and the intra-spinal stimulation and SNS and DBS fields of use.

Under our license agreements with Integer entered into at the time of the spin-off, we license certain of our technology to Integer for use outside the field of use of neurostimulation, including outside the fields of SCS, SNS and DBS.

We also rely upon trade secrets, know-how and continuing technological innovation, and may rely upon other licensing opportunities in the future, to develop and maintain our competitive position. We seek to protect our proprietary rights through a variety of methods, including confidentiality agreements and proprietary information agreements with suppliers, employees, consultants and others who may have access to proprietary information, under which they are bound to assign to us inventions made during the term of their employment or service, as applicable.

**Manufacturing and Supply**

*Integer Supply Agreement*

At the time of the spin-off, we entered into a long-term supply agreement with Integer for the manufacture and supply of Algovita and most of its products, parts and components, including the IPG and the leads. For most products, parts and components of Algovita, other than our external peripheral devices, which are supplied by Minnetronix, Integer is our single or sole source supplier. Our supply agreement with Integer for Algovita has a term of five years, and is also terminable upon mutual agreement by the parties, by either party upon material breach by the other and by either party in the event the other party enters bankruptcy. Our supply agreement with Integer for Algovita also outlines the rights of each party with respect to quality assurance, inspection and compliance with applicable law and contains what we believe are customary indemnification provisions for commercial agreements. In addition, we also entered into a product component framework agreement providing Integer with the exclusive right to supply us with products, parts and components necessary for production of future SNS or DBS neurostimulation devices that we may seek to commercialize. Each of these agreements set forth the process by which we order products, components or raw materials, as applicable, from our supplier (which process is either on a purchase order basis or based on quarterly or annual forecasts and in some cases require us to purchase minimum amounts) and the related fees for purchasing these items.

*Minnetronix Supply Agreement*

Effective December 9, 2016, we entered into a manufacturing and supply amendment with Minnetronix for the supply of our current platform of external peripheral devices used with our Algovita spinal cord stimulation system, including the clinician programmer, patient programmer, the patient charging paddle, the external pulse generator kit and the patient feedback tool. Minnetronix is our sole source supplier for these items, but we retain the right to manufacture these products ourselves if we establish our own facility in the future. This agreement is exclusive between Nuvectra and Minnetronix only for Nuvectra's current platform of external peripheral products, allowing any next generation external devices to be manufactured by ourselves or a third party. This agreement will continue for so long as the supply relationship remains exclusive, unless terminated earlier by either party in the event of a material breach of the agreement by the other party (subject to customary cure periods). The exclusivity provision will survive the agreement's termination in the event that Minnetronix terminates the agreement due to Nuvectra's material breach. If Minnetronix discontinues the supply of the peripheral products, it must provide us with 18 months advance notice and provide us with a "last time buy" opportunity.

*Other Suppliers*

We also have other suppliers, including some sole source suppliers, for some of our components, with whom we do not have agreements. ON Semiconductor, headquartered in Phoenix, Arizona, is one such sole source supplier, of the application-specific integrated circuit ("ASIC") used in our IPGs and external pulse generators.

*Manufacturing Requirements*

Manufacturing facilities that produce medical devices or their component parts intended for distribution worldwide are subject to regulation and periodic unannounced inspection by the FDA and other domestic and international regulatory agencies. In the United States, companies are required to manufacture medical device products that are for sale in compliance with the FDA's Quality System Regulation, which covers the methods used in, and the facilities used for, the design, testing, control, manufacturing, labeling, quality assurance, packaging, storage and shipping of Algovita or other medical devices. In international markets, we are required to obtain and maintain various quality assurance and quality management certifications. Integer has obtained Quality Management System ISO13485 certification for manufacturing of SCS systems and accessories. We have obtained the following certifications: Quality Management System ISO13485 and Full Quality Assurance Certification for the design and development of SCS systems and accessories and a Design Examination certificate for IPGs and accessories. We are required to demonstrate continuing compliance with applicable regulatory requirements to maintain these certifications and will continue to be periodically inspected by international regulatory authorities for certification purposes.

**Product Liability and Insurance**

The manufacture and sale of our products subject us to the risk of financial exposure for product liability claims. Our products are used in situations in which there is a risk of serious injury or death. We carry insurance policies, which we believe to be customary for similar companies in our industry. We cannot assure you that these policies will be sufficient to cover all or substantially all losses that we experience.

We endeavor to maintain executive and organization liability insurance in a form and with aggregate coverage limits that we believe are adequate for our business purposes, but our coverage limits may prove not to be adequate in some circumstances.

**Third-Party Coverage and Reimbursement**

For Algovita, the primary purchasers are hospitals and outpatient surgery centers in the United States. These purchasers typically bill various third-party payors, such as Medicare, Medicaid and private health insurance plans for the healthcare services associated with the SCS procedures. Government agencies and private payors then determine whether to provide coverage for specific procedures. We believe that SCS procedures using Algovita are adequately described by existing governmental and insurance reimbursement codes for the implantation of spinal cord stimulators and related leads performed in various sites of care. Medicare reimbursement rates for the same or similar procedures vary due to geographic location, nature of facility in which the procedure is performed, such as hospital outpatient department or outpatient surgery centers, and other factors. Although private payors' coverage policies and reimbursement rates vary, Medicare is increasingly used as a model for how private payors and other governmental payors develop their coverage and reimbursement policies for healthcare items and services, including SCS procedures.

Outside the United States, reimbursement levels vary significantly by country, and by region within some countries. Reimbursement is obtained from a variety of sources, including government-sponsored and private health insurance plans, and combinations of both. In Germany, where Algovita has been commercially available to patients since November 2014, reimbursement for SCS by Germany's established G-DRG system, which is a government-mandated pricing system pursuant to which German hospitals are paid for services provided to patents, is substantial enough that it makes economic sense to operate within Germany. Some countries require us to gather additional clinical data before granting broader coverage and reimbursement for Algovita. We will complete the requisite clinical studies and obtain coverage and reimbursement approval in those other countries where it also makes economic sense to do so. SNS and DBS have established reimbursement pathways similar to those for SCS procedures. We will review and assess the reimbursement environment as part of our process of developing additional neurostimulation indications.

**Regulation of our Business**

Our products, including Algovita, and our operations generally, are subject to extensive and rigorous regulation by the FDA pursuant to its authority under the Federal Food, Drug, and Cosmetic Act, or Food and Drug Act, other federal and state authorities in the United States and comparable foreign regulatory authorities. To ensure that medical products distributed domestically and internationally are safe and effective for their intended use, the FDA and comparable foreign regulatory authorities have imposed regulations that govern, among other things, product design, development and testing, manufacturing, labeling and storage, premarket clearance, clinical investigations, advertising and promotion and product marketing, sales, distribution and recalls.

*FDA Clearance and Approval of Medical Devices*

The FDA regulates medical devices in the United States and the export of medical devices manufactured in the United States to help ensure that these medical devices are safe and effective for their intended uses. Any violation of these laws and regulations could have a material adverse effect on our business, financial condition and results of operations.

Under the Food and Drug Act, medical devices are classified as Class I, Class II or Class III depending on the degree of risk associated the device and the extent of control needed to ensure its safety and effectiveness. Devices deemed by the FDA to pose the greatest risk, such as life-sustaining, life-supporting or implantable devices, or devices deemed not "substantially equivalent" to a legally marked device are classified in Class III. The safety and effectiveness of Class III devices cannot be assured solely by general controls. Submission and FDA approval of a premarket approval application is required before marketing of a Class III device can begin. The premarket approval application process is considerably more demanding than the Class I and Class II 510(k) premarket notification process.

Algovita is a Class III device. On November 30, 2015, Integer announced the receipt of premarket approval for Algovita from the FDA and we launched Algovita commercially in the United States during the first half of 2016.

*Continuing FDA Regulation*

After a device is placed on the market, numerous regulatory requirements continue to apply. These include:

- compliance with the FDA's Quality System Regulations, which requires medical device companies to follow design, testing, control, documentation and other quality assurance procedures during the manufacturing process;
- labeling regulations;
- the FDA's general prohibition against promoting products for unapproved or "off-label" uses;
- approval of product modifications that could significantly affect safety or effectiveness or that would constitute a major change in the intended use of Algovita or any other medical device using our neurostimulation technology platform;
- medical device reporting regulations, which require that medical device companies comply with FDA requirements to report if their device may have caused or contributed to a death or serious injury, or has malfunctioned in a way that would likely cause or contribute to a death or serious injury if the malfunction were to recur;
- post-approval restrictions or conditions, including post-approval study commitments;
- post-market surveillance regulations, which apply when necessary to protect the public health or to provide additional safety and effectiveness data for the device;
- the FDA's recall authority, whereby it can ask, or under certain conditions order, medical device companies to recall from the market a product that is in violation of governing laws and regulations;
- regulations pertaining to voluntary recalls; and
- notices of corrections or removals.

Medical device companies are also required to register and list their devices with the FDA, based on which the FDA will conduct inspections to ensure continued compliance with applicable regulatory requirements.

The FDA has broad post-market and regulatory and enforcement powers. Failure to comply with the applicable U.S. medical device regulatory requirements could result in, among other things, warning letters, fines, injunctions, consent decrees and civil penalties, customer notifications or repair, replacement, refund, recall, administrative detention or seizure of Algovita systems, operating restrictions or partial suspension or total shutdown of production or criminal prosecution.

*Other Healthcare Regulations*

We are also subject to healthcare fraud and abuse regulation in the jurisdictions in which we will conduct business. These laws include, without limitation, applicable anti-kickback, false claims, healthcare reform, patient privacy and security laws, and physician payment transparency regulations.

*Anti-Kickback Statute*

The U.S. federal Anti-Kickback Statute is a criminal statute that prohibits persons from knowingly and willfully soliciting, offering, paying, or receiving "remuneration," directly or indirectly to induce or reward the purchasing, leasing, ordering or arranging for or recommending the purchase, lease or order of any health care items or services for which payment may be made under federal healthcare programs. The Anti-Kickback Statute prohibits many arrangements and practices that are lawful in businesses outside of the healthcare industry. The Anti-Kickback Statute is broadly drafted and establishes penalties for parties on both sides of the prohibited transaction.

*Federal False Claims Act*

The U.S. Federal False Claims Act imposes civil liability on persons or entities who knowingly present or cause to be presented a false or fraudulent claim or knowingly use false statements to obtain payment from or approval by the federal government. Under the False Claims Act, a claim may be submitted directly to the federal government or to a recipient of federal funds, such as a federal contractor, where the funds are to be spent on the federal government's behalf. In addition, private individuals have the ability to bring actions under the civil False Claims Act in the name of the government, known as qui tam actions, alleging false and fraudulent claims presented to or paid by the government or recipient of federal funds (or other violations of the statutes) and to share in any amounts paid by the entity to the government in fines or settlement. Medical device companies can be held liable under these laws if they are deemed to "cause" the submission of false or fraudulent claims by, for example, providing inaccurate billing or coding information to customers or promoting an "off-label" use of a product.

Many states also have statutes or regulations similar to the U.S. federal Anti-Kickback and False Claims Act, which apply to items and services reimbursed under Medicaid and other state programs, or, in several states, apply regardless of the payor.

*Healthcare Reform*

In March 2010, the Affordable Care Act ("ACA") was signed into law, which has substantially changed healthcare financing and delivery by both governmental and private insurers, and significantly impacts the medical device industry. The ACA impacted existing government healthcare programs and resulted in the development of new programs. The ACA's provisions include a deductible 2.3% excise tax on any entity that manufactures or imports medical devices offered for sale in the United States, with certain limited exceptions. On December 18, 2015, this excise tax was suspended starting on January 1, 2016 through December 31, 2017. Absent future legislative action, this excise tax will be automatically reinstated beginning on January 1, 2018.

The full impact of the ACA, as well as the possibility of its repeal or replacement and the impact of other laws and reform measures that may be proposed and adopted in the future, remains uncertain, but may continue the downward pressure on medical device pricing, especially under the Medicare program, and may also increase our regulatory burden and operating costs.

*U.S. Privacy and Security Laws*

We may be subject to data privacy and security laws and regulations of both the U.S. federal government and the individual states in which we operate. The Health Insurance Portability and Accountability Act of 1996, or HIPAA, as amended by the Health Information Technology and Clinical Health Act, or HITECH, and their respective implementing regulations impose obligations on entities covered thereby relating to the privacy, security and transmission of protected health information. These covered entities include health plans, health care clearing houses, and certain health care providers.

In addition, comparable state laws also govern the privacy and security of health information in certain circumstances. Many of these individual state laws differ from state to state in significant ways and may not have the same effect. In addition, certain of these state laws are more stringent than HIPAA and in such circumstances the more stringent state law must be followed.

*Physician Payment Transparency Laws*

In recent years, federal and state regulation of payments made to physicians and other healthcare providers and entities has increased. The ACA imposes new reporting requirements on some manufacturers, including some medical device manufacturers, for payments and other transfers of value provided to physicians or teaching hospitals. In addition, the ACA also requires reporting by physicians and their immediate family members of ownership or other investment interests in some medical device manufacturers.

Failure to submit the required information timely, accurately, or completely may result in civil monetary penalties of up to an aggregate of $150,000 per year and up to an additional aggregate of $1 million per year for "knowing failure to report."

Some states also require medical device companies to comply with the industry's voluntary compliance guidelines and/or the compliance guidelines promulgated by the U.S. federal government, which impose restrictions on device manufacturer marketing practices and/or require the tracking and reporting of gifts, compensation and other remuneration to healthcare providers and entities.

*Regulations in the EU*

Our international sales are subject to regulatory requirements in the countries in which Algovita is sold. The regulatory review process varies from country to country and may in some cases require the submission of clinical data.

In the European Economic Area, or EEA (which is comprised of the 28 Member States of the EU plus Norway, Liechtenstein and Iceland), we must comply with the requirements of the EU Active Implantable Medical Devices Directive, or AIMDD, and appropriately affix the CE mark on Algovita to attest to such compliance. In achieving compliance, Algovita had to comply with the "Essential Requirements" described in Annex I of the AIMDD. In addition, to affix the CE mark on Algovita, we had to undergo a conformity assessment procedure, the requirements of which vary based upon the type of medical device and its classification. Except for low risk medical devices, a conformity assessment procedure also requires a third party assessment by a Notified Body, which is an organization designated by a competent authority of an EEA country to conduct conformity assessments. The Notified Body audits and examines the technical file and the quality system for the manufacture, design and final inspection of the medical device. The Notified Body issues a CE Certificate of Conformity following successful completion of a conformity assessment procedure and confirmation of conformity with the Essential Requirements. Receipt of this CE Certificate entitles the medical device company to affix the CE mark to its medical device after preparing and signing an EC Declaration of Conformity. The assessment of the conformity for Algovita has been certified by our Notified Body, TÜV SÜD America.

Algovita is subject to continued surveillance by its Notified Body, and we are required to report any serious adverse incidents related to Algovita to the appropriate authorities. We must also comply with additional requirements of individual countries in which Algovita is marketed and the requirements of certain EU Directives.

In September 2012, the European Commission published proposals for the revision of the EU regulatory framework for medical devices, which would replace the Medical Devices Directive and the AIMDD with a new regulation (the Medical Devices Regulation). Formal adoption and publication of the Medical Devices Regulation is expected during the first half of 2017 and is expected to become applicable three years thereafter. In its current form it would, among other things, also impose additional reporting requirements on manufacturers of high risk medical devices, impose an obligation on medical device companies to appoint a "qualified person" responsible for regulatory compliance, and provide for stricter clinical evidence requirements.

*EU Data Protection Directive*

We are subject to laws and regulations in non-U.S. countries covering data privacy and the protection of health-related and other personal information. EU member states and other jurisdictions have adopted data protection laws and regulations, which impose significant compliance obligations. For example, the EU Data Protection Directive imposes strict obligations and restrictions on the ability to collect, analyze and transfer personal data, including health data from clinical trials and adverse event reporting. Failing to comply with these laws could lead to government enforcement actions and significant penalties against us.

*Anti-Bribery Laws*

The federal Foreign Corrupt Practices Act of 1997 and other similar anti-bribery laws in other jurisdictions, including the UK Bribery Act of 2010, generally prohibit companies and their intermediaries from providing money or anything of value to officials of foreign governments, foreign political parties, or international organizations with the intent to obtain or retain business or seek a business advantage. Recently, there has been a substantial increase in anti-bribery law enforcement activity by U.S. regulators, with more frequent and aggressive investigations and enforcement proceedings by both the Department of Justice and the Securities and Exchange Commission ("SEC"). Violations of United States or foreign laws or regulations could result in the imposition of substantial fines, interruptions of business, loss of supplier, vendor or other third-party relationships, termination of necessary licenses and permits, and other legal or equitable sanctions. Other internal or government investigations or legal or regulatory proceedings, including lawsuits brought by private litigants, may also follow as a consequence.

*Employees*

As of February 23, 2017, we had 181 employees. We believe the success of our business will depend, in part, on our ability to continue to attract and retain qualified personnel. We are committed to developing our employees and providing them with opportunities to contribute to our growth and success. Our employees are not subject to a collective bargaining agreement, and we believe that we have good relations with our employees.

**Corporate Information**

Our principal executive offices are located at 5830 Granite Parkway, Suite 1100, Plano, Texas 75024 and our telephone number is (844) 727-7897. Our website address is www.nuvectramed.com. Information contained on, or connected to, our website is not part of this Annual Report on Form 10-K. We are traded on the Nasdaq Global Market under the symbol "NVTR."

**Emerging Growth Company Status**

We are an "emerging growth company," as defined in the Jumpstart Our Business Startups Act, or the JOBS Act, and are eligible to take advantage of certain exemptions from various reporting requirements applicable to public companies that are not emerging growth companies. These include, but are not limited to, (i) reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, (ii) an exception from compliance with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, and (iii) exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and the requirement to obtain stockholder approval of any golden parachute payments not previously approved.

In addition, Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933, as amended, or the Securities Act, for complying with new or revised accounting standards. In other words, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. However, we are choosing to "opt out" of this provision and, as a result, we will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. Section 107 of the JOBS Act provides that our decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable.

We would cease to be an emerging growth company upon the earliest of (1) the last day of the fiscal year following the fifth anniversary of the date of the first sale of our common stock pursuant to an effective registration statement filed under the Securities Act; (2) the last day of the first fiscal year in which our total annual gross revenue exceeds $1.0 billion; (3) the date on which we become a "large accelerated filer," as defined in Rule 12b-2 under the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), which would occur if the market value of our common stock held by non-affiliates exceeds $700 million as of the last day of our most recently completed second fiscal quarter; and (4) the date on which we have issued more than $1.0 billion in non-convertible debt during the prior three-year period.

**Available Information**

We make available on or through our website certain reports and amendments to those reports that we file with, or furnish to, the SEC in accordance with the Exchange Act. These include our Annual Reports on Form 10-K, our Quarterly Reports on Form 10-Q and our Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act. We make this information available on or through our website free of charge as soon as reasonably practicable after we electronically file the information with, or furnish it to, the SEC. This information is also available by writing to us at the address on the cover of this Annual Report on Form 10-K to the attention of General Counsel. Copies of this information may be obtained at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains a website that contains reports, proxy and information statements, and other information regarding our filings, at www.sec.gov. The information on, or that can be accessed through, our website is not incorporated by reference into this Annual Report on Form 10-K or any other filings we make with the SEC.

## Item 1A. Risk Factors

*You should carefully consider the following risks, as well as the other information included in this Annual Report on Form 10-K, in evaluating us and our common stock. The occurrence of any of the risks described below could have a material adverse effect on our business, financial condition, results of operations, ability to raise capital and growth prospects. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business, financial condition, results of operations, our ability to raise capital and growth prospects.*

### Risks Related to our Business

***We are substantially dependent on the market acceptance in the United States for Algovita and the failure of Algovita to gain market acceptance would negatively impact our business.***

On November 30, 2015, Integer announced receipt of premarket approval for Algovita, and we launched Algovita commercially in the United States during the first half of 2016. If we are unable to achieve significant market acceptance in the United States, our results of operations will be adversely affected as the United States is expected to be the principal market for Algovita. We currently have Virtis and other complete medical devices incorporating our neurostimulation technology platform in development; however, if we are unsuccessful in commercializing Algovita, unable to market Algovita as a result of a quality problem, fail to maintain regulatory approval for Algovita, or experience unexpected or serious complications or other unforeseen negative effects related to Algovita, we would lose our expected main source of revenue, and our business will be adversely affected.

***If we fail to develop and retain an effective direct sales force in the United States, our business could suffer.***

To commercialize Algovita in the United States, we must build a substantial direct sales force. As we expand our commercial launch of Algovita in the United States and concurrently increase our marketing efforts, we will need to retain, grow and develop our direct sales representatives. There is significant competition for sales representatives experienced in medical device sales. Once hired, the training process is lengthy because it requires significant education for new sales representatives to achieve the level of clinical competency with Algovita expected by physicians. Upon completion of the training, sales representatives typically require lead-time in the field to grow their network of accounts and achieve the productivity levels we expect them to reach. If we are unable to attract, motivate, develop and retain a sufficient number of qualified sales representatives, and if our sales representatives do not achieve the productivity levels we expect them to reach, our revenue will not grow at the rate we expect and our financial performance will suffer. Also, to the extent we hire personnel from our competitors, we may have to wait until applicable non-competition provisions have expired before deploying that personnel in restricted territories or incur costs to relocate personnel outside of those territories, and we may be subject to future allegations that these new hires have been improperly solicited, or that they have divulged to us proprietary or other confidential information of their former employers. Any of these risks may adversely affect our business.

***We must demonstrate to physicians the merits of Algovita compared to products marketed by our competitors.***

Physicians play a significant role in determining the course of a patient's treatment and, as a result, the type of product that will be used to treat a patient. As a result, our success depends, in large part, on effectively marketing Algovita and SCS therapy to physicians. To successfully commercialize Algovita, we must successfully demonstrate to physicians the merits of Algovita as compared to our competitors' SCS systems. Acceptance of Algovita depends, in part, on educating physicians as to the distinctive characteristics, perceived benefits, safety, ease of use and cost-effectiveness of Algovita compared to our competitors' SCS systems, and communicating to physicians the proper application of Algovita. If we are not successful in convincing physicians of the merits of Algovita or educating them on the use of Algovita, they may not use our products and we may be unable to increase our sales, sustain our growth or achieve profitability.

Additionally, an important part of our sales process also includes the education of physicians on the safe and effective use of Algovita. It is critical to the success of our commercialization efforts to educate physicians on the proper use of Algovita, and to provide them with adequate product support during clinical procedures. If physicians misuse or ineffectively use our products, it could result in unsatisfactory patient outcomes, patient injuries, negative publicity or lawsuits against us, any of which could have an adverse effect on our business. Finally, in the United States, for physicians to use Algovita, we expect that the hospital facilities where these physicians treat patients typically will require us to enter into purchasing contracts with them. If we do not receive access to hospital facilities via these contracting processes or otherwise, or if we are unable to secure contracts or tender successful bids, our sales and operating results may be adversely affected.

***Our competitors are large, well-established companies with substantially greater resources than us and many have a long history of competing in the SCS market.***

Our current and potential competitors are publicly-traded, or are divisions of publicly-traded, major medical device companies that have substantially greater financial, technical, sales and marketing resources than we do. For example, our major competitors, Medtronic, Inc., Boston Scientific Corporation, St. Jude Medical, Inc. and Nevro Corp., each has an approved neuromodulation system in at least the United States, Europe, and Australia. Medtronic, Boston Scientific and St. Jude Medical have each been established for several years while Nevro is a new entrant to the SCS market and is marketing its High Frequency 10 (HF10) SCS therapy for treatment of several chronic pain conditions. We expect that as we continue to sell Algovita commercially in the United States, our competitors will take aggressive action to protect their current market share and position. We expect to face significant competition in establishing our market share in the United States and may encounter currently unforeseen obstacles and competitive challenges.

In addition, we face a particular challenge in overcoming entrenched practices by some physicians who exclusively use the neurostimulation products produced by our larger, more established competitors. Physicians who have completed many successful procedures using neurostimulation products made by these competitors may be reluctant or unwilling to try a new product from a new entrant in the marketplace with which they are less familiar. If these physicians are unwilling to try or adopt Algovita, our business will be adversely affected.

Further, a number of our competitors are currently conducting, or we anticipate will be conducting, clinical trials to demonstrate the efficacy of their SCS systems, which may lead to regulatory approvals for use of their systems for additional indications or support for their marketing claims that their products are superior to Algovita. Competition may increase further as existing competitors enhance their product offerings to compete directly with Algovita or other companies enter the SCS market. If our competitors develop more effective or affordable products, achieve earlier patent protection or product commercialization, or produce clinical results that show greater efficacy than Algovita, our operations will likely be negatively affected. If we are forced to reduce our prices for Algovita due to increased competition, our revenues and operating results could be negatively affected.

***We we may never achieve full market acceptance in Europe.***

Algovita received CE mark approval in June 2014, enabling us to commercialize it in Europe. We currently sell Algovita in Germany, Switzerland, Austria and Luxembourg. We have limited experience engaging in commercial activities and limited established relationships with physicians and hospitals in those countries. We may be unable to gain broader market acceptance in these countries, which will adversely affect our sales and operating results.

***We are dependent upon Integer and Minnetronix as sole-source manufacturers and suppliers, making us vulnerable to supply shortages, manufacturing problems and price fluctuations, which could harm our business.***

In connection with the spin-off, we entered into an exclusive supply agreement with Integer under which we purchase fully assembled Algovita systems and most products, parts and components necessary for the production of Algovita. We also entered into a product component framework agreement that provides Integer with the exclusive right to supply us with products, parts and components necessary for production of future SNS or DBS neurostimulation devices that we may seek to commercialize. Subject to conditions specified in these agreements, Integer will be our exclusive and sole source manufacturer and supplier for most products, parts and components of Algovita, while Minnetronix is the sole-source supplier of our external peripheral devices.

Effective December 9, 2016, we entered into a manufacturing and supply amendment with Minnetronix for the supply of our current platform of external peripheral devices used with our Algovita spinal cord stimulation system, including the clinician programmer, patient programmer, the patient charging paddle, the external pulse generator kit and the patient feedback tool. Minnetronix is our sole-source supplier for these items (although we retain the right to manufacture the products ourselves).

As a result of these agreements, we are vulnerable to supply shortages, failure to maintain adequate safety stock and manufacturing problems encountered by Integer or Minnetronix, including, for example, failure to follow specific protocols and procedures, failure to comply with applicable legal and regulatory requirements, equipment malfunction and environmental factors, failure to properly conduct its own business affairs, and infringement of third-party intellectual property rights, any of which could delay or impede its ability to meet our requirements. Integer or Minnetronix may also be unwilling to supply components for Algovita or our other products. In addition, we may not be able to take advantage of price fluctuations or competitive pricing that may become available from alternative supply sources. Our reliance on each of Integer and Minnetronix as our sole source suppliers also subjects us to other risks that could harm our business, including:

- we are not the only customer of either supplier, and they may therefore give other customers' needs higher priority than ours;
- in the event our supply agreement with either Integer or Minnetronix is terminated, we may have difficulty locating and qualifying alternative suppliers on a timely basis or at all;
- in the event our supply agreement with either Integer or Minnetronix is terminated, switching suppliers may require product redesign and possibly submission to FDA, or other foreign regulatory bodies, which could significantly impede or delay our commercial activities; and
- Integer or Minnetronix could encounter financial or other business hardships unrelated to our demand, which could inhibit their ability to fulfill our orders and meet our requirements.

***Our ability to achieve profitability will depend, in part, on our ability to reduce the per unit cost of Algovita and improve our gross margins.***

Currently, the gross profit generated from the sale of Algovita is not sufficient to cover our operating expenses. To achieve profitability, we need to, among other things, reduce the per unit cost for Algovita and improve our gross margins. This cannot be achieved without increasing the volume of systems and components that we purchase from Integer and Minnetronix. Any increase in manufacturing volumes is dependent upon a corresponding increase in sales. The occurrence of any factor that negatively impacts the sales of Algovita or reduces manufacturing efficiency may prevent us from achieving our desired reduction in per unit costs and increase in gross margins, which would negatively affect our operating results and may prevent us from attaining profitability.

***Our international operations subject us to certain operating risks, which could adversely impact our results of operations and financial condition.***

In 2014, following our receipt of CE mark for Algovita in June 2014, we began selling Algovita in Europe through a limited number of distributors. We began our sales in Germany and, to date, have expanded our sales efforts into Luxembourg, Switzerland and Austria. Given that we do not have, or currently plan to use, any direct sales representatives in Europe, we are heavily dependent on the efforts of a limited number of distributors in Europe. The sale and shipment of Algovita and our other products across international borders exposes us and our distributors to risks inherent in operating in foreign jurisdictions. These risks include:

- difficulties in enforcing our intellectual property rights and in defending against third-party threats and intellectual property enforcement actions against us, our distributors, or our suppliers;
- reduced or varied protection for intellectual property rights in some countries;
- pricing pressure that we may experience internationally;
- shortages in high-quality sales representatives and distributors;
- third-party reimbursement policies that may require some of the patients who receive our products to directly absorb medical costs or that may necessitate the reduction of the selling prices of our products;
- competitive disadvantage to competition with established business and customer relationships;
- foreign currency exchange rate fluctuations;
- imposition of additional U.S. and foreign governmental controls or regulations;
- economic instability;
- changes in duties and tariffs, license obligations and other non- tariff barriers to trade;
- imposition of restrictions on the activities of foreign agents, representatives and distributors;
- scrutiny of foreign tax authorities which could result in significant fines, penalties and additional taxes being imposed on us;
- laws and business practices favoring local companies;
- longer payment cycles;
- difficulties in maintaining consistency with our internal guidelines;
- difficulties in enforcing agreements and collecting receivables through certain foreign legal systems;
- imposition of costly and lengthy new export licensing requirements; and
- imposition of new trade restrictions.

In addition, our international operations subject us to laws regarding sanctioned countries, entities and persons, customs, import-export, laws regarding transactions in foreign countries, the U.S. Foreign Corrupt Practices Act of 1977 and local anti-bribery and other laws regarding interactions with healthcare professionals. Among other things, these laws restrict, and in some cases prohibit, United States companies from directly or indirectly selling goods, technology or services to people or entities in certain countries. In addition, these laws require that we exercise care in structuring our sales and marketing practices in foreign countries. Our failure to comply with these regulations and laws could subject us to penalties, fines, denial of export privileges, seizures of shipments, product recalls, restrictions on business activities or other criminal, civil or administrative actions.

If we experience any of these risks, our sales in non-U.S. jurisdictions may be harmed and our results of operations would suffer.

***Issues with product quality could have a material adverse effect upon our business, subject us to regulatory actions, including product recalls and product liability litigation, and cause a loss of customer confidence in us or our products.***

Our success depends upon the quality of our products. Quality management plays an essential role in meeting customer requirements, preventing defects and assuring the safety and efficacy of our products. Quality and safety issues may occur with respect to Algovita or any of our other products at any stage. A quality or safety issue, including a product recall, may result in adverse inspection reports, warning letters, product recalls or seizures, monetary sanctions, injunctions to halt manufacture and distribution of products, civil or criminal sanctions, costly product liability and other litigation, refusal of a government to grant approvals and licenses, restrictions on operations or withdrawal of existing approvals and licenses. An inability to address a quality or safety issue, including a product recall, in an effective and timely manner may also cause negative publicity, a diversion of management attention, a loss of customer confidence in us or our current or future products, which may result in the loss of sales and difficulty in successfully launching new products.

***We may not be able to establish or strengthen our brand.***

We believe that establishing and strengthening our brand is critical to achieving widespread acceptance for Algovita and our other products, particularly because of the highly competitive nature of the markets in which we operate. Promoting and positioning our brand depends largely on the success of our marketing efforts and the perception by physicians and our other customers of the quality and efficacy of Algovita and our other products.

Given the established nature of our competitors, it is likely that our future marketing efforts will require us to incur significant expenses. These brand promotion activities may not yield increased sales and, even if they do yield increased sales, any sales increases may not offset the expenses we incurred to promote our brand. If we fail to successfully promote and maintain our brand, or if we incur substantial expenses in an unsuccessful attempt to promote and maintain our brand, Algovita and our other products may not be accepted by physicians and our others customers, which would adversely affect our business, results of operations and financial condition.

***Our business could suffer if we lose the services of key members of our senior management or fail to hire necessary personnel and sales representatives.***

We are dependent upon the continued services of key members of our senior management. The loss of these individuals could disrupt our operations or our strategic plans. In addition, our future success will depend on, among other things, our ability to continue to hire or contract with, and retain, the necessary qualified scientific, technical and managerial personnel and sales representatives, for whom we compete with numerous other companies, academic institutions and organizations. The loss of members of our management team or our inability to attract or retain other qualified personnel could have a material adverse effect on our business, results of operations and financial condition.

***If third-party payors do not provide adequate coverage and reimbursement for the use of Algovita and other neurostimulation devices we market for sale, we may be required to decrease our selling prices, which could have a negative effect on our financial performance.***

Our success in marketing Algovita and any other neurostimulation devices we develop depends and will depend in large part on whether United States and international government health administrative authorities, including Medicare and Medicaid in the United States, private health insurers and other organizations adequately cover and reimburse customers for the cost of Algovita and those other devices. Third-party payors continually review their coverage and reimbursement policies and could, without notice, eliminate or reduce coverage or reimbursement for SCS, SNS or DBS therapy and/or Algovita and any other devices we develop.

Further, the trends toward managed care, healthcare cost containment and other changes in government and private sector initiatives are placing increased emphasis on the delivery of more cost-effective medical therapies. As the healthcare industry consolidates, competition to provide products and services to industry participants will continue to intensify, which will result in greater pricing pressures and the exclusion of certain suppliers from important market segments as group purchasing organizations, integrated delivery networks and large single accounts continue to use their market power to consolidate purchasing decisions. Access to adequate coverage and reimbursement for SCS, SNS or DBS therapy and, in particular, for Algovita by third-party payors is essential to the acceptance of Algovita.

In addition, reimbursement systems in international markets vary significantly by country and, in some cases, by region within some countries, and reimbursement approvals are often required to be obtained on a country-by-country basis. In many international markets, a product must be approved for reimbursement before it can be approved for sale in that country. Further, many international markets have government-managed healthcare systems that control reimbursement for new devices and procedures. If sufficient coverage and reimbursement is not available for Algovita and other SCS devices in our international markets, the demand for our products and our revenues will be adversely affected.

***If we fail to properly manage our anticipated growth, our business could suffer.***

We have a relatively short operating history. We intend to continue to grow and may experience periods of rapid growth and expansion, which could place a significant additional strain on our limited personnel, information technology systems and other resources. In particular, the hiring and retention of our direct sales representatives in the United States requires significant management, financial and other supporting resources. In order to manage our operations and growth, we will need to continue to improve our operational and management controls, reporting systems and control procedures, which we may be unable to do in a cost efficient manner or at all. If we are unable to manage our growth effectively, it may be difficult for us to execute our business strategy and our operating results and business could suffer.

***If we are unable to successfully introduce new products or fail to keep pace with advances in technology, our business, financial condition and results of operations could be adversely affected.***

Although we continue to develop or seek to develop additional products using our neurostimulation technology platform for commercial introduction, we may be substantially dependent on sales from Algovita for many years. Over the longer term, we will need to successfully introduce new products or advancements to Algovita in order to achieve our strategic business objectives. Product development requires substantial investment and there is inherent risk in the research and development process. A successful product development process depends on many factors, including our ability to properly anticipate and satisfy customer needs, adapt to new technologies, obtain regulatory approvals on a timely basis, demonstrate satisfactory clinical results, manufacture products in an economical and timely manner and differentiate our products from those of its competitors. If we cannot successfully introduce new products or adapt to changing technologies, our products may become obsolete and our revenue and profitability could suffer.

***U.S. or European regulatory authorities may not approve the regulatory submission of Virtis, our SNS System.***

We submitted Virtis to the FDA and to the CE Mark authorities in Europe for the treatment of chronic urinary retention and the symptoms of overactive bladder in January 2017 and December 2016, respectively. The approval of these submissions may be delayed or rejected or the authorities may require us to submit additional information for approval. In the event the submissions are not approved in either the U.S. or Europe, our market release of Virtis would be substantially delayed or may never occur, which could adversely impact our future revenues and our ability to effectively compete. If we are required to provide additional information to either authority, we may be required to increase spending for related research and development or clinical projects, which could adversely impact our profitability and require additional resources or personnel.

***If clinical studies for future indications do not produce results necessary to support regulatory clearance or approval in the United States or elsewhere, we will be unable to commercialize our products for these indications.***

We will likely need to conduct additional clinical studies and post marketing studies in the future to support approval for new indications and product claims. Clinical testing takes many years, is expensive and carries uncertain outcomes. The initiation and completion of any of these studies may be prevented, delayed, or halted for numerous reasons, including, but not limited to, the following:

- the FDA, institutional review boards or other regulatory authorities do not approve a clinical study protocol, force us to modify a previously approved protocol, or place a clinical study on hold;
- patients do not enroll in, or enroll at a lower rate than we expect, or do not complete a clinical study;
- patients or investigators do not comply with study protocols;
- patients do not return for post-treatment follow-up at the expected rate;
- patients experience serious or unexpected adverse side effects for a variety of reasons that may or may not be related to our products such as the advanced stage of two chronic diseases or conditions that may exist at the time of treatment, causing a clinical study to be put on hold;
- sites participating in an ongoing clinical study withdraw, requiring us to engage new sites;
- difficulties or delays associated with establishing additional clinical sites;
- third-party clinical investigators decline to participate in our clinical studies, do not perform the clinical studies on the anticipated schedule, or perform in a manner inconsistent with the investigator agreement, clinical study protocol, good clinical practices or other regulations governing clinical trials;
- third-party organizations do not perform data collection and analysis in a timely or accurate manner;
- regulatory inspections of our clinical studies or manufacturing facilities require us to undertake corrective action or suspend or terminate our clinical studies;
- changes in federal, state, or foreign governmental statutes, regulations or policies;
- interim results are inconclusive or unfavorable as to immediate and long-term safety or efficacy;
- the study design is inadequate to demonstrate safety and efficacy; or
- the statistical endpoints are not met.

Clinical failure can occur at any stage of the testing. Our clinical studies or post marketing studies may produce negative or inconclusive results, and we may decide, or regulators may require us, to conduct additional clinical or non-clinical studies in addition to those we have planned. Our failure to adequately demonstrate the safety and effectiveness of any of our devices would prevent receipt of regulatory clearance or approval and, ultimately, the commercialization of that device or indication for use.

We could also encounter delays if the FDA concludes that our financial relationships with investigators results in a perceived or actual conflict of interest that may have affected the interpretation of a study, the integrity of the data generated at the applicable clinical trial site or the utility of the clinical trial itself. Principal investigators for our clinical trials may serve as scientific advisors or consultants to us from time to time and receive cash compensation and/or stock options in connection with such services. If these relationships and any related compensation to or ownership interest by the clinical investigator carrying out the study result in perceived or actual conflicts of interest, or if the FDA concludes that the financial relationship may have affected interpretation of the study, the integrity of the data generated at the applicable clinical trial site may be questioned and the utility of the clinical trial itself may be jeopardized, which could result in the delay or rejection of our premarket approval application by the FDA. Any such delay or rejection could prevent us from commercializing any of our products currently in development.

***Our future success is highly dependent upon our use of our intellectual property rights, including trade secrets, which rights could be adversely impacted by many factors, each of which could have a material adverse effect on our business, financial condition, results of operations and growth prospects.***

As a neuromodulation medical device company focused on the development and commercialization of our neuromodulation technology platform, we expect to be highly dependent upon our use of our intellectual property rights. These intellectual property rights could be adversely impacted by many factors, including:

- We may in the future become involved in lawsuits to defend ourselves against intellectual property disputes, which could be expensive and time consuming, and ultimately unsuccessful, and could result in the diversion of significant resources, and hinder our ability to commercialize our existing or future products;

- Our patents and other intellectual property rights infringing or violating the proprietary rights of others, particularly given that our competitors have made substantial investments in patent portfolios and competing technologies and may have applied for or may in the future apply for and obtain, patents that may interfere with our ability to sell our products. For example, should a third party bring a claim against us, our customers, our suppliers or our distributors, whether merited or not, it could be costly to defend, require us to pay damages on behalf of our customers, suppliers, or distributors, interfere with our ability to make, use, sell, and/or export our products or require us to obtain a license (which we may not be able to obtain on commercially reasonable terms or at all);

- Our intellectual property rights may not provide sufficient commercial protection for Algovita and any future complete medical device that incorporates our neurostimulation technology platform, and potentially enable third parties to use our technology or very similar technology and reduce our ability to compete in the market;

- Third parties may seek to challenge our patents, and, as a result, these patents could be narrowed, invalidated or rendered unenforceable;

- Our current and future patent applications may not result in the issuance of patents in the United States or foreign countries;

- Patent reform legislation, including the Leahy-Smith America Invents Act, or any future patent reform legislation may affect the way patent applications are prosecuted, redefine prior art, affect patent litigation or switch the United States patent system from a "first-to-invent" system to a "first-to-file" system, any or all of which could increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of our issued patents;

- If we may fail to maintain the patents and patent applications covering Algovita and our neurostimulation technology platform, whether through unintentional lapse or otherwise, a competitor could design, manufacture and market products that are the same or similar to our own;

- We may become involved in interference or derivation proceedings or re-examination or opposition proceedings provoked by third parties or brought by the United States Patent and Trademark Office or any foreign patent authority to determine the priority of inventions or other matters of inventorship with respect to our patents or patent applications, which if the outcome were unfavorable could require us to cease using the related technology or to attempt to license rights to it from the prevailing party;

- We rely on trade secrets, including unpatented know-how, technology and other proprietary information, to maintain our competitive position, which we endeavor to protect through non-disclosure and confidentiality agreements with parties who have access to these items; provided, however, despite our best efforts and contractual limitations, our trade secrets and other unpatented or unregistered proprietary information may get disclosed and thereafter are likely to lose trade secret protection; and

- We may be subject to damages resulting from claims that we or our employees have wrongfully used or disclosed alleged trade secrets of our competitors or are in breach of non-competition or non-solicitation agreements with our competitors.

If any of the foregoing occurs, we may have to withdraw existing products from the market or may be unable to commercialize one or more of our products, all of which could have a material adverse effect on our business, results of operations and financial condition.

***We are subject to certain risks related to our license agreements with Integer, including the potential for Integer to develop competing or similar products.***

We have licensed to Integer the right to use (i) specified intellectual property underlying our neurostimulation technology platform for applications within the neurostimulation fields of use in the unrestricted license agreement and (ii) other specified intellectual property underlying our neurostimulation technology platform for applications outside of the neurostimulation fields of use in the restricted license agreement. In addition, NeuroNexus has licensed to Integer the right to use its intellectual property outside of the neurostimulation fields of use. Integer, through the use of this licensed intellectual property or through the use of other intellectual property that it separately owns or has developed, may seek to develop products, components or improvements to items that compete against or are similar to our own products and components. In addition, if Integer tries to develop a product that incorporates licensed intellectual property for applications within a prohibited field of use, we may seek to enforce the terms of the license agreements to prohibit these developments, which could subject us to costly litigation, distract management and negatively affect our supply agreements with Integer. In addition, pursuant to the terms of these license agreements, we will be required to indemnify Integer against third party infringement claims, which could result in our incurrence of significant expenses to defend any such matters or require us to make significant indemnification payments to Integer.

***Our use of "open source" software in our products could subject us to possible litigation.***

We use, and expect to continue to use, some open source software in our products. We may face claims from others claiming ownership of, or seeking to enforce the terms of, an open source license, including by demanding release of the open source software, derivative works or our proprietary source code that was developed using such software. These claims could also result in litigation, require us to purchase a costly license or require us to devote additional research and development resources to change our software, any of which would have an adverse effect on our business and operating results. Further, if the license terms for the open source code change, we may be forced to re-engineer our products, resulting in additional costs.

***We may not be able to adequately protect our intellectual property rights throughout the world.***

Filing, prosecuting and defending patents in all countries throughout the world would be prohibitively expensive. The requirements for patentability may differ in certain countries, particularly developing countries, and the breadth of patent claims allowed can be inconsistent. In addition, the laws of some foreign countries may not protect our intellectual property rights to the same extent as laws in the United States. Consequently, we may not be able to prevent third parties from practicing our inventions in all countries outside the United States. Competitors may use our technologies in jurisdictions where we have not obtained patent protection to develop their own products and, further, may export otherwise infringing products to territories in which we have patent protection that may not be sufficient to terminate infringing activities.

We do not have patent rights in certain foreign countries in which a market may exist. Moreover, in foreign jurisdictions where we do have patent rights, proceedings to enforce such rights could result in substantial costs and divert our efforts and attention from other aspects of our business, could put our patents at risk of being invalidated or interpreted narrowly, and our patent applications at risk of not issuing. Additionally, such proceedings could provoke third parties to assert claims against us. We may not prevail in any lawsuits that we initiate and the damages or other remedies awarded, if any, may not be commercially meaningful. Thus, we may not be able to stop a competitor from marketing and selling in foreign countries products that are the same as or similar to our products, and our competitive position in the international market would be harmed.

***If our trademarks and trade names are not adequately protected, then we may not be able to build brand recognition in our markets of interest and our business may be adversely affected.***

Our registered or unregistered trademarks or trade names may be challenged, infringed, circumvented, declared generic or determined to be infringing on other marks. We may not be able to protect our rights in these trademarks and trade names, which we need in order to build brand recognition in our markets of interest. In addition, third parties have registered trademarks similar to our trademarks in foreign jurisdictions, and may in the future file for registration of such trademarks. If they succeed in registering or developing common law rights in such trademarks, and if we were not successful in challenging such third-party rights, we may not be able to use these trademarks to market our products in those countries. In any case, if we are unable to establish brand recognition based on our trademarks and trade names, then we may not be able to compete effectively and our business may be adversely affected.

***We have a history of significant net operating losses. If we do not achieve and sustain profitability, our financial condition could suffer.***

We have experienced significant net operating losses, and we expect to continue to incur net operating losses for the foreseeable future. We expect to continue to incur net operating losses as we continue to build our direct sales force in the United States, expand commercial sales of Algovita in the United States in 2017, pursue regulatory approvals for Virtis, and assuming approval, begin to build a salesforce for Virtis.

We intend to continue to increase our operating expenses substantially as we add sales representatives and independent sales agents in the United States and a network of distributors and independent sales agents outside of the United States to increase our geographic sales coverage and penetration, invest in research and development programs to accelerate new product launches, expand our marketing and training programs, conduct clinical studies, and increase our general and administrative functions as a result of operating as an independent publicly-traded company. We may not ever generate sufficient sales from our operations to achieve profitability, and even if we do achieve profitability, we may not be able to remain profitable for any substantial period of time. If our revenue grows more slowly than we anticipate, or if our operating expenses are higher than we expect, we may not be able to achieve profitability and our financial condition will suffer.

***We may record future goodwill impairment charges or other asset impairment charges related to one or more of our reporting units, which could materially adversely impact our results of operations.***

We test our goodwill balances for impairment on the last day of each fiscal year, or more frequently if indicators are present or changes in circumstances suggest that impairment may exist. We assess goodwill for impairment at the reporting unit level and, in evaluating the potential for impairment of goodwill, we make assumptions regarding estimated revenue projections, growth rates, cash flows and discount rates. On December 30, 2016, we performed our annual goodwill impairment test for all of our reporting units. In conjunction with our annual test, the fair value of each reporting unit exceeded its carrying value. Therefore, it was deemed not necessary to proceed to the second step of the impairment test. Refer to *Our Critical Accounting Estimates* within our Management's Discussion and Analysis of Financial Condition and Results of Operations contained in Item 7 of this Annual Report on Form 10-K for a discussion of key assumptions used in our testing.

On a quarterly basis, we monitor the key drivers of fair value to detect events or other changes that would warrant an interim impairment test of our goodwill and intangible assets. Relatively small declines in the future performance and cash flows of a reporting unit or asset group, changes in our reporting units or in the structure of our business as a result of future reorganizations, acquisitions or divestitures of assets or businesses, or small changes in other key assumptions, may result in the recognition of significant asset impairment charges, which could have a material adverse impact on our results of operations.

***We will be required to obtain additional funds in the future, and these funds may not be available on acceptable terms or at all.***

Our operations have consumed substantial amounts of cash since inception, and we anticipate our expenses will increase as we continue to build a direct sales force in the United States, develop the use of our neurostimulation technology platform for the treatment of other conditions, continue to grow our business, and complete our transition to operating as an independent publicly-traded company. Our existing resources, inclusive of the cash capital contribution of $75.0 million made by Integer immediately prior to the completion of the spin-off and borrowings under our credit facility, as amended (the availability of which is subject to compliance with specified conditions and covenants) may not allow us to conduct all of the activities that we believe would be beneficial for our future growth. As a result, we may need to seek additional funds in the future. If we are unable to raise additional funds on favorable terms, or at all, we may not be able to support our commercialization efforts for Algovita or increase our research and development activities, and the growth of our business may be negatively impacted.

Our cash requirements in the future may be significantly different from our current estimates and depend on many factors, including:

- the outcome, timing of, and costs involved in, seeking and obtaining supplementary or additional approvals from the FDA and other regulatory authorities;
- the scope and timing of our investment in our United States commercial infrastructure and direct sales force;
- the research and development activities we intend to undertake in order to expand the indications and product enhancements that we intend to pursue;
- the costs of commercialization activities including product sales, marketing, manufacturing and distribution;
- the degree and rate of market acceptance of Algovita;
- changes or fluctuations in our inventory supply needs and forecasts of our supply needs;
- the costs of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights;
- our need to implement additional infrastructure and internal systems;
- our ability to satisfy the conditions and covenants, including trailing six-month revenue milestones to be able to draw upon our $40 million of term loan financing and $5 million of revolving line of credit financing under our credit facility;
- our ability to hire additional personnel to support our operations as an independent publicly-traded company; and
- the emergence of competing technologies or other adverse market developments.

To finance these activities, we may seek additional funds through borrowings or rounds of financing, including private or public equity or debt offerings, and strategic partnerships. We may be unable to raise necessary funds on favorable terms, or at all.

If we borrow funds or issue debt securities, these securities will have payment rights superior to holders of our common stock and may contain covenants that will restrict our operations. We may have to obtain funds through arrangements with strategic partners that may require us to relinquish rights to our technologies, product candidates, or products that we otherwise may not wish to relinquish.

***Our credit facility contains restrictions that limit our flexibility in operating our business.***

In March 2016, we entered into a credit facility with Oxford Finance LLC and Silicon Valley Bank (the "Lenders") and borrowed $15.0 million under the facility. In February 2017, the credit facility was amended to extend the availability of the final two tranches of the facility. Our credit facility contains various covenants that limit our ability to engage in specified types of transactions. Subject to limited exceptions, these covenants limit our ability to, among other things:

- sell, lease, transfer, assign, or dispose of any part of our business or property;
- create, incur, assume, or be liable for any indebtedness other than unsecured indebtedness to trade creditors incurred in the ordinary course of business and other permitted indebtedness as defined in the Credit Facility;
- make restricted payments, including paying dividends on, repurchasing, or making distributions with respect to our capital stock;
- make specified investments (including loans and advances);
- merge or consolidate; and
- enter into certain transactions with our affiliates.

In addition, if the Lenders fund the term loan B commitment, we will be subject to a quarterly financial covenant requiring us to achieve consolidated revenues of at least 75% of our forecasts that have been previously approved by the Lenders. The covenants in our credit facility may limit our ability to take certain actions and, in the event that we breach one or more covenants, our lenders may choose to declare an event of default and require that we immediately repay all amounts outstanding and foreclose on the collateral granted to it to collateralize our indebtedness.

***We will need to maintain sufficient levels of inventory, which could consume a significant amount of our resources, reduce our cash flows and lead to inventory impairment charges.***

We are subject to the risk of inventory obsolescence and expiration, which may lead to inventory impairment charges. In order to market and sell Algovita effectively, we often must maintain high levels of inventory. In particular, as we expand our commercial launch of Algovita in the United States, we intend to substantially increase our levels of inventory and our safety stock in order to meet our estimated demand and, as a result, incur significant expenditures associated with increases in our inventory and safety stock. The manufacturing process requires lengthy lead times, during which components of Algovita may become obsolete, and we may over- or under-estimate the amount needed of a given component, in which case we may expend extra resources or be constrained in the number of Algovita systems that we can produce. As compared to direct manufacturers, our dependence on Integer as our sole manufacturer exposes us to greater lead times increasing our risk of inventory obsolescence. Furthermore, Algovita has a limited shelf life due to sterilization requirements, and part or all of a given product or component may expire and its value would become impaired and we would be required to record an impairment charge. If our estimates of required inventory are too high, we may be exposed to further inventory obsolesce risk. In the event that a substantial portion of our inventory becomes obsolete or expires. In the event we experience a supply chain imbalance, it could have a material adverse effect on our earnings and cash flows due to the resulting costs associated with the inventory impairment charges and costs required to replace such inventory.

***If we increase our sales outside the Unites States, we may be subject to risks associated with currency fluctuations, and changes in foreign currency exchange rates could impact our results of operations.***

If we increase our sales outside the Unites States, we may be subject to changes in the exchange rates between foreign currencies and the U.S. dollar, which could materially impact our reported results of operations and distort period-to-period comparisons. Fluctuations in foreign currency exchange rates also impact the reporting of our receivables and payables in non-U.S. currencies. As a result of foreign currency fluctuations, it could be more difficult to detect underlying trends in our business and results of operations. In addition, to the extent that fluctuations in currency exchange rates cause our results of operations to differ from our expectations or the expectations of our investors, the trading price of our common stock could be adversely affected.

In the future, we may engage in exchange rate-hedging activities in an effort to mitigate the impact of exchange rate fluctuations. If our hedging activities are not effective, changes in currency exchange rates may have a more significant impact on our results of operations.

***We are subject to extensive governmental regulation, and our failure to comply with applicable requirements could cause our business to suffer.***

Governmental authorities, principally the FDA and corresponding state and foreign regulatory agencies and authorities, regulate the medical device industry extensively. The FDA and corresponding state and foreign regulatory agencies and authorities regulate and oversee virtually all aspects of a medical device's development, testing, manufacturing, labeling, promotion, distribution and marketing, as well as modifications to existing products and the marketing of existing products for new indications.

Generally, unless an exemption applies, a medical device and modifications to a device or its indications must receive either premarket approval or premarket clearance from the FDA before it can be marketed in the United States. The approval process may involve lengthy and detailed laboratory and clinical testing procedures, sampling activities, extensive agency review processes, and other costly and time-consuming procedures. It may take several years to satisfy these requirements, depending on the complexity and novelty of the product or modification. We may not be successful in the future in receiving approvals and clearances in a timely manner or at all. Any delay in obtaining, or any failure to obtain, such approvals could negatively impact our marketing of any future products and reduce our product revenues.

The laws and regulations to which we are subject are complex and have tended to become more stringent over time. Legislative or regulatory changes could result in restrictions on our ability to carry on or expand our operations, higher than anticipated costs or lower than anticipated sales. See "Business – Regulation of our Business" for additional information regarding the regulatory schemes applicable to us and our business.

Our failure to comply with U.S. federal and state regulations or other foreign regulations applicable in the countries where we operate could lead to the issuance of warning letters or untitled letters, the imposition of injunctions, suspensions or loss of regulatory clearance or approvals, product recalls, termination of distribution, product seizures or civil penalties. In the most extreme cases, criminal sanctions or closure of manufacturing facilities are possible. If any of these risks materialize, our business would be adversely affected.

***Algovita and other neurostimulation devices we develop may in the future be subject to notifications, recalls, or voluntary market withdrawals that could harm our reputation, business and financial results.***

The FDA and similar foreign governmental authorities, such as the Federal Institute for Drugs and Medical in Germany, have the authority to require the recall of commercialized products in the event of material deficiencies or defects in design or manufacture that could affect patient safety. Further, under the FDA and similar foreign medical device reporting regulations, we are required to submit information to the governmental agency when we receive a report or become aware that a device has or may have caused or contributed to a death or injury or has or may have a malfunction that could likely cause or contribute to death or injury if the malfunction were to recur, which may prompt action by the governmental authority. A government-mandated recall or voluntary recall by us or one of our distributors could occur as a result of component failures, manufacturing errors, design or labeling defects or other issues. Recalls, which include certain notifications and corrections as well as removals, of our products could divert managerial and financial resources and could have an adverse effect on our financial condition, harm our reputation with customers, and reduce our ability to achieve expected revenue.

In addition, the manufacturing of our products is subject to extensive post-market regulation by the FDA and foreign regulatory authorities, and any failure by us or our suppliers, including Integer, to comply with regulatory requirements could result in recalls, facility closures, and other penalties. We and our suppliers are subject to the FDA's Quality System Regulation and comparable foreign regulations that govern the methods used in, and the facilities and controls used for, the design, manufacture, quality assurance, labeling, packaging, sterilization, storage, shipping, and servicing of medical devices. These regulations are enforced through periodic inspections of manufacturing facilities. Any manufacturing issues at our or our suppliers' facilities, including failure to comply with regulatory requirements, may result in warning or untitled letters, manufacturing restrictions, voluntary or mandatory recalls or corrections, fines, withdrawals of regulatory clearances or approvals, product seizures, injunctions, or the imposition of civil or criminal penalties, which would adversely affect our business results and prospects.

***The misuse or off-label use of our products may harm our image in the marketplace, result in injuries that lead to product liability suits, which could be costly to our business, or result in costly investigations and sanctions from the FDA and other regulatory bodies if we are deemed to have engaged in off-label promotion.***

Algovita has received premarket approval from the FDA and CE mark approval for use in the treatment of chronic pain of the trunk or limbs. We cannot, however, prevent a physician from using our product off-label, when in the physician's independent professional medical judgment she deems it appropriate. There may be increased risk of injury to patients if physicians attempt to use our product off-label. Furthermore, the use of our product for indications other than those approved by the applicable regulatory body may not effectively treat such conditions, which could harm our reputation in the marketplace among physicians and patients. Physicians may also misuse our product or use improper techniques if they are not adequately trained, potentially leading to injury and an increased risk of product liability litigation. If our products are misused or used with improper technique, we may become subject to costly litigation, including product liability litigation, by our customers or their patients. In addition, if the FDA or other regulatory bodies determines that our promotional materials or training constitute promotion of an off-label use, it or they, as applicable, could request that we modify our training or promotional materials or subject us to regulatory or enforcement actions that may result in fines, penalties, injunctions or other restrictions. Any of these events could significantly harm our business and results of operations.

***We may be subject to federal, state and foreign healthcare laws and regulations, and a finding of failure to comply with such laws and regulations could have a material adverse effect on our business.***

Although we do not provide healthcare services, submit claims for third-party reimbursement, or receive payments directly from Medicare, Medicaid or other third-party payors for our products, we are subject to healthcare fraud and abuse regulation and enforcement by federal, state and foreign governments, which could significantly impact our business.

In the United States, the laws that may affect our ability to operate include, but are not limited to:

- the U.S. federal Anti-Kickback Statute;
- the U.S. federal False Claims Act and civil money penalties, including whistleblower and qui tam actions;
- Health Insurance Portability and Accountability Act of 1996, as amended by the Health Information Technology and Clinical Health Act;
- federal regulation of payments made to physicians and other healthcare providers (known as the physician "sunshine" requirements), which requirements have been recently expanded under the Patient Protection and ACA;
- U.S. Foreign Corrupt Practices Act of 1977 and other anti-bribery laws; and
- state and foreign law equivalents of each of the above federal laws.

See "Business – Regulation of our Business" for a detailed description of each of these laws and their impact on our operations. The scope and enforcement of each of these laws is uncertain and subject to rapid change in the current environment of healthcare reform, especially in light of the lack of applicable precedent and regulations. Federal and state enforcement bodies have recently increased their scrutiny of interactions between healthcare companies and healthcare providers, which has led to a number of investigations, prosecutions, convictions and settlements in the healthcare industry. Responding to investigations can be time-and resource-consuming and can divert management's attention from the business. Additionally, as a result of these investigations, healthcare providers and entities may have to agree to additional onerous compliance and reporting requirements as part of a consent decree or corporate integrity agreement. Any such investigation or settlement could increase our costs or otherwise have an adverse effect on our business.

If our operations are found to be in violation of any of the laws or governmental regulations that apply to us now or in the future, we may be subject to penalties, including civil and criminal penalties, damages, fines, disgorgement, exclusion from governmental health care programs, and the curtailment or restructuring of our operations, any of which could adversely affect our ability to operate our business and our financial results.

***Healthcare legislative reform measures may have a material adverse effect on us.***

In March 2010, the ACA was signed into law, which includes, among other things, a deductible 2.3% excise tax on any entity that manufactures or imports medical devices offered for sale in the United States, with limited exceptions. Beginning on January 1, 2016, this excise tax was suspended through December 31, 2017, but if this suspension is not continued or made permanent thereafter, the excise tax will be automatically reinstated starting on January 1, 2018 and would result in a significant increase in the tax burden on our industry. If any efforts we undertake to offset the excise tax in the future are unsuccessful, the increased tax burden could have an adverse effect on our results of operations and cash flows. Other elements of the ACA, including comparative effectiveness research, an independent payment advisory board and payment system reforms and shared savings pilots and other provisions, may significantly affect the payment for, and the availability of, healthcare services and result in fundamental changes to federal healthcare reimbursement programs, any of which may materially affect our business. The full impact of the ACA, its possible repeal or replacement and the impact of other laws and reform measures that may be proposed and adopted in the future, remains uncertain, but may continue the downward pressure on medical device pricing, especially under the Medicare program, and may also increase our regulatory burden and operating costs.

Additional state and federal healthcare reform measures may be adopted in the future, any of which could limit the amounts that federal and state governments will pay for healthcare products and services, which could result in reduced demand for our product candidates or additional pricing pressures.

**Risks Related to the Spin-Off**

***We may be unable to achieve some or all of the benefits expected to result from being an independent publicly-traded company.***

As an independent publicly-traded company, we have the ability to focus on the commercialization of Algovita, pursue development of other medical devices incorporating our technology and seek regulatory approvals for these new devices and other treatment indications with respect to Algovita. However, we may be unable to achieve some or all of the benefits expected to result from being an independent publicly-traded company in the time expected, if at all, which could have an adverse effect on our financial condition and results of operations. For instance, it may take longer than anticipated for us to, or we may never, succeed in achieving market acceptance of Algovita in the United States or other foreign countries, and we may be unable to compete successfully against more well established companies that provide similar SCS products and therapies. Our lack of a well-established product in the market, effective commercial infrastructure and a direct sales force, coupled with increased costs resulting from operating as an independent publicly-traded company and funding ongoing product development, may materially inhibit our ability to realize the full value of our company and to achieve our short-term and long-term strategic objectives.

***We may continue to incur costs and expenses and have to devote substantial management time as a result of our operating as an independent publicly-traded company, which could adversely affect our profitability.***

As a result of our spin-off from Integer, our management is required to devote substantial time to compliance with the requirements of being an independent publicly-traded company. We also are incurring costs and expenses greater than those we historically incurred. These increased costs and expenses arise from various factors, including financial reporting, accounting and audit services, insurance, costs associated with information technology systems, complying with federal securities laws (including compliance with the Sarbanes-Oxley Act, the Dodd Frank Wall Street Reform and Consumer Protection Act and rules and regulations implemented by the SEC and NASDAQ) and legal and human resources-related functions. Although Integer has provided, and will continue to provide, services to us under the transition services agreement, this arrangement may not capture all the benefits our business has enjoyed as a result of being integrated with Integer. These services are being provided by Integer for only a limited period of time, and we are establishing the necessary infrastructure and systems to perform these functions and services on an ongoing basis. We may also continue to incur one-time costs in connection with the transition to being an independent publicly-traded company, including relating to compensation costs, recruiting costs associated with continuing to build out our sales organization and costs to continue to separate information systems. In addition we may continue to make significant investments to replicate, or outsource from other providers, facilities, systems, infrastructure and personnel of Integer to which we will no longer have access, which may be costly to implement. These costs may be greater than anticipated and could have a material adverse effect on our financial position, results of operations and cash flows.

***Our historical financial information may not be representative of the results we would have achieved as an independent publicly-traded company during the periods presented and may not be a reliable indicator of our future results.***

Our financial information prior to March 14, 2016 included in this Annual Report on Form 10-K reflects our business as it operated as part of Integer's organization. This historical financial information is derived from Integer's consolidated financial statements and accounting records. Accordingly, our historical financial information included in this Annual Report on Form 10-K may not necessarily reflect what our financial position, results of operations or cash flows would have been had we been an independent publicly-traded company during the periods presented or those that we may achieve in the future. The expenses reflected in our historical financial information includes an allocation of general corporate overhead expenses from Integer relating to the following support functions provided for us by Integer: executive oversight, finance, legal, human resources, tax, information technology, product development, corporate procurement and facilities. While our management considers the expense allocation methodology and results to be reasonable for all periods presented, these allocations may not be indicative of the actual expenses that we would have incurred as an independent publicly-traded company or of the costs we will incur in the future. Accordingly, the historical financial information presented herein should not be assumed to be indicative of what our financial condition or results of operations actually would have been as an independent publicly-traded company or to be a reliable indicator of what our financial condition or results of operations actually could be in the future.

In addition, cash from Integer has historically funded our working capital requirements and capital for general corporate purposes, including research and development funds and capital expenditures. In the future, we may need to obtain additional financing from lenders, through public offerings or private placements of debt or equity securities, strategic partnerships or other arrangements to fund these capital requirements.

***The supply agreement and license agreements with Integer may not reflect as favorable of terms as would have resulted from arm's-length negotiations with unaffiliated third parties.***

The supply agreement and license agreements that we entered into with Integer were prepared in connection with the spin-off and while we were still a wholly owned subsidiary of Integer. Accordingly, during the period in which the terms of those agreements were prepared, we did not have an independent board of directors or a management team that was independent of Integer. As a result, the terms of these agreements may not reflect as favorable of terms as would have resulted from arm's-length negotiations with unaffiliated third parties.

***We entered into several agreements with Integer in connection with the spin-off, which may limit our ability to take actions beneficial to us for a period of time after the completion of the spin-off and may impair our future success.***

The separation and distribution agreement, tax matters agreement, transition services agreement and employee matters agreement entered into between us and Integer were negotiated while we were still a wholly-owned subsidiary of Integer. As such, these agreements contain terms that may limit our ability, for a period of time after the completion of the spin-off, to take some actions that may be beneficial to us. Under the tax matters agreement that we entered into with Integer, we are prohibited from taking or failing to take any action that prevents the spin-off from qualifying as a tax-free transaction. Further, during the two-year period following the completion of the spin-off, without obtaining the consent of Integer or an unqualified opinion of a nationally recognized law or accounting firm, we may be prohibited from taking certain specified actions that could affect the tax treatment of the spin-off. As an example, to preserve the tax-free treatment of the spin-off, for a two-year period following the completion of the spin-off, we are prohibited, except in specific circumstances, from taking certain actions, including:

- causing or permitting to occur any transaction or series of transactions, subject to certain exceptions provided under the U.S. federal income tax rules, in connection with which one or more persons would (directly or indirectly) acquire an interest in our capital stock that, when combined with any other acquisition of an interest in our capital stock that occurs after the spin-off, comprises 30% or more of the value or the total combined voting power of all interests that are treated as outstanding equity of Nuvectra for U.S. federal income tax purposes immediately after such transaction or, in the case of a series of related transactions, immediately after any transaction in such series;
- transferring, selling or otherwise disposing of 35% or more of our gross assets if such transfer, sale or other disposition would violate the IRS' rules and regulations;
- liquidating our business; or
- ceasing to maintain our active business.

Under the separation and distribution agreement, a court could disregard the allocation of liabilities as agreed upon between us and Integer, and require that we assume responsibility for obligations allocated to Integer, particularly if Integer were to refuse or were unable to pay or perform its allocated obligations.

***Following the spin-off, we continue to be dependent on Integer for certain support services for our business pursuant to the transition services agreement.***

Pursuant to the transition services agreement, Integer is providing us with services for a maximum of two years from the date of the spin-off including, among others, human resources services, information technology services, legal support services, tax services, accounting services, treasury services and other support services specified in the transition services agreement. Although Integer is contractually obligated to provide us with certain support services during the term of the transition services agreement, these services may not be performed as efficiently or proficiently as they were performed prior to the spin-off or may not be performed at all by Integer. When Integer ceases to provide these services for us, the timing of which depends on the specific service, our costs may increase as a result of having to procure these services from third parties. In addition, we may not be able to replace these services in a timely manner or enter into appropriate third-party agreements on terms and conditions, including cost, comparable to the transition services agreement. If Integer breaches its obligations to us under the transition services agreement, we may be unable to recover the full amount of damages we may incur as damages payable by Integer under the transition services agreement are capped at a maximum of $750,000 in the aggregate. To the extent that we require additional services to be performed by Integer that are not included in the transition services agreement, we will need to negotiate the terms for receiving such services with Integer, which may result in increased costs to us.

***As we build our information technology infrastructure and transition our data to our own systems, we could incur substantial additional costs and experience temporary business interruptions.***

We continue to install and implement information technology infrastructure to support our critical business functions, including systems relating to accounting and reporting, customer service, inventory control and distribution. We may incur temporary interruptions in business operations if we cannot transition effectively from Integer's existing transactional and operational systems. In particular, Integer's information technology networks and systems are complex, and duplicating these networks and systems is challenging. We may not be successful in effectively and efficiently implementing our new systems and transitioning our data, and we may incur substantially higher costs for implementation than currently anticipated. In addition, our information technology systems, some of which are managed by third-parties, may be susceptible to damage, disruptions, or shutdowns due to computer viruses, attacks by computer hackers, power outages, hardware failures, telecommunication failures, user errors, or catastrophic events. Our failure to avoid operational interruptions as we implement the new systems or our failure to implement the new systems effectively and efficiently, could disrupt our business and could have a material adverse effect on our business, financial condition, results of operations and cash flows.

***In connection with the spin-off, we agreed to indemnify Integer for certain liabilities. If we are required to make payments to Integer as a result of these indemnification obligations, we may need to divert cash to meet those obligations and our financial results could be negatively impacted.***

Pursuant to the separation and distribution agreement between us and Integer, we and Integer each agreed to indemnify the other for certain liabilities, in each case in an uncapped amount. The amount of those indemnification payments to Integer may be significant to us and could negatively impact our business, particularly any indemnification payment that is payable as a result of failing to preserve the tax-free treatment of the spin-off. Third parties could also seek to hold us responsible for any liabilities that Integer has agreed to retain. Further, any indemnification payment from Integer may not be sufficient to protect us against the full amount of a liability we are required to pay to a third party, and Integer may not, in the future, be able to fully satisfy its indemnification obligations to us. Moreover, even if we are ultimately indemnified by Integer, we may be temporarily required to bear the losses ourselves. Each of these risks could negatively affect our business, financial condition, results of operations and cash flows.

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

Our ability to engage in significant equity issuances will be limited or restricted after the spin-off in order to preserve, for U.S. federal income tax purposes, the tax-free nature of the spin-off. Even if the spin-off otherwise qualifies for tax-free treatment under Sections 368(a)(1)(D) and 355 of the Code, it may result in corporate-level taxable gain to Integer under Section 355(e) of the Code if there is a 50% or greater change in ownership, by vote or value, of shares of our stock or Integer's common stock occurring as part of a plan or series of related transactions that includes the spin-off. Any acquisitions or issuances of our stock or Integer's common stock within two years before or after the spin-off are generally (subject to exceptions) presumed to be part of such a plan. The process for determining whether an acquisition or issuance triggering these provisions has occurred is complex, inherently factual and subject to interpretation of the facts and circumstances of a particular case. The tax liability to Integer resulting from the application of Section 355(e) could be substantial. Under the tax matters agreement that we entered into with Integer, we are prohibited from taking or failing to take any action that prevents the spin-off from being tax-free. Therefore, these restrictions may limit our ability to pursue strategic transactions, issue equity, or engage in other transactions.

**Risks Related to our Common Stock**

***An active, liquid and orderly market for our common stock may not be sustained and the trading price of our common stock is volatile.***

The trading price of our common stock is highly volatile and is subject to wide fluctuations in response to various factors, some of which are beyond our control.

These factors include those discussed in this "Risk Factors" section of this Annual Report on Form 10-K and others such as:

- results from, or any delays in, clinical trial programs relating to our product candidates, including any additional planned clinical trials for Algovita or Virtis;
- announcements of new products by us or our competitors;
- adverse actions taken by regulatory agencies with respect to our clinical trials, manufacturing supply chain or sales and marketing activities;
- recalls of our products;
- our operating results;
- our cash-on-hand and overall liquidity;
- dilution of our common stock resulting from the issuance of additional shares of common stock, preferred stock or securities convertible into additional shares of common stock;
- changes or developments in laws or regulations applicable to Algovita and our other products;
- any adverse changes in our relationship with any manufacturers or suppliers, including Integer or Minnetronix;
- failure to obtain regulatory approval for Virtis in the U.S. or Europe;
- the success of our efforts to acquire or develop additional products;
- any intellectual property infringement actions in which we may become involved;
- announcements concerning our competitors or the medical device industry in general;
- achievement of expected product sales and profitability;
- manufacture, supply or distribution shortages;
- FDA or foreign regulatory actions affecting us or our industry or other healthcare reform measures in the United States;
- changes in financial estimates or recommendations by securities analysts;
- trading volume of our common stock;
- sales of our common stock by us, our executive officers and directors or our stockholders in the future;
- general economic and market conditions and overall fluctuations in the United States equity markets; and
- the loss of any of our key scientific personnel or executive officers.

In addition, the stock markets in general, and the markets for equity securities of medical device companies in particular, have experienced volatility that may have been unrelated to the operating performance of the issuer. These broad market fluctuations may adversely affect the trading price or liquidity of our common stock. In the past, when the market price of a stock has been volatile, holders of that stock have sometimes instituted securities class action litigation against the issuer. If any of our stockholders were to bring such a lawsuit against us, we could incur substantial costs defending the lawsuit and the attention of our management would be diverted from the operation of our business, which could seriously harm our financial position. Any adverse determination in litigation could also subject us to significant liabilities.

***If securities or industry analysts issue inaccurate or unfavorable research regarding our stock, our stock price and trading volume could decline.***

The trading market for our common stock is influenced by the research and reports that industry or securities analysts publish about us or our business. If analysts that choose to cover us downgrade our stock or issue inaccurate or unfavorable research regarding us, our business model or our stock performance, or if our operating results fail to meet the expectations of these analysts, our stock price could decline. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, we could lose visibility in the financial markets, which in turn could cause our trading volume to decline and, as a result, our stock price may become more volatile and could decline.

***We are an "emerging growth company" and as a result of the reduced disclosure and governance requirements applicable to emerging growth companies, our common stock may be less attractive to investors.***

We are an "emerging growth company," as defined in the JOBS Act, and we have taken advantage of some of the exemptions from the reporting requirements that are afforded to emerging growth companies including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may become more volatile. We may continue to take advantage of these exemptions until we are no longer an emerging growth company.

***Your percentage of ownership in us may be diluted in the future.***

As with any independent publicly-traded company, your percentage ownership in us may be diluted in the future because of equity issuances for acquisitions, capital market transactions or otherwise, including incentive equity awards that we have granted, and expect to continue to grant, to our directors, officers and employees. In addition, under our credit facility, we have issued, and expect to issue, warrants to the lenders to purchase a number of shares of our common stock with a notional value equal to 4.5% of the funded amount of such term loan tranches, with all warrants issued at the time of a tranche funding having an exercise price equal to the lower of the average closing price of our common stock for the ten previous days of trading or the closing price of our common stock on the day prior to such tranche funding. Each warrant is exercisable for ten years from the date of issuance. If we issue common stock, preferred stock or securities convertible into common stock, including the warrants issued to our lenders, our stockholders would experience dilution and, as a result, our stock price may decline.

***If we are unable to implement and maintain effective internal control over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock could be adversely affected.***

As an independent publicly-traded company, we are required to maintain internal control over financial reporting and to report any material weaknesses in our internal control. Section 404 of the Sarbanes-Oxley Act requires that we evaluate and determine the effectiveness of our internal control over financial reporting and, beginning with our second Annual Report on Form 10-K following our spin-off, provide a management report on internal control over financial reporting. The Sarbanes-Oxley Act also requires that our independent registered public accounting firm attest to our internal control over financial reporting, to the extent we are no longer an emerging growth company, as defined by the JOBS Act. We do not expect to have our independent registered public accounting firm attest to our internal control over financial reporting for so long as we are an emerging growth company. We are in the process of designing and implementing the internal control over financial reporting required to comply with this obligation, which has been time consuming, costly and complicated. If we identify material weaknesses in our internal control over financial reporting, if we are unable to comply with the requirements of Section 404 in a timely manner, if we are unable to assert that our internal control over financial reporting are effective, or, when required in the future, if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal control over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock could be adversely affected, and we could become subject to investigations by the stock exchange on which our securities are then-listed, the SEC, or other regulatory authorities, which could require additional financial and management resources.

***Provisions in our certificate of incorporation, by-laws and under Delaware law may discourage a takeover that stockholders may consider favorable and could lead to entrenchment of management.***

Our certificate of incorporation and by-laws contain provisions that could significantly reduce the value of our shares to a potential acquirer or delay or prevent changes in control or changes in our management without the consent of our Board of Directors.

The provisions in our certificate of incorporation and by-laws include the following:

- a classified board of directors with three-year staggered terms, which may delay the ability of stockholders to change the membership of a majority of our board of directors;
- no cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;
- the exclusive right of our Board of Directors to elect a director to fill a vacancy created by the expansion of our Board of Directors or the resignation, death or removal of a director, which prevents stockholders from being able to fill vacancies on our Board of Directors;
- the required approval of at least 66 2/3% of the voting power of all shares of capital stock then entitled to vote generally in the election of directors to remove a director for cause, and the prohibition on removal of directors without cause;
- the ability of our Board of Directors to authorize the issuance of shares of preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquirer;
- the ability of our Board of Directors to alter our by-laws without obtaining stockholder approval;
- the required approval of at least 66 2/3% of the voting power of all shares of capital stock then entitled to vote generally in the election of directors to amend, alter, change, repeal or adopt any provision of our by-laws and certain provisions of our certificate of incorporation;
- a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;
- the requirement that a special meeting of stockholders may be called only by our Board of Directors, Chairman of our Board of Directors or our Chief Executive Officer, which may delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors for cause; and
- advance notice procedures that stockholders must comply with in order to nominate candidates to our Board of Directors or to propose matters to be acted upon at a stockholders' meeting, which may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of us.

In addition, these provisions would apply even if we were to receive an offer that some stockholders may consider beneficial.

We are also subject to the anti-takeover provisions contained in Section 203 of the General Corporation Law of the State of Delaware, or the DGCL. Under Section 203, a corporation may not, in general, engage in a business combination with any holder of 15% or more of its capital stock unless the holder has held the stock for three years or, among other exceptions, the board of directors has approved the transaction.

***Claims for indemnification by our directors and officers may reduce our available funds to satisfy successful third-party claims against us and may reduce the amount of money available to us.***

Our certificate of incorporation, by-laws and individual indemnity agreements with our officers and directors provide that we are required to indemnify our directors and officers, and, to the extent authorized from time to time by our Board of Directors, our other employees and agents, to the fullest extent permitted by Delaware law, subject to specified exceptions. Any claims for indemnification by our directors and officers may reduce our available funds to satisfy successful third-party claims against us and may reduce the amount of money available to us.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

Our corporate headquarters is located in Plano, Texas, and we have research and development facilities located in Blaine, Minnesota, Broomfield, Colorado, and Ann Arbor, Michigan. Our NeuroNexus segment utilizes the Ann Arbor facility and our Nuvectra segment utilizes the remaining facilities. These facilities, with the exception of our Blaine facility, which is owned by Nuvectra, are leased and consist of approximately 68,570 square feet of office and laboratory space. The lease for our Plano, Texas headquarters, which is with Integer, expires in March 2018. The leases for our Broomfield, Colorado and Ann Arbor, Michigan facilities expire in September 2022 and September 2020, respectively. We believe the facilities we operate and their equipment are effectively utilized, well maintained, generally are in good condition, and will be able to accommodate our capacity needs to meet current levels of demand. We continuously review our anticipated requirements for facilities and, on the basis of that review, may from time to time acquire additional facilities, enhance existing facilities and/or dispose of existing facilities.

**Item 3. Legal Proceedings**

Periodically we are a party to various legal actions, both threatened and filed, arising in the normal course of business. While we do not expect that the ultimate resolution of any pending actions will have a material effect on our results of operations, financial position, or cash flows, litigation is subject to inherent uncertainties. As such, there can be no assurance that any pending or threatened legal action, which we currently believe to be immaterial, does not become material in the future.

**Item 4. Mine Safety Disclosures**

Not applicable.

## PART II

### Item 5. Market for Nuvectra Corporation's Common Equity, Related Shareholder Matters, and Issuer Purchases of Equity Securities

**Market Information**

Our common stock is traded on the Nasdaq Global Market ("Nasdaq") under the symbol "NVTR." The following table provides the market range for the closing price of our common stock since our common stock began publically trading on March 14, 2016 based on reported sales prices on Nasdaq.

| 2016 | High | Low |
|---|---|---|
| First Quarter | $ 7.43 | $ 4.30 |
| Second Quarter | 9.75 | 6.15 |
| Third Quarter | 7.92 | 6.22 |
| Fourth Quarter | 6.66 | 4.74 |

**Holders**

The closing price of our common stock on February 23, 2017 was $7.66. As of February 23, 2017, there were 127 holders of record of our common stock.

**Dividend Policy**

We did not pay a cash dividend in 2016 and currently we do not intend to pay cash dividends on Nuvectra common stock. Our credit facility prohibits the payment of cash dividends without the prior written consent of our lenders, and allows the payment of stock dividends. The declaration and amount of any future cash or stock dividends, however, will be determined by our Board of Directors and will depend on our financial condition, earnings, corporate strategy and capital requirements, and any other factors that our Board of Directors believes are relevant.

**Securities Authorized for Issuance under Equity Compensation Plans**

Please see Item 12 "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" under Part III of this Annual Report for information on where to find information required by Item 201(d) of Regulation S-K.

**Recent Sales of Unregistered Securities**

Other than the issuance of warrants to Oxford Finance LLC and Silicon Valley Bank, as disclosed in Note 7 of the notes to the Consolidated Financial Statements contained in Item 8 of this Report and on our report on Form 8-K filed with the SEC on March 18, 2016, there were no unregistered sales of equity securities during the period.

**Issuer Purchases of Equity Securities**

There were no repurchases of shares of common stock made during the fourth quarter of the fiscal year ended December 30, 2016.

**Transferability of Our Shares of Common Stock**

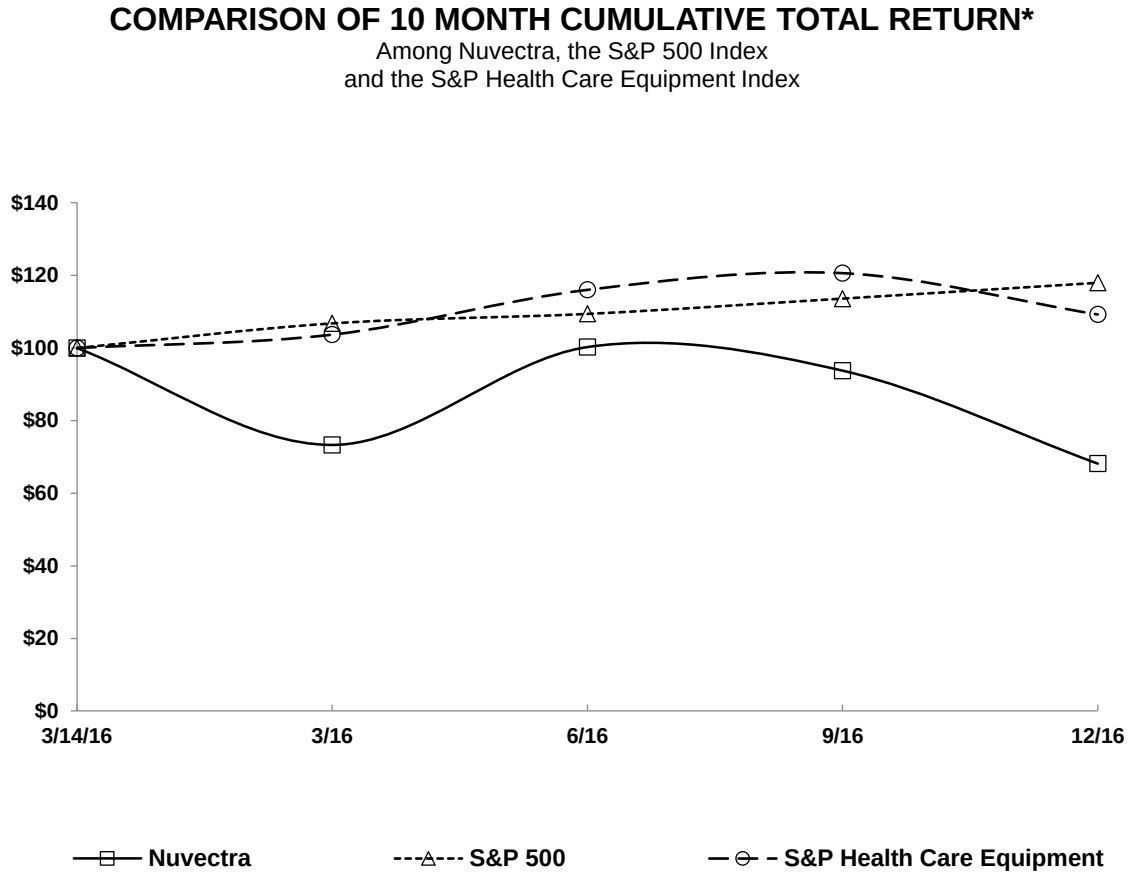
Our shares of common stock that were distributed to Integer's stockholders in the spin-off are freely transferable, unless the holder is considered an "affiliate" of ours under Rule 144 under the Securities Act. Persons who can be considered our affiliates generally include individuals or entities that directly, or indirectly through one or more intermediaries, control, are controlled by, or are under common control with, us, and may include some or all of our executive officers and directors. Our affiliates may sell our shares of common stock received in the spin-off only:

- under a registration statement that the SEC has declared effective under the Securities Act; or
- under an exemption from registration under the Securities Act, such as the exemption afforded by Rule 144.

We filed a registration statement on Form S-8 under the Securities Act to register shares of Nuvectra common stock authorized for issuance under our equity incentive plan. The shares covered by the S-8 registration statement are shares of our common stock underlying outstanding stock options, restricted stock units, stock appreciation rights, restricted stock and other equity awards issued under our equity incentive plan. This registration statement was effective immediately upon filing. Shares of our common stock issued pursuant to equity awards after the effective date of our registration statement on Form S-8, other than shares of our common stock issued to affiliates, generally are freely tradable without further registration under the Securities Act.

**Stock Performance Graph**

The graph below compares the ten-month total return to stockholders on our common stock with the return of the Standard & Poor's (S&P) 500 Stock Index and the S&P Health Care Equipment Index. We relied upon information provided by another firm with respect to the stock performance graph. We did not attempt to validate the information supplied to us other than review it for reasonableness. The graph assumes $100 was invested in our common stock and in each of the named indices on March 14, 2016, and that all dividends were reinvested.




*$100 invested on 3/14/16 in stock or 2/29/16 in index, including reinvestment of dividends.
Fiscal year ending December 31.



| | 3/14/16 | 3/16 | 6/16 | 9/16 | 12/16 |
|---|---|---|---|---|---|
| **Nuvectra** | $ 100.00 | $ 73.31 | $ 100.27 | $ 93.77 | $ 68.16 |
| **S&P 500** | 100.00 | 106.78 | 109.41 | 113.62 | 117.97 |
| **S&P Health Care Equipment** | 100.00 | 103.69 | 116.03 | 120.63 | 109.24 |

Note: The stock price performance shown on the graph and table above is not indicative of future price performance. This graph and table shall not be deemed "filed" for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities of that section nor shall it be deemed incorporated by reference in any filing under the Securities Act or the Exchange Act, regardless of any general incorporation language in such filing.

**Item 6. Selected Financial Data**

We utilize a fifty-two, fifty-three week fiscal year ending on the Friday nearest December 31. Fiscal years 2016 and 2015 ended on December 30, 2016 and January 1, 2016, respectively, and each contained fifty-two weeks.

The selected consolidated financial data should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and the notes thereto included elsewhere in this report. The selected financial data in this section are not intended to replace our consolidated financial statements and the related notes. Our historical results are not necessarily indicative of our future results. Prior to March 14, 2016, our financial statements were prepared on a "combined" basis from the consolidated financial statements of Integer to represent our financial position and performance as if we had existed on a stand-alone basis in conformity with GAAP.

| | Year Ended | |
|---|---|---|
| **Statement of Operations Data:** (in thousands) | **December 30, 2016** | **January 1, 2016** |
| Sales | $ 12,535 | $ 5,238 |
| Cost of sales | 6,430 | 3,371 |
| Gross profit | 6,105 | 1,867 |
| Operating expenses: | | |
| Selling, general and administrative expenses | 28,507 | 10,541 |
| Research, development and engineering costs, net | 14,524 | 15,430 |
| Other operating expenses, net | 476 | 312 |
| Total operating expenses | 43,507 | 26,283 |
| Loss before provision for income taxes | (38,428) | (24,416) |
| Provision for income taxes | — | — |
| Net loss | $ (38,428) | $ (24,416) |
| Comprehensive loss | $ (38,430) | $ (24,416) |

| | As of | |
|---|---|---|
| **Balance Sheet Data:** (in thousands) | **December 30, 2016** | **January 1, 2016** |
| Cash and cash equivalents | $ 63,710 | $ 202 |
| Working capital | 56,523 | (6,794) |
| Total assets | 119,302 | 45,398 |
| Stockholders' Equity | 88,578 | 37,840 |

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying notes included in Item 8 of this Annual Report on Form 10-K.

*The following discussion and analysis describes the factors that had a material effect on our financial position, results of operations and cash flows during the year ended December 30, 2016 as compared to the year ended January 1, 2016. You should read this discussion and analysis in conjunction with our consolidated financial statements and the notes to those consolidated financial statements in Item 8 of this Annual Report on Form 10-K. This Management's Discussion and Analysis of Financial Condition and Results of Operations, or MD&A, contains forward-looking statements. Actual results could differ materially from those contained in any forward-looking statements. See "Risk Factors" for a discussion of the uncertainties, risks and assumptions associated with these statements.*

**Spin-Off From Integer**

On March 14, 2016, Integer completed the spin-off of Nuvectra from the remainder of its business. The spin-off was accomplished by the distribution of all Nuvectra's issued and outstanding shares of common stock to Integer's stockholders on the basis of one share of Nuvectra common stock for every three shares of Integer common stock held on March 7, 2016, the record date of the distribution. Immediately prior to completion of the spin-off, QiG Group, LLC was converted from a limited liability company into Nuvectra Corporation, a Delaware corporation. At the time of the completion of the spin-off, Integer's stockholders owned 100% of the outstanding common stock of both Integer and Nuvectra.

**Our Business**

As a new public entity, we commenced our first comprehensive annual operational planning process with our executive leadership team and board of directors in the fourth quarter of 2016. As part of that process, we assessed our reporting structure and changed the composition of our reporting units. Following this process, based on information that is regularly reviewed by our chief operating decision maker, we now have two reportable segments consisting of: Nuvectra and NeuroNexus. We determined our new reporting units by identifying our operating segments and assessing whether any components of these segments constituted a business for which discrete financial information is available and whether segment management would regularly review the operating results of any components. Through this process, we identified two reporting units: Nuvectra and NeuroNexus.

Nuvectra is a neurostimulation medical device company committed to helping physicians improve the lives of people with chronic neurological conditions. Algovita is our first commercial offering and is approved for the treatment of chronic pain of the trunk and/or limbs. Our technology platform also has capabilities in development to support other neurological indications such as SNS and DBS. Nuvectra revenues include development and engineering service fees and sales from the release of Algovita in the United States and Europe. We expect that our future revenues will come primarily from sales of neurostimulation medical device products, including Algovita, particularly after expansion of our launch commercially in the United States, Virtis™, the second application of our neurostimulation technology platform and our first product for the SNS market, and, from time to time, may also include technology licensing fees, development and engineering service fees, and royalty fees.

NeuroNexus designs, manufactures and markets neural-interface technologies for the neuroscience clinical research market. The products offered include high-value neural interface technology and devices across a wide range of functions including neuromonitoring and recording, electrical and optical stimulation, and targeted drug delivery applications that complement our existing neurostimulation technology platform. We intend to incorporate certain of NeuroNexus' technologies into our neurostimulation technology platform. NeuroNexus revenues include sales of neural interface technology, components and systems to the neuroscience and clinical markets.

On November 30, 2015, Integer announced receipt of premarket approval for Algovita. We commenced commercializing Algovita in the U.S. market in 2016. Algovita obtained CE mark approval on June 17, 2014 through our notified body, TÜV SÜD America, and has been commercially available to patients in Germany and several other European countries since November 2014. Algovita was previously being commercialized through our Algostim subsidiary, which is now our wholly-owned subsidiary.

One of our other wholly-owned subsidiaries, PelviStim, is focused on the commercialization of Virtis. We submitted a premarket approval application for Virtis to TÜV SÜD America and the FDA in December 2016 and January 2017, respectively. The Virtis system is indicated for the treatment of urinary retention and the symptoms of overactive bladder, including urinary urge incontinence and significant symptoms of urgency-frequency alone or in combination, in patients who have failed or could not tolerate more conservative treatments. Virtis is now being developed through Nuvectra.

Prior to the fourth quarter of 2015, we owned 89% of Algostim and PelviStim. During the fourth quarter of 2015, we purchased the outstanding non-controlling interests of Algostim and PelviStim for $16.7 million, of which $9.9 million was paid in 2015 and $6.8 million was accrued at January 1, 2016 and paid by Integer in January 2016 prior to the spin-off. Included in this amount was $6.9 million paid to Drees Holding LLC, which is a limited liability company of which Scott F. Drees, our Chief Executive Officer, is the principal owner and the sole managing director, and approximately $848,000 paid to Norbert Kaula, Executive Vice President of Research and Development of Nuvectra. Mr. Drees and Mr. Kaula each received their interests in Algostim and PelviStim in connection with entering into a long-term consulting agreement with us prior to being appointed to their current positions. The consulting agreements were terminated in connection with Mr. Drees and Mr. Kaula agreeing to serve in their current roles for Nuvectra. The purchase of the outstanding non-controlling interests was funded by a cash contribution from Integer.

Prior to the spin-off, our expenses included an allocation of general corporate overhead expenses from Integer relating to the following support functions provided for us by Integer: executive oversight, finance, legal, human resources, tax, information technology, product development, corporate procurement, and facilities. These expenses were charged to us on the basis of direct usage, when identifiable, with the remainder allocated primarily on a pro rata basis of estimated hours incurred, headcount, square footage, or other measures. We consider the expense allocation methodology and results to be reasonable for all periods presented. However, these allocations are not indicative of the actual expenses that would have been incurred if we were an independent publicly-traded company or of the costs we will incur in the future. Following the spin-off, Integer has continued to provide services related to certain of these functions for us on a transitional basis for a fee pursuant to our transition services agreement. At this time, we are unable to determine what our expenses would have been on a standalone basis if we had operated as an unaffiliated entity for each period in which a statement of operations is presented.

**Our Customers**

Our NeuroNexus customers include institutions, scientists or universities throughout the world who perform research for the neuroscience and clinical markets. Algovita was designed to provide pain management solutions to patients that have evolving requirements and needs. We are still developing our customer base for Algovita, which includes a distributor in Europe and hospitals, surgery centers and medical facilities in the U.S. served through a direct sales force and third-party distributors; therefore, the nature and extent of our selling relationships with each customer is different in terms of breadth of products purchased, purchased product volumes, length of contractual commitment, ordering patterns, inventory management, and selling prices. Additionally, our customers include a company in the DBS market serviced through a strategic development agreement.

**Strategic and Financial Overview**

We are a neurostimulation medical device company formed in 2008 to design and develop a neurostimulation technology platform that could be utilized in multiple indications. Since our inception, the majority of our resources have been spent designing and developing Algovita. SCS was chosen as the first sector of the neurostimulation market to pursue, as we believe that it is a high growth and established market, there is an established regulatory and reimbursement pathway, and we believe that there are significant unmet needs in the SCS market. We currently have four significant competitors in the United States who may be better capitalized and who offer similar SCS devices that are already established and accepted in the market. While the competitive landscape for SCS remains challenging and we may face barriers to market acceptance of our product, we believe Algovita has certain differentiating features from other existing SCS systems that offer our patients and customers a broad set of capabilities and treatment options.

We have been leveraging our neurostimulation technology platform for other sectors of the neurostimulation market such as SNS and DBS, and are exploring other emerging indications. We submitted a premarket approval application for Virtis to TÜV SÜD America and the FDA in December 2016 and January 2017, respectively.

In early 2016, we entered into a development agreement with Aleva to develop our neurostimulation technology platform into a complete medical device for use in the DBS market for treatment of Parkinson's disease. We expect, upon completion of a complete medical device for use in the DBS market for the treatment of Parkinson's disease, that Aleva will have primary responsibility for the commercialization of the DBS complete medical device using our licensed technology in exchange for a royalty payment. In addition, in connection with the completion of the spin-off, Integer assigned to us, based upon its equity ownership interest in Aleva, the right to receive, contingent upon the occurrence of a sale, asset transfer, or other liquidity event with respect to Aleva: (i) a technology access success fee of up to CHF 7 million (which translated to approximately $6.8 million at December 30, 2016), with the actual amount to be received computed based upon the proceeds received by Aleva or its shareholders in the liquidity event; and (ii) the right to receive a payment, upon the occurrence of the liquidity event, in an amount equal to the difference between (a) the liquidity event proceeds to be received by Integer based upon its equity ownership interest in Aleva and (b) 19.9%, 15.5%, or 10.0% of the total amount of the proceeds received by Aleva or its shareholders upon the occurrence of the liquidity event, as may be applicable at such time based upon Integer's funding of future equity investments in Aleva.

We also intend to pursue other strategic partnerships to fund clinical and development costs of new products, expand our product distribution channels, supplement our product commercialization efforts, obtain assistance in designing and performing clinical studies and post market studies, add specialized clinical or regulatory expertise, or acquire or obtain access to complementary intellectual property.

**Our Critical Accounting Estimates**

The preparation of our consolidated financial statements in accordance with GAAP requires us to make estimates and assumptions that affect reported amounts and related disclosures. The methods, estimates, and judgments we use in applying our accounting policies have a significant impact on the results we report in our consolidated financial statements. We consider an accounting estimate to be critical if (1) it requires assumptions to be made that were uncertain at the time the estimate was made; and (2) changes in the estimate or different estimates that could have been selected could have a material impact on our consolidated results of operations, financial position or cash flows. Our most critical accounting estimates are described below. We also have other policies that we consider key accounting policies; however, these policies do not meet the definition of critical accounting estimates, because they do not generally require us to make estimates or judgments that are difficult or subjective.

**Inventories**

The value of inventories, comprised solely of finished goods, are stated at the lesser of market value or cost, determined using the first-in, first-out ("FIFO") method. To value inventory, we must estimate excess or obsolete inventory, as well as inventory that is not of saleable quality. This valuation involves an inherent level of risk and uncertainty due to unpredictability of trends in the industry and customer demand for our products. In assessing the ultimate realization of inventories, we must make judgments as to future demand requirements and compare that with the current or committed inventory levels. Reserve requirements generally increase as demand decreases due to market conditions and technological and product life-cycle changes. Writedowns of excess and obsolete inventories were $156,000 and $0 in fiscal years 2016 and 2015, respectively.

Variations in methods or assumptions could have a material impact on our results. If our demand forecast for specific products is greater than actual demand and we fail to reduce our purchases accordingly, we could be required to record additional inventory write-downs, which would have a negative impact on our results of operations. A 5% write-down of our inventory would change 2016 net loss by approximately $0.3 million.

**Tangible Long-lived Assets**

Property, plant and equipment are carried at cost. The cost of property, plant and equipment is charged to depreciation expense over the estimated life of the operating assets primarily using straight-line rates. Tangible long-lived assets are subject to impairment assessment if certain indicators are present.

We assess the impairment of definite-lived long-lived assets or asset groups when events or changes in circumstances indicate that the carrying value may not be recoverable. Factors that are considered in deciding when to perform an impairment review include: a significant decrease in the market price of the asset or asset group; a significant change in the extent or manner in which a long-lived asset or asset group is being used or in its physical condition; a significant change in legal factors or in the business climate that could affect the value of a long-lived asset or asset group, including an action or assessment by a regulator; an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction; a current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset or asset group; or a current expectation that, more likely than not, a long-lived asset or asset group will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. The term more likely than not refers to a level of likelihood that is more than 50 percent.

Potential recoverability is measured by comparing the carrying amount of the asset or asset group to its related total future undiscounted cash flows. The projected cash flows for each asset or asset group considers multiple factors, including current revenue from existing customers, proceeds from the sale of the asset or asset group and expected profit margins giving consideration to historical and expected margins. If the carrying value is not recoverable, the asset or asset group is considered to be impaired. Impairment is measured by comparing the asset or asset group's carrying amount to its fair value. When it is determined that useful lives of assets are shorter than originally estimated, and no impairment is present, the rate of depreciation is accelerated in order to fully depreciate the assets over their new shorter useful lives.

Estimation of the cash flows and useful lives of tangible assets that are long-lived requires significant management judgment. Events could occur that would materially affect our estimates and assumptions. Unforeseen changes in operations or technology could substantially alter the assumptions regarding the ability to realize the return of our investment in long-lived assets or the useful lives. Significant changes in these estimates and assumptions could change the amount of future depreciation expense or could create future impairments of these long-lived assets or asset groups.

**Intangible Assets**

Definite-lived intangible assets are amortized over their estimated useful lives and are assessed for impairment if certain indicators are present. Goodwill is non-amortizing as it is expected to generate cash flows indefinitely. Goodwill is assessed for impairment on an annual basis or more frequently if certain indicators are present. Goodwill is evaluated for impairment at the reporting unit level, which is defined as an operating segment or one level below an operating segment.

We base the fair value of identifiable tangible and intangible assets on detailed valuations that use information and assumptions provided by management. The fair values of intangible assets are determined using one of two valuation approaches: market or income. The selection of a particular method depends on the reliability of available data and the nature of the asset. The market approach values the asset based on available market pricing for comparable assets. The income approach values the asset based on the present value of risk-adjusted cash flows projected to be generated by that asset. The projected cash flows for each asset considers multiple factors from the perspective of a marketplace participant, including current revenue from existing customers, attrition trends, pricing, new product launches, cost synergies, and expected profit margins giving consideration to historical and expected margins.

We test our goodwill balances for impairment on the last day of each fiscal year, or more frequently if certain indicators are present or changes in circumstances suggest that impairment may exist. When evaluating goodwill for impairment, we may first perform an assessment of qualitative factors to determine if the fair value of the reporting units is more-likely-than-not greater than the carrying amount. This qualitative assessment is referred to as a "step zero" approach. If, based on the review of the qualitative factors, we determine it is more-likely-than-not that the fair value of our reporting units is greater than the carrying value, the required two-step impairment test can be bypassed. If we do not perform a step zero assessment or if the fair value of the reporting units is more-likely-than-not less than the carrying value, we must perform a two-step impairment test, and calculate the estimated fair value of the reporting units. If, based upon the two-step impairment test, it is determined that the fair value of our reporting units is less than the carrying value, an impairment loss is recorded to the extent that the implied fair value of the goodwill within the reporting units is less than the carrying value. On December 30, 2016, following our reassessment of our reporting units and reallocation of goodwill on a relative fair value basis, we conducted the first step of the two-step approach for all reporting units.

The implied fair value of goodwill for the reporting units was determined utilizing both the income approach, specifically the Discounted Cash Flow ("DCF") method, and the market approach. The income approach calculates fair value by estimating the after-tax cash flows attributable to a reporting unit and then discounting these after-tax cash flows to a present value using a risk-adjusted discount rate. The market approach calculates fair value by analyzing market comparisons available. We believe that a combination of these approaches represents the most appropriate valuation technique for which sufficient data is available to determine the fair value of our reporting units.

In applying the income approach, we make assumptions about the amount and timing of future expected cash flows, terminal value growth rates and appropriate discount rates. The amount and timing of future cash flows within the DCF analysis is based on our most recent operational budgets, long range strategic plans and other estimates. The terminal value growth rate of approximately 4 percent was used to calculate the value of cash flows beyond the last projected period in our DCF analysis and reflects our best estimates for stable, perpetual growth of our reporting units. We used estimates of market-participant risk-adjusted weighted average cost of capital ("WACC") of approximately 12 percent as a basis for determining the discount rates to apply to our reporting units' future expected cash flows.

Upon completing the first step of the goodwill impairment test, we determined that the fair value of both reporting units exceeded their carrying value by 4.5% for the Nuvectra reporting unit and 34.1% for the NeuroNexus reporting unit.

The goodwill allocated to each of our reporting units may be subject to future impairment if their actual operating results deteriorate from the results from that were expected on December 30, 2016. Examples of a significant deterioration in operating conditions, which could impact the valuation and/or result in an impairment of goodwill are as follows: the loss of one or more significant customers, non-approval of new medical device systems, lack of market acceptance, discontinuation of significant development projects, technology obsolescence or failure of technology, product liability claims, among others.

Although we use consistent methodologies in developing the assumptions and estimates underlying the fair value calculations used in our impairment tests, these estimates are uncertain by nature and can vary from actual results. The use of alternative valuation assumptions, including estimated revenue projections, growth rates, cash flows and discount rates could result in significant changes to our goodwill fair value estimates. The estimates used represent our best estimates, which we believe to be reasonable, but future declines in business performance or relatively small changes in key assumptions may impair the recoverability of our goodwill. For example, a hypothetical 500 basis point increase in weighting the DCF analysis over the market approach would result in the carrying value of the Nuvectra reporting unit to exceed its fair value. A hypothetical 500 basis point decrease in weighting the DCF analysis below the market approach would result in the fair value of the Nuvectra reporting unit to exceed its carrying value by 9%.

**Revenue Recognition**

We recognize revenue when it is realized or realizable and earned. This occurs when persuasive evidence of an arrangement exists, delivery has occurred, the risk of loss is transferred, the price is fixed or determinable, the buyer is obligated to pay (i.e., not contingent on a future event), collectability is reasonably assured, and the amount of future returns can reasonably be estimated. In cases where we utilize distributors or ship product directly to the end user, we generally recognize revenue upon shipment provided all revenue recognition criteria have been met. When sales representatives deliver products at the point of implantation at hospitals or medical facilities, we recognize revenue upon completion of the procedure and authorization.

Service revenue is recognized as the services are performed. Our development services are typically provided on a fixed-fee basis. The revenues for such longer duration projects are typically recognized using the proportional performance method. In using the proportional performance method, revenues are generally recorded based on the percentage of effort incurred to date on a contract relative to the estimated total expected contract effort. Significant judgment is required when estimating total contract effort and progress to completion on the arrangements, as well as whether a loss is expected to be incurred on the contract. We use historical experience, project plans and an assessment of the risks and uncertainties inherent in the arrangements to establish these estimates. Various uncertainties may or may not be within our control.

**Stock-Based Compensation**

We record compensation costs related to our stock-based awards, which currently include stock options and restricted stock units. We measure stock-based compensation cost at the grant date based on the fair value of the award.

Compensation cost for service-based awards is recognized ratably over the applicable vesting period. Compensation cost for Integer nonmarket-based performance awards was reassessed each period and recognized based upon the probability that the performance targets would be achieved. Compensation cost for Integer market-based performance awards was expensed ratably over the applicable vesting period and was recognized each period whether the performance metrics were achieved or not.

The Black-Scholes option-pricing model was used to estimate the fair value of stock options granted. We are required to make certain assumptions with respect to selected Black-Scholes model inputs, including expected volatility, expected life, expected dividend yield and the risk-free interest rate. Expected volatility is based on the historical volatilities for publicly traded stock of comparable companies. The expected life of stock options granted, which represents the period of time that the stock options are expected to be outstanding, is based on contractual term, which approximates the simplified term methodology. The expected dividend yield is based on our history and expectation of dividend payouts. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for a period commensurate with the estimated expected life.

For service-based and nonmarket-based performance restricted stock unit awards, the fair market value of the award is determined based upon the closing value of the stock price on the grant date. Historically, for market-based performance restricted stock unit awards, the fair market value of the award was determined utilizing a Monte Carlo simulation model, which projected the value of Integer's stock under numerous scenarios and determined the value of the award based upon the present value of those projected outcomes.

The amount of stock-based compensation expense recognized is based on the portion of the awards that are ultimately expected to vest. Pre-vesting forfeiture estimates were estimated based upon historical data and are revised if actual forfeitures differ from those estimates. The total expense recognized over the vesting period will only be for those awards that ultimately vest, excluding market and nonmarket performance award considerations.

There is a high degree of subjectivity involved in selecting assumptions to be utilized to determine fair value and forfeiture assumptions. If factors change and result in different assumptions in future periods, the expense that we record for future grants may differ significantly from what we have recorded in the current period. A 5% change in our stock-based compensation expense would change 2016 net loss by approximately $0.1 million.

**Provision for Income Taxes**

Our consolidated financial statements have been prepared using the asset and liability approach in accounting for income taxes, which requires the recognition of deferred income taxes for the expected future tax consequences of net operating losses, credits, and temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. A valuation allowance is provided on deferred tax assets if it is determined that it is more likely than not that the asset will not be realized.

In recording the provision for income taxes, management must estimate the future tax rates applicable to the reversal of temporary differences based upon the timing of expected reversal. Also, estimates are made as to whether taxable operating income in future periods will be sufficient to fully recognize any gross deferred tax assets. If recovery is not likely, we must increase our provision for income taxes by recording a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable. Alternatively, we may make estimates about the potential usage of deferred tax assets that decrease our valuation allowances.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. Significant judgment is required in evaluating our tax positions and determining our provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. We establish reserves for uncertain tax positions when we believe that certain tax positions do not meet the more likely than not threshold. We adjust these reserves in light of changing facts and circumstances, such as the outcome of a tax audit or the lapse of statutes of limitations.

Changes could occur that would materially affect our estimates and assumptions regarding deferred taxes. Changes in current tax laws and tax rates could affect the valuation of deferred tax assets and liabilities, thereby changing the income tax provision. Utilization of our U.S. federal and state net operating losses may be subject to annual limitation due to the ownership change limitations provided by the Internal Revenue Code and similar state provisions. Such an annual limitation could result in the expiration of the net operating loss carryforwards before utilization.

**Our Financial Results**

We utilize a fifty-two, fifty-three week fiscal year ending on the Friday nearest December 31. Fiscal years 2016 and 2015 ended on December 30, 2016 and January 1, 2016, respectively, and each contained fifty-two weeks. A summary of our financial results is as follows (in thousands, except per share data):

| | Year Ended | | Change | |
|---|---|---|---|---|
| | December 30, 2016 | January 1, 2016 | $ | % |
| Sales: | | | | |
| Neural interface components and systems | $ 5,152 | $ 3,920 | $ 1,232 | 31% |
| Algovita | 4,162 | 1,318 | 2,844 | 216% |
| Development and engineering services | 3,221 | — | 3,221 | 100% |
| Total sales | 12,535 | 5,238 | 7,297 | 139% |
| Cost of sales | 6,430 | 3,371 | 3,059 | 91% |
| Gross profit | 6,105 | 1,867 | 4,238 | 227% |
| *Gross profit as a % of sales* | *48.7%* | *35.6%* | | |
| Selling, general and administrative expenses (SG&A) | 28,507 | 10,541 | 17,966 | 170% |
| *SG&A as a % of total operating expenses* | *65.5%* | *40.1%* | | |
| Research, development and engineering costs, net (RD&E) | 14,524 | 15,430 | (906) | (6)% |
| *RD&E as a % of total operating expenses* | *33.4%* | *58.7%* | | |
| Other operating expenses, net | 476 | 312 | 164 | 53% |
| Operating loss | (37,402) | (24,416) | (12,986) | 53% |
| Interest expense, net | 1,311 | — | 1,311 | 100% |
| Other income, net | (285) | — | (285) | 100% |
| Provision for income taxes | — | — | — | — |
| *Effective tax rate* | *0.0%* | *0.0%* | | |
| Net loss | $ (38,428) | $ (24,416) | $ (14,012) | 57% |
| Diluted earnings per share | $ (3.74) | $ (2.38) | $ (1.36) | 57% |

***Sales***

Neural Interface Components and Systems. Neural interface components and systems are related to our NeuroNexus segment and consist of sales of neural interface technology, components, and systems to the neuroscience and clinical markets. The primary factor behind the 31% increase in sales from fiscal year 2015 to fiscal year 2016 was due to increased volume of component sales. Price fluctuations did not have a significant impact on sales for the periods presented.

Algovita. The primary factor behind the 216% increase in sales from fiscal year 2015 to fiscal year 2016 was primarily due to sales in the United States as a result of the commercial launch of Algovita in the United States during the first quarter of 2016, partially offset by lower European sales. We expect to continue to build our worldwide sales organization for Algovita consisting of direct sales representatives and independent sales agents in the United States and a network of distributors and independent sales agents outside of the United States to support future growth.

Development and Engineering Service. In early 2016, we entered into a development agreement with Aleva to develop our neurostimulation technology platform into a complete medical device for use in the DBS market for treatment of Parkinson's disease. In connection with our development agreement with Aleva, we expect, upon completion of a complete medical device for use in the DBS market for the treatment of Parkinson's disease, that Aleva will have primary responsibility for the commercialization of such DBS complete medical device using our licensed technology. We recognized $3.2 million of development and engineering services revenue during fiscal year 2016.

***Cost of Sales***

Cost of sales consists of the costs of materials, labor costs, amortization of technology intangibles, and plant and equipment depreciation and overhead. The primary driver behind the 91% increase in cost of sales from fiscal year 2015 to fiscal year 2016 was the increased revenue, partially offset by a decrease in the cost of certain components and assembly costs for Algovita as a result of our new supply agreement pricing with Integer. We expect that our cost of sales will continue to increase as our sales continue to grow.

From fiscal year 2015 to fiscal year 2016 our gross profit increased $4.2 million or 227%, and our gross profit as a percentage of sales, or Gross Margin, increased to 48.7% in fiscal year 2016 from 35.6% in fiscal year 2015. These increases were primarily due to a shift in mix toward higher margin products and services, as well as pricing improvements under our supply agreement with Integer for Algovita. The Algovita units sold in fiscal year 2015 had negative gross profit as the cost of purchasing these units from Integer was above their selling price given the initial production set-up costs and low volume of production. Purchase orders and our new supply agreement pricing now govern the current price paid to Integer for each Algovita system.

***Selling, General and Administrative Expenses***

Selling, general and administrative ("SG&A") expenses consist primarily of personnel costs, including salary and employee benefits for our sales and marketing personnel and for personnel that support our general operations, such as information technology, executive management, financial accounting, and human resources personnel. SG&A expenses increased $18.0 million, or 170%, from fiscal year 2015 to fiscal year 2016. This increase was primarily the result of increased salary and employee benefits as we have begun to build our worldwide sales organization and establish corporate support functions as an independent publicly-traded company.

Going forward, we expect SG&A expenses to increase as we continue to establish our worldwide sales organization consisting of direct sales representatives and independent sales agents in the United States and a network of distributors and independent sales agents outside of the United States. We expect that this will require recruiting appropriate and qualified direct sales representatives and independent sales agents, expanding our commercial infrastructure in the United States and training our direct sales representatives and independent sales agents, which will require a significant investment. Thereafter, we expect that our sales representatives and independent sales agents will require lead time in the field to access and grow their network of accounts and produce sales results. We believe that successfully recruiting, training and retaining a sufficient number of productive sales representatives and independent sales agents is important in achieving our future growth objective.

After March 14, 2016, our SG&A expenses no longer include an allocation of corporate expenses from Integer but instead reflect fees paid to Integer to provide certain corporate support functions on a transitional basis under the transition services agreement. These corporate allocations included charges for executive oversight, finance, legal, human resources, tax, information technology, product development, corporate procurement, and facilities that totaled $0.2 million and $1.1 million of SG&A expenses for fiscal year 2016 and fiscal year 2015, respectively. These expenses have been charged to us on a pro rata basis based upon estimated hours incurred, headcount, square footage, or other measures. We consider the expense allocation methodology and results to be reasonable for all periods presented. However, these allocations are not indicative of the actual expenses that would have been incurred if we operated as an independent publicly-traded company or of the costs we will incur in the future. At this time, we are unable to determine what our expenses would have been on a standalone basis if we had operated as an unaffiliated entity for each period in which a statement of operations is presented.

***Research, Development and Engineering Costs, Net***

Research, development and engineering ("RD&E") costs primarily include salary and employee benefits for our specialists in software engineering, mechanical engineering, electrical engineering, and graphical user interface design. Many of these specialists have considerable experience in neurostimulation-related products. Additionally, RD&E includes design verification testing ("DVT") expenses, which include salary and employee benefits for our engineers who test the design and materials used in our medical devices.

RD&E costs for fiscal year 2016 decreased $0.9 million, or 6%, compared to fiscal year 2015. This decrease was primarily due to receiving no allocation of corporate expenses from Integer, partially offset by increased personnel-related and project-related expenses. As we must continually strive to anticipate and meet our customers' and patients' evolving needs and preferences, we expect to invest in product development, product enhancements and improvements and future clinical studies to further develop and update our existing technologies and to expand the features offered in Algovita. We also intend to continue to pursue strategic partnerships to fund clinical and development costs, in part or in full, of new products, expand our product distribution channels, improve our access to physicians and opinion leaders, supplement our product commercialization efforts, obtain assistance in performing clinical studies, add specialized clinical or regulatory expertise, or acquire or obtain access to complementary intellectual property.

***Other Operating Expenses***

Other operating expenses were comprised of the following (in thousands):

| | Year Ended | |
|---|---|---|
| | December 30, 2016 | January 1, 2016 |
| Performance restricted stock expense | $ 469 | $ — |
| Cleveland facility shutdown | — | 271 |
| Other expenses | 7 | 41 |
| | $ 476 | $ 312 |

For additional information, see Note 6 “Other Operating Expenses” of the notes to our Consolidated Financial Statements.

***Interest Expense, Net***

Interest expense, net for fiscal year 2016 and fiscal year 2015 was $1.3 million and $0, respectively. Interest expense, including amortization of deferred financing fees and discounts on debt, related to our credit facility was $1.4 million for the year ended December 30, 2016. Interest income from investments was $0.1 million for the year ended December 30, 2016. There was no such interest income or expense for fiscal year 2015. For additional information, see Note 7 “Debt” of the notes to our Consolidated Financial Statements.

***Provision for Income Taxes***

During fiscal years 2016 and 2015, we recorded a valuation allowance for the amount of the deferred tax asset that was generated from our net losses and federal research and development tax credit earned and Section 754 election to the extent they exceeded any deferred tax liability, as it was more likely than not that the deferred tax asset generated from those activities will not be realized. Accordingly, we made no provision for income taxes for fiscal years 2016 and 2015. See Note 8 “Income Taxes” of the notes to our Consolidated Financial Statements for disclosures related to our income taxes.

**Liquidity and Capital Resources**

***Background***

Integer uses a centralized approach to cash management and financing of operations. We were previously a party to Integer’s cash pooling arrangements with several financial institutions to maximize the availability of cash for general operating and investing purposes. Under these cash pooling arrangements, cash was provided by Integer to meet our financial obligations, which resulted in an increase in Integer’s net investment in us. Furthermore, Integer paid for substantially all transaction costs, other than deferred financing fees for the credit facility, associated with the spin-off. This financing and cash pooling arrangement with Integer ended in connection with the completion of the spin-off.

Because we were not the legal obligor of the debt obligation and Integer’s outstanding borrowings were not directly attributable to our operations, Integer’s outstanding indebtedness owed to third parties and the related interest expense have not been allocated to us for any of the periods presented in our Consolidated Financial Statements.

Immediately prior to the completion of the spin-off, Integer made a cash capital contribution of $75.0 million to us, which we have been using for the continued development and commercialization of Algovita and general corporate purposes. This cash capital contribution, together with our cash on hand and borrowings under our credit facility, as amended, $25 million of which is subject to achieving trailing six month revenue milestones and compliance with specified conditions and covenants, is in an amount that we estimate will, based on our current plans and expectations, meet our cash needs for at least two years after the completion of the spin-off. We periodically evaluate our liquidity requirements, alternative uses of capital, capital needs and available resources. As a result of this process, we have in the past sought, and may in the future seek, to explore strategic alternatives to finance our business plan, including but not limited to, a public offering of our common stock, private equity or debt financings, or other sources, such as strategic partnerships. We are also focusing on increasing the sales of our products to generate cash flow to fund our operations. However, there can be no assurance that we will be successful in our plans described above or in attracting alternative debt or equity financing. Pursuant to the terms of the tax matters agreement with Integer, for the next 12 months, we will be prohibited from (i) causing or permitting to occur any transaction or series of transactions, subject to certain exceptions provided under the U.S. federal income tax rules, in connection with which one or more persons would (directly or indirectly) acquire an interest in our capital stock that, when combined with any other acquisition of an interest in our capital stock that occurs after the spin-off, comprises 30% or more of the value or the total combined voting power of all interests that are treated as outstanding equity of Nuvectra for U.S.

federal income tax purposes immediately after such transaction or, in the case of a series of related transactions, immediately after any transaction in such series; (ii) transferring, selling or otherwise disposing of 35% or more of our gross assets if such transfer, sale or other disposition would violate the IRS' rules and regulations; (iii) liquidating our business or (iv) ceasing to maintain our active business. If we take any of these actions and such actions result in tax-related costs for Integer, then we would generally be required to indemnify Integer for such costs. If we are unable to raise or are prohibited under the terms of the tax matters agreement with Integer from raising additional funds when needed, we may be required to delay, reduce, or terminate some or all of our development plans.

Currently, we expect our research and development expenses for fiscal year 2017 to be between approximately $15 million and $20 million. These expenditures are primarily to continue and expand our research and development program to enhance and improve Algovita and Virtis and to continue to develop our neurostimulation technology platform for uses in indications outside of SCS. We expect to finance our expenditures using the cash on-hand from the Integer capital contribution and from internally generated funds. We may increase, decrease or re-allocate our anticipated expenditures during any period based on industry conditions, the availability of capital, or other factors. We believe that nearly all of our anticipated research and development expenditures are discretionary.

We have incurred significant net losses and negative cash flows from operations since our inception and we expect to continue to incur additional net losses for the foreseeable future.

***Consolidated Cash Flows***

Net cash used in operating activities was $25.8 million compared to a net loss of $38.4 million for fiscal year 2016. Net cash used in operating activities was $23.4 million compared to a net loss of $24.4 million for fiscal year 2015. The primary components driving the change in cash used in operating activities was the increase in our net loss from operations (adjusted to exclude non-cash charges) and changes in working capital accounts. Depreciation and amortization increased by $1.7 million in fiscal year 2016. Approximately 72% of the increase related to accelerated depreciation of our former Enterprise Resource Planning software. The remaining increase in depreciation and amortization was primarily related to new information technology hardware and software for our worldwide sales organization and corporate support functions. Stock-based compensation increased by $1.3 million in fiscal year 2016. The increase was related to new equity grants under our Nuvectra Corporation 2016 Equity Incentive Plan. See Note 5 "Employee Benefit Plans" of the notes to the Consolidated Financial Statements contained in Item 8 of this Annual Report on Form 10-K for additional information on stock-based compensation. Debt related amortization included in interest expense increased by $0.5 million in fiscal year 2016. The increase was equally related to amortization of our deferred financing fees and discount on debt. See Note 7 "Debt" of the notes to the Consolidated Financial Statements contained in Item 8 of this Annual Report on Form 10-K for additional information on debt related amortization.

Net cash used in investing activities was $4.0 million for fiscal year 2016 compared to $0.5 million for fiscal year 2015. Cash used in investing activities related to the purchases of property, plant, and equipment ("PP&E"). During fiscal year 2015, Integer contributed a building and certain fixed assets located in Blaine, Minnesota to us for use in our operations, which had a net book value of $1.8 million, and we are now fully utilizing these assets. Previously, these assets were shared by various Integer entities, and Integer allocated costs to each entity. Additionally, during fiscal year 2015, we transferred certain machinery and equipment with a net book value of $2.0 million, which previously had been used for DVT, to Integer to utilize in the production of Algovita. These transfers were treated as non-cash transactions in the Consolidated Cash Flows. As of December 30, 2016, we had no material commitments to purchase capital assets; however, planned capital expenditures for fiscal year 2017 are estimated at approximately $2.5 million and will primarily be financed by existing cash and cash equivalents, cash generated from operations, or the Credit Facility.

Net cash provided by financing activities was $93.3 million for fiscal year 2016 compared to $23.7 million for fiscal year 2015. Cash provided by financing activities was primarily composed of the investment provided by Integer that was partially offset by the repurchase of non-controlling interests in Algostim and PelviStim, which was funded by a cash contribution from Integer, and $15.0 million of borrowings under our credit facility partially offset by $1.5 million of debt issuance costs.

***Credit Facility***

Our current Loan and Security Agreement, as amended in February 2017 (the "Credit Facility"), consists of (a) term loan facilities in an aggregate maximum principal amount of $40 million comprised of (i) a $15 million Term Loan A Commitment, which was funded in full on March 18, 2016, (ii) a $12.5 million Term Loan B Commitment, which is available from June 30, 2017 through December 31, 2017, and (iii) a $12.5 million Term Loan C Commitment, which is available from December 31, 2017 through June 30, 2018; and (b) a Revolving Line Commitment in a maximum principal amount of $5 million. Availability of the Term Loan B Commitment is subject to us achieving consolidated trailing six-month revenues of at least $13.5 million, and the availability of the Term Loan C Commitment is subject to us achieving consolidated trailing six-month revenues of at least $20 million. We have the right to borrow on each Term Loan B and C Commitments within 60 days of achieving the applicable revenue threshold. The term loan bears interest at the Wall Street Journal prime rate plus 4.15%, subject to an interest rate floor of 7.65%. At December 30, 2016 the interest rate on borrowings under the term loan was 7.65%. The Credit Facility provides for interest-only payments on outstanding term loan borrowings for 21 months after the first borrowing, if the Term Loan B Commitment is not drawn, or 24 months after the first borrowing, if the Term Loan B Commitment is drawn, followed by 33 months, if the Term Loan B Commitment is not drawn, or 30 months, if the Term Loan B Commitment is drawn, of principal payments in equal amounts on outstanding term loan borrowings plus accrued interest payments.

In addition, under the terms of the Credit Facility, we have access to a $5 million revolving line of credit, subject to an advance rate equal to 80% of eligible accounts receivable. This revolving line of credit has a maturity date of March 18, 2018. The revolving line of credit bears interest at the Wall Street Journal prime rate plus 3.45%, subject to an interest rate floor of 6.95%. Interest on outstanding borrowings under the revolving line of credit is due monthly. Additionally, our outstanding accounts receivable are processed through a cash collection account and lockbox at one of the lenders for the Credit Facility, with all amounts collected being applied to reduce the outstanding principal amount of the revolving line of credit on a daily basis.

Under the terms of the Credit Facility, we paid a commitment fee in an amount equal to 0.50% of the aggregate principal amount of the term loan and the revolving line of credit. We also paid a fee of $25,000 plus the expenses of the lenders when we amended the Credit Facility in February 2017. In addition, we will pay a final payment fee in an amount equal to 7.75% of the funded amount of the term loan, which final payment fee is due at the time of the final principal payment for the Credit Facility or upon early termination of the Credit Facility. If we satisfy the conditions and covenants to allow for drawing on the Term Loan B and C Commitments but do not draw upon such commitment prior to the availability expiration date, we will pay a non-use fee of 2.00% of the unfunded amount of such commitment.

If available and we draw on the Term Loan B or C Commitments, we will issue warrants to the lenders to purchase a number of shares of our common stock with a notional value equal to 4.5% of the funded amount of such commitment, with all warrants issued at such time having an exercise price equal to the lower of the average closing price of our common stock for the ten previous days of trading or the closing price of our common stock on the day prior to such commitment funding. Each warrant is expected to be exercisable for ten years from the date of issuance.

In connection with arranging the Credit Facility, we paid Piper Jaffray an arrangement fee of $1,125,000, which equals 2.50% of the aggregate principal amount of the Credit Facility.

The Credit Facility includes affirmative and negative covenants, including an affirmative covenant regarding minimum revenue requirements, prohibitions on the payment of cash dividends on our capital stock, and restrictions on mergers, sales of assets, investments, incurrence of liens, incurrence of indebtedness and transactions with affiliates. The Credit Facility includes a prepayment fee for the prepayment of the outstanding term loan balance prior to the maturity date in an amount equal to 3.00% of the prepaid term loan balance for a prepayment made during the first year after closing, 2.00% of the prepaid term loan balance for a prepayment made during the second year after closing and 1.00% of the prepaid term loan balance for a prepayment made thereafter. Our obligations under the Credit Facility are secured by substantially all of our assets, except for our intellectual property, which is subject to a negative pledge covenant.

**Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements within the meaning of Item 303(a)(4) of Regulation S-K.

**Recently Issued Accounting Standards**

In the normal course of business, we evaluate all new accounting pronouncements issued by the Financial Accounting Standards Board ("FASB") to determine the potential impact they may have on our Consolidated Financial Statements. See Note 15 "Recently Issued Accounting Standards" of the notes to the Consolidated Financial Statements contained in Item 8 of this Annual Report on Form 10-K for additional information about these recently issued accounting standards and their potential impact on our financial condition or results of operations.

**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

***Foreign Currency Risk –*** We are exposed to adverse movements in foreign currency exchange rates because we conduct business on a global basis.

***Interest Rate Risk –*** The interest rate on any outstanding balance under the term loan of our Credit Facility is based upon the Wall Street Journal prime rate plus 4.15%, subject to an interest rate floor of 7.65%, thus subjecting us to interest rate risk. At December 30, 2016 our interest rate on the $15 million outstanding balance was 7.65%. A hypothetical 50 basis point increase in the interest rate would have increased annual interest expense on this credit facility by approximately $75,000.

**Item 8. Financial Statements and Supplementary Data**

## INDEX TO FINANCIAL STATEMENTS

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Nuvectra Corporation
Plano, Texas

We have audited the accompanying consolidated balance sheets of Nuvectra Corporation and subsidiaries (the "Company") as of December 30, 2016 and January 1, 2016, and the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for each of the two years in the periods ended December 30, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 30, 2016 and January 1, 2016, and the results of its operations and its cash flows for each of the two years in the periods ended December 30, 2016, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

Dallas, Texas
March 9, 2017

**NUVECTRA CORPORATION**
**CONSOLIDATED BALANCE SHEETS**
**(in thousands, except share and per share data)**

| | As of | |
|---|---|---|
| | **December 30, 2016** | **January 1, 2016** |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 63,710 | $ 202 |
| Trade accounts receivable, net of allowance for doubtful accounts of $10 in fiscal 2016 and $56 in fiscal 2015 | 3,177 | 417 |
| Inventories | 5,233 | 24 |
| Prepaid expenses and other current assets | 443 | 121 |
| Total current assets | 72,563 | 764 |
| Property, plant and equipment, net | 6,317 | 4,469 |
| Intangible assets, net | 1,714 | 1,983 |
| Goodwill | 38,182 | 38,182 |
| Other long-term assets | 526 | — |
| Total assets | $ 119,302 | $ 45,398 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 9,928 | $ — |
| Accrued liabilities | 3,355 | 18 |
| Other accrued compensation | 1,766 | 524 |
| Accrued bonuses | 991 | 198 |
| Amount due to non-controlling interests | — | 6,818 |
| Total current liabilities | 16,040 | 7,558 |
| Other long-term liabilities | 940 | — |
| Long-term debt, net | 13,744 | — |
| Total liabilities | 30,724 | 7,558 |
| Commitments and contingencies (Note 9) | | |
| Stockholders' equity: | | |
| Common stock, $0.001 par value, 100,000,000 shares authorized; 10,319,627 and 0 shares issued and outstanding in fiscal 2016 and fiscal 2015, respectively | 10 | — |
| Additional paid-in capital | 121,806 | — |
| Accumulated other comprehensive loss | (2) | — |
| Accumulated deficit | (33,236) | (125,094) |
| Integer's net investment | — | 162,934 |
| Total stockholders' equity | 88,578 | 37,840 |
| Total liabilities and stockholders' equity | $ 119,302 | $ 45,398 |

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

**NUVECTRA CORPORATION**
**CONSOLIDATED STATEMENTS OF OPERATIONS**
**AND COMPREHENSIVE LOSS**
**(in thousands, except per share data)**

| | Year Ended | |
|---|---|---|
| | December 30, 2016 | January 1, 2016 |
| Sales: | | |
| Product | $ 9,314 | $ 5,238 |
| Service | 3,221 | — |
| Total sales | 12,535 | 5,238 |
| Cost of sales: | | |
| Product | 4,806 | 3,371 |
| Service | 1,624 | — |
| Total cost of sales | 6,430 | 3,371 |
| Gross profit | 6,105 | 1,867 |
| Operating expenses: | | |
| Selling, general and administrative expenses | 28,507 | 10,541 |
| Research, development and engineering costs, net | 14,524 | 15,430 |
| Other operating expenses | 476 | 312 |
| Total operating expenses | 43,507 | 26,283 |
| Operating loss | (37,402) | (24,416) |
| Interest expense, net | 1,311 | — |
| Other income, net | (285) | — |
| Loss before provision for income taxes | (38,428) | (24,416) |
| Provision for income taxes | — | — |
| Net loss | $ (38,428) | $ (24,416) |
| Other comprehensive loss: | | |
| Unrealized holding loss on investments arising during period | (2) | — |
| Other comprehensive loss | (2) | — |
| Comprehensive loss | $ (38,430) | $ (24,416) |
| Basic and diluted net loss per share | $ (3.74) | $ (2.38) |
| Basic and diluted weighted average shares outstanding | 10,277 | 10,258 |

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

**NUVECTRA CORPORATION**
**CONSOLIDATED CASH FLOW STATEMENTS**
**(in thousands)**

| | Year Ended | |
|---|---|---|
| | **December 30, 2016** | **January 1, 2016** |
| Cash flows from operating activities: | | |
| Net loss | $ (38,428) | $ (24,416) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Writedowns of excess and obsolete inventories | 156 | — |
| Depreciation and amortization | 2,243 | 587 |
| Debt related amortization included in interest expense | 510 | — |
| Stock-based compensation | 2,370 | 1,050 |
| Loss on disposal of property, plant and equipment | 226 | — |
| Other non-cash losses, net | — | 235 |
| Changes in operating assets and liabilities: | | |
| Trade accounts receivable | (2,760) | 234 |
| Inventories | (5,365) | — |
| Prepaid expenses and other current assets | (322) | 190 |
| Accounts payable and other current liabilities | 12,610 | (265) |
| Other accrued compensation | 1,242 | — |
| Accrued bonuses | 793 | (1,045) |
| Other long-term liabilities | 940 | — |
| Net cash used in operating activities | (25,785) | (23,430) |
| Cash flows from investing activities: | | |
| Acquisition of property, plant and equipment | (4,031) | (529) |
| Net cash used in investing activities | (4,031) | (529) |
| Cash flows from financing activities: | | |
| Borrowings under credit facility | 15,000 | — |
| Purchase of non-controlling interests | (6,818) | (9,875) |
| Net funding and capital contribution provided by Integer | 86,421 | 33,618 |
| Proceeds from the exercise of stock options | 249 | — |
| Payment of debt issuance costs | (1,528) | — |
| Net cash provided by financing activities | 93,324 | 23,743 |
| Net increase (decrease) in cash and cash equivalents | 63,508 | (216) |
| Cash and cash equivalents, beginning of period | 202 | 418 |
| Cash and cash equivalents, end of period | $ 63,710 | $ 202 |

Supplemental Disclosure of Cash Flow Information:

| | | |
|---|---|---|
| Interest paid | $ 822 | — |

During the year ended December 30, 2016, Nuvectra acquired $4.1 million of property, plant and equipment, of which $0.1 million was accrued and $4.0 million was paid.

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

**NUVECTRA CORPORATION**
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**
**(in thousands)**

| | Common Stock | | Additional Paid-In | Accumulated | Accumulated Other Comprehensive | Integer's | Total Stockholders' |
|---|---|---|---|---|---|---|---|
| | Shares | Amount | Capital | Deficit | Loss | Net Investment | Equity |
| At January 2, 2015 | — | $ — | $ — | $ (100,678) | $ — | $ 145,166 | $ 44,488 |
| Parent allocation – stock-based compensation | — | — | — | — | — | 1,050 | 1,050 |
| Purchase of non-controlling interests | — | — | — | — | — | (16,693) | (16,693) |
| Net funding provided by Integer | — | — | — | — | — | 33,411 | 33,411 |
| Net loss | — | — | — | (24,416) | — | — | (24,416) |
| At January 1, 2016 | — | $ — | $ — | $ (125,094) | $ — | $ 162,934 | $ 37,840 |
| Issuance of common stock | 10,258 | 10 | 119,624 | 125,094 | — | (244,728) | — |
| Issuance of common stock warrants | — | — | 238 | — | — | — | 238 |
| Option exercises | 51 | — | 249 | — | — | — | 249 |
| Restricted stock issued, net of stock forfeited | 11 | — | — | — | — | — | — |
| Stock-based compensation | — | — | 1,695 | — | — | 675 | 2,370 |
| Capital contribution from Integer | — | — | — | — | — | 75,000 | 75,000 |
| Net funding provided by Integer | — | — | — | — | — | 11,311 | 11,311 |
| Unrealized holding period loss | — | — | — | — | (2) | — | (2) |
| Net loss | — | — | — | (33,236) | — | (5,192) | (38,428) |
| At December 30, 2016 | 10,320 | $ 10 | $ 121,806 | $ (33,236) | $ (2) | $ — | $ 88,578 |

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Nature of Operations*** – Nuvectra Corporation, together with its wholly-owned subsidiaries (i) Algostim, LLC ("Algostim"), (ii) PelviStim LLC ("PelviStim"), and (iii) NeuroNexus Technologies, Inc. ("NeuroNexus") (collectively "Nuvectra" or the "Company"), is a neurostimulation company committed to helping physicians improve the lives of people with chronic neurological conditions. The Algovita® Spinal Cord Stimulation ("SCS") System ("Algovita") is the Company's first commercial offering and is Conformité Européene ("CE") marked and United States Food & Drug Administration ("FDA") approved for the treatment of chronic pain of the trunk and/or limbs. Nuvectra's innovative technology platform also has capabilities under development to support other neurological indications such as sacral nerve stimulation ("SNS") and deep brain stimulation ("DBS"). In addition, the Company's NeuroNexus subsidiary designs, manufactures and markets neural-interface technologies for the neuroscience clinical research market.

***Basis of Presentation*** – The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) and with the instructions to Form 10-K and Regulation S-X.

On July 30, 2015, Integer Holdings Corporation (NYSE: ITGR), formerly known as Greatbatch, Inc., ("Integer") announced that it intended to spin-off QiG Group, LLC ("QiG") and its neuromodulation medical device business from the remainder of its business through a distribution of all of the issued and outstanding shares of common stock of QiG to the stockholders of Integer on a pro rata basis. Immediately prior to completion of the spin-off on March 14, 2016, QiG was converted into a corporation and changed its name to Nuvectra Corporation. Prior to March 14, 2016, the financial statements of QiG were prepared on a "combined" basis from the consolidated financial statements of Integer to represent the financial position and performance of QiG as if it had existed on a stand-alone basis in conformity with GAAP. Those combined financial statements included the assets and liabilities that had historically been held at Integer but which were specifically identifiable or attributable to the Company or were transferred to the Company in connection with the spin-off. All intercompany transactions and accounts within the Company have been eliminated. All transactions between the Company and Integer were considered to be effectively settled in the combined financial statements at the time the transaction was recorded. The total net effect of the settlement of these intercompany transactions were reflected in the combined cash flow statements as a financing activity and in the combined balance sheets as Integer's Net Investment.

Those combined financial statements included an allocation of expenses related to certain Integer corporate functions, including executive oversight, finance, legal, human resources, tax, information technology, product development, corporate procurement, and facilities. These expenses were charged to the Company on the basis of direct usage, when identifiable, with the remainder allocated primarily on a pro rata basis of estimated hours incurred, headcount, square footage, or other measures. The Company's management considers the expense allocation methodology and results to be reasonable for all periods presented. However, these allocations are not indicative of the actual expenses that would have been incurred if the Company had been an independent publicly-traded company or of the costs the Company will incur in the future. Following the spin-off, Integer has continued to provide many of these services on a transitional basis for a fee. See Note 14 "Related Party Transactions" for additional information. Additionally, Integer maintains a number of employee benefit and stock-based compensation programs at a corporate level. Nuvectra's employees historically participated in those programs, and as such, the Company was charged a portion of the expenses associated with these programs. Any benefit plan liabilities that are the Company's direct obligation, such as certain performance-based bonus plans, are reflected in the Consolidated Balance Sheets, as well as within the Company's operating expenses. See Note 5 "Employee Benefit Plans" for further description of these plans.

***Liquidity and Capital Resources*** – Integer's Net Investment in these Financial Statements represented the excess of total assets over total liabilities prior to the spin-off. Integer's Net Investment was primarily impacted by contributions from Integer and net funding of Nuvectra's expenses provided by Integer. Integer paid for substantially all transaction costs, other than deferred financing fees for the credit facility, associated with the spin-off. The Company has incurred significant net losses and negative cash flows from operations since inception and expects to incur additional net losses for the foreseeable future. Immediately prior to completion of the spin-off, Integer made a cash capital contribution to Nuvectra of $75 million. This cash capital contribution, together with the Company's cash on hand and borrowings under the credit facility, as amended, $25 million of which is subject to achieving trailing six month revenue milestones and compliance with specified conditions and covenants, is an amount that the Company estimates will, based on its current plans and expectations, meet its cash needs for at least two years after the completion of the spin-off. The Company periodically evaluates its liquidity requirements, alternative uses of capital, capital needs and available resources. As a result of this process, the Company has in the past sought, and may in the future seek, to explore strategic alternatives to finance its business plan, including but not limited to, a public offering of its common stock, private equity or debt financings, or other sources, such as strategic partnerships. The Company is also focusing on increasing the sales of its products to generate cash flow to fund its operations. However, there can be no assurance that the Company will be successful in its plans described above or in attracting alternative debt or equity financing.

***Fiscal Year End*** – The Company utilizes a fifty-two, fifty-three week fiscal year ending on the Friday nearest December 31. Fiscal years 2016 and 2015 ended on December 30, 2016 and January 1, 2016, respectively, and both contained fifty-two weeks.

***Use of Estimates*** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of sales and expenses during the reporting period. Actual results could differ materially from those estimates. Significant items subject to such estimates and assumptions include inventories, tangible and intangible asset valuations, accrued liabilities, revenue, stock-based compensation, warrants, and income tax accounts.

***Fair Value Measurements*** – Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e. the "exit price") in an orderly transaction between market participants at the measurement date. Accounting Standards Codification ("ASC") establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1 – Valuation is based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Level 1 valuations do not entail a significant degree of judgment.

Level 2 – Valuation is determined from quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in markets that are not active or by model-based techniques in which all significant inputs are observable in the market.

Level 3 – Valuation is based on unobservable inputs that are significant to the overall fair value measurement. The degree of judgment in determining fair value is greatest for Level 3 valuations.

The availability of observable inputs can vary and is affected by a wide variety of factors, including, the type of asset/liability, whether the asset/liability is established in the marketplace, and other characteristics particular to the valuation. To the extent that a valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, assumptions are required to reflect those that market participants would use in pricing the asset or liability at the measurement date. The carrying amounts of cash and cash equivalents, trade accounts receivable, accounts payable and other current liabilities and accrued bonuses approximate fair value because of the short-term nature of these items. Note 11 "Fair Value Measurements" contains additional information on assets and liabilities recorded at fair value in the Consolidated Financial Statements.

***Cash and Cash Equivalents*** – Cash and Cash Equivalents consist of cash and highly liquid, short-term investments with maturities at the time of purchase of three-months or less.

***Concentration of Credit Risk*** – Financial instruments that potentially subject the Company to concentration of credit risk consist principally of trade accounts receivable owed to the Company by its customers. The Company performs on-going credit evaluations of its customers. During fiscal year 2016, sales to Aleva Neurotherapeutics S.A. ("Aleva") were $3.1 million (or 25%) of the Company's consolidated revenues. During fiscal year 2015, all Algovita SCS system sales were to one European distributor. No other customers individually accounted for more than 10% of the Company's consolidated revenues in the periods presented. Included in accounts receivable at December 30, 2016 was $0.3 million due from Aleva. No other customers individually accounted for more than 10% of the Company's accounts receivable at the balance sheet dates presented. Additionally, the Company maintains cash deposits with major banks, which from time to time may exceed insured limits. The Company performs on-going credit evaluations of its banks. See Note 13 "Business Segments, Geographic and Concentration Risk Information" for additional information.

***Allowance for Doubtful Accounts*** – The Company provides credit, in the normal course of business, to its customers in the form of trade accounts receivable. Credit is extended based on evaluation of a customer's financial condition and collateral is not required. The Company maintains an allowance for those customer receivables that it does not expect to collect. The Company accrues its estimated losses from uncollectable accounts receivable to the allowance based upon recent historical experience, the length of time the receivable has been outstanding and other specific information as it becomes available. Provisions to the allowance for doubtful accounts are charged to current operating expenses. Actual losses are charged against this allowance when incurred. The allowance for doubtful accounts was $0.01 million and $0.06 million at the end of fiscal years 2016 and 2015, respectively.

***Inventories*** – The value of inventories, comprised solely of finished goods, are stated at the lesser of market value or cost, determined using the first-in, first-out ("FIFO") method. To value inventory, management must estimate excess or obsolete inventory, as well as inventory that is not of saleable quality. This valuation involves an inherent level of risk and uncertainty due to unpredictability of trends in the industry and customer demand for the Company's products. In assessing the ultimate realization of inventories, management must make judgments as to future demand requirements and compare that with the current or committed inventory levels. Reserve requirements generally increase as demand decreases due to market conditions and technological and product life-cycle changes. Writedowns of excess and obsolete inventories were $156,000 and $0 in fiscal years 2016 and 2015, respectively. Future events and variations in valuation methods or assumptions may cause significant fluctuations in this estimate and could have a material impact on the Company's results.

***Property, Plant and Equipment, Net ("PP&E")*** – PP&E is carried at cost less accumulated depreciation. Depreciation is computed by the straight-line method over the estimated useful lives of the assets, as follows: buildings and building improvements 7-40 years; machinery and equipment 3-8 years; office equipment 3-10 years; and leasehold improvements over the remaining lives of the improvements or the lease term, if less. The cost of repairs and maintenance are expensed as incurred; renewals and betterments are capitalized. Upon retirement or sale of an asset, its cost and related accumulated depreciation or amortization is removed from the accounts and any gain or loss is recorded in operating income or expense.

The Company is a party to various operating lease agreements for buildings, machinery, and equipment. Lease expense includes the effect of escalation clauses, which are accounted for ratably over the lease term. Note 2 "Property, Plant and Equipment, Net" contains additional information on the Company's PP&E.

***Amortizing Intangible Assets, Net*** – Amortizing Intangible Assets, Net consists primarily of purchased technology and patents, and customer lists. The Company amortizes its definite-lived intangible assets over their estimated useful lives utilizing an accelerated method of amortization, which approximates the projected cash flows used to fair value those intangible assets at the time of acquisition. The amortization period for the Company's amortizing intangible assets are as follows: purchased technology and patents 6 years; and customer lists 7 years. See Note 3 "Intangible Assets" for additional information on the Company's amortizing intangible assets.

***Impairment of Long-Lived Assets*** – The Company assesses the impairment of definite-lived long-lived assets or asset groups when events or changes in circumstances indicate that the carrying value may not be recoverable. Factors that are considered in deciding when to perform an impairment review include: a significant decrease in the market price of the asset or asset group; a significant change in the extent or manner in which a long-lived asset or asset group is being used or in its physical condition; a significant change in legal factors or in the business climate that could affect the value of a long-lived asset or asset group, including an action or assessment by a regulator; an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction; a current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset or asset group; or a current expectation that, more likely than not, a long-lived asset or asset group will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. The term more likely than not refers to a level of likelihood that is more than 50 percent.

Potential recoverability is measured by comparing the carrying amount of the asset or asset group to its related total future undiscounted cash flows. The projected cash flows for each asset or asset group considers multiple factors, including current revenue from existing customers, proceeds from the sale of the asset or asset group and expected profit margins giving consideration to historical and expected margins. If the carrying value is not recoverable, the asset or asset group is considered to be impaired. Impairment is measured by comparing the asset or asset group's carrying amount to its fair value. When it is determined that useful lives of assets are shorter than originally estimated, and no impairment is present, the rate of depreciation is accelerated in order to fully depreciate the assets over their new shorter useful lives.

***Goodwill Valuation*** – A portion of the assets acquired by Integer giving rise to goodwill were allocated to Nuvectra in the spin-off. Accordingly, $38.2 million of Integer's historical goodwill was allocated to Nuvectra based upon the relative fair value method as of December 2013. This date was chosen as this was the date QiG became a reportable segment for Integer after its corporate realignment. As of January 1, 2016, no accumulated impairment loss had been recognized for goodwill. For the fiscal year 2015 assessment, we had only one reportable segment and one reporting unit. The discussion below for fiscal year 2016 relates to two new reporting units.

As a new public entity, the Company commenced its first comprehensive annual operational planning process with its executive leadership team and board of directors in the fourth quarter of 2016. As part of that process, the Company assessed its reporting structure and changed the composition of its reporting units for goodwill impairment testing purposes. Following this process, based on information that is regularly reviewed by our chief operating decision maker, the Company now has two reportable segments consisting of: Nuvectra and NeuroNexus. The Company determined its new reporting units by identifying its operating segments and assessing whether any components of these segments constituted a business for which discrete financial information is available and whether segment management would regularly review the operating results of any components. Through this process, the Company identified two reporting units: Nuvectra and NeuroNexus. The $38.2 million of goodwill previously allocated to the former single reporting unit was reallocated between the two new Nuvectra and NeuroNexus reporting units on the relative fair value method.

The Company tests its goodwill balances for impairment on the last day of each fiscal year, or more frequently if certain indicators are present or changes in circumstances, as described above, suggest that impairment may exist. When evaluating goodwill for impairment, the Company may first perform an assessment of qualitative factors to determine if the fair value of the reporting units is more-likely-than-not greater than the carrying amount. This qualitative assessment is referred to as a "step zero" approach. If, based on the review of the qualitative factors, the Company determines it is more-likely-than-not that the fair value of its reporting units is greater than the carrying value, the required two-step impairment test can be bypassed. If the Company does not perform a step zero assessment or if the fair value of the reporting units is more-likely-than-not less than the carrying value, the Company must perform a two-step impairment test, and calculate the estimated fair value of the reporting units. If, based upon the two-step impairment test, it is determined that the fair value of its reporting units is less than the carrying value, an impairment loss is recorded to the extent that the implied fair value of the goodwill within the reporting units is less than the carrying value. On December 30, 2016, following its reassessment of its reporting units and reallocation of goodwill on a relative fair value basis, the Company conducted the first step of the two-step approach for all reporting units.

The implied fair value of goodwill for the reporting units was determined utilizing both the income approach, specifically the Discounted Cash Flow ("DCF") method, and the market approach. The income approach calculates fair value by estimating the after-tax cash flows attributable to a reporting unit and then discounting these after-tax cash flows to a present value using a risk-adjusted discount rate. The market approach calculates fair value by analyzing market comparisons available. The Company believes that a combination of these approaches represents the most appropriate valuation technique for which sufficient data is available to determine the fair value of its reporting units.

In applying the income approach, the Company makes assumptions about the amount and timing of future expected cash flows, terminal value growth rates and appropriate discount rates. The amount and timing of future cash flows within the DCF analysis is based on the Company's most recent operational budgets, long-range strategic plans and other estimates. The terminal value growth rate of approximately 4 percent was used to calculate the value of cash flows beyond the last projected period in our DCF analysis and reflects the Company's best estimates for stable, perpetual growth of its reporting units. The Company used estimates of market-participant risk-adjusted weighted average cost of capital ("WACC") of approximately 12 percent as a basis for determining the discount rates to apply to its reporting units' future expected cash flows.

Upon completing the first step of the goodwill impairment test, the Company determined that the fair value of both reporting units exceeded their carrying value by 4.5% for the Nuvectra reporting unit and 34.1% for the NeuroNexus reporting unit.

Although the Company uses consistent methodologies in developing the assumptions and estimates underlying the fair value calculations used in its impairment tests, these estimates are uncertain by nature and can vary from actual results. The use of alternative valuation assumptions, including estimated revenue projections, growth rates, cash flows and discount rates could result in significant changes to our goodwill fair value estimates. The estimates used represent management's best estimates, which it believes to be reasonable, but future declines in business performance or relatively small changes in key assumptions may impair the recoverability of our goodwill. For example, a hypothetical 500 basis point increase in weighting the DCF analysis over the market approach would result in the carrying value of the Nuvectra reporting unit to exceed its fair value. A hypothetical 500 basis point decrease in weighting the DCF analysis below the market approach would result in the fair value of the Nuvectra reporting unit to exceed its carrying value by 9%.

The following represents our goodwill balance by reportable segment. The prior period information has been restated to conform to the current presentation. Changes to goodwill during the years ended December 30, 2016 and January 1, 2016 were as follows (in thousands):

| | Nuvectra | NeuroNexus | Total |
|---|---|---|---|
| Balance – January 2, 2015 | | | |
| Goodwill, gross | $ 33,491 | $ 4,691 | $ 38,182 |
| Accumulated impairment losses | — | — | — |
| Goodwill, net | 33,491 | 4,691 | 38,182 |
| Goodwill impairment charge | — | — | — |
| Balance – January 1, 2016 | | | |
| Goodwill, gross | 33,491 | 4,691 | 38,182 |
| Accumulated impairment losses | — | — | — |
| Goodwill, net | 33,491 | 4,691 | 38,182 |
| Goodwill impairment charge | — | — | — |
| Balance – December 30, 2016 | | | |
| Goodwill, gross | 33,491 | 4,691 | 38,182 |
| Accumulated impairment losses | — | — | — |
| Goodwill, net | $ 33,491 | $ 4,691 | $ 38,182 |

***Warranty Reserve*** – The Company offers warranty on certain of its products and has established a warranty reserve, as a component of other current liabilities, for any potential claims. The Company estimates its warranty reserve based upon an analysis of all identified or expected claims and an estimate of the cost to resolve those claims. Factors that affect the Company's warranty liability include the number of units sold, historical and anticipated rates of warranty claims, and differences between actual and expected warranty costs per claim. The Company periodically assesses the adequacy of its warranty liabilities and adjusts the amounts as necessary.

***Revenue Recognition*** – The Company recognizes revenue when it is realized or realizable and earned. This occurs when persuasive evidence of an arrangement exists, delivery has occurred, the risk of loss is transferred, the price is fixed or determinable, the buyer is obligated to pay (i.e., not contingent on a future event), collectability is reasonably assured, and the amount of future returns can reasonably be estimated. In cases where the Company utilizes distributors or ships product directly to the end user, it generally recognizes revenue upon shipment provided all revenue recognition criteria have been met. When sales representatives deliver products at the point of implantation at hospitals or medical facilities, the Company recognizes revenue upon completion of the procedure and authorization.

Service revenue is recognized as the services are performed. The Company's development services are typically provided on a fixed-fee basis. The revenues for such longer duration projects are typically recognized using the proportional performance method. In using the proportional performance method, revenues are generally recorded based on the percentage of effort incurred to date on a contract relative to the estimated total expected contract effort. Significant judgment is required when estimating total contract effort and progress to completion on the arrangements as well as whether a loss is expected to be incurred on the contract. Management uses historical experience, project plans and an assessment of the risks and uncertainties inherent in the arrangements to establish these estimates. Various uncertainties may or may not be within the Company's control.

***Research, Development and Engineering Costs, Net ("RD&E")*** – RD&E costs are expensed as incurred. The primary costs are salary and employee benefits for personnel, material costs used in development projects and subcontracting costs. Any reimbursements received from government grants are recorded as a reimbursement of the research, development and engineering costs incurred.

***Stock-Based Compensation*** – The Company's employees have historically participated in the stock-based compensation programs of Integer, and as such, the Company was charged a portion of the expenses associated with these programs. Additionally, subsequent to the spin-off, the Company's employees participate in the stock-based compensation programs of Nuvectra. The compensation costs related to stock-based awards granted to employees is based upon their estimated fair value on the grant date. Compensation cost for service-based awards is recognized ratably over the applicable vesting period. Compensation cost for Integer nonmarket-based performance awards was reassessed each period and recognized based upon the probability that the performance targets would be achieved. Compensation cost for Integer market-based performance awards was expensed ratably over the applicable vesting period and was recognized each period whether the performance metrics were achieved or not.

The Black-Scholes option-pricing model was used to estimate the fair value of stock options granted. For service-based and nonmarket-based performance restricted stock unit awards, the fair market value of the award is determined based upon the closing value of the stock price on the grant date. Historically, for market-based performance restricted stock unit awards, the fair market value of the award was determined utilizing a Monte Carlo simulation model, which projected the value of Integer's stock under numerous scenarios and determined the value of the award based upon the present value of those projected outcomes.

The amount of stock-based compensation expense recognized is based on the portion of the awards that are ultimately expected to vest. Pre-vesting forfeiture estimates were estimated based upon historical data and are revised if actual forfeitures differ from those estimates. The total expense recognized over the vesting period will only be for those awards that ultimately vest, excluding market and nonmarket performance award considerations. Note 5 "Employee Benefit Plans" contains additional information on stock-based compensation.

***Insurance*** – The Company had historically participated in Integer's various insurance programs, to insure for property and casualty risks, product liability, employee health care, workers' compensation and other casualty losses. Many of the potential losses were covered by Integer under conventional insurance programs with third-party carriers with high deductible limits. In other areas, Integer was self-insured with stop-loss coverage. The Company was charged a portion of the expenses associated with these programs. As of March 14, 2016 the Company is covered by its own insurance policies and, since that time, no insurance fee has been allocated from Integer. See Note 14 "Related Party Transactions" for additional information.

***Interest Expense, Net*** – Interest expense related to the Company's credit facility was $1.4 million for the year ended December 30, 2016. Interest income from investments was $0.1 million for the year ended December 30, 2016. There was no such interest income or expense for fiscal year 2015.

***Comprehensive Loss*** – The Company's comprehensive loss as reported in the Consolidated Statements of Operations and Comprehensive Loss is comprised of the Company's net loss and unrealized holding period losses related to investments.

***Income Taxes*** – The Consolidated Financial Statements of the Company have been prepared using the asset and liability approach in accounting for income taxes, which requires the recognition of deferred income taxes for the expected future tax consequences of net operating losses, credits, and temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. A valuation allowance is provided on deferred tax assets if it is determined that it is more likely than not that the asset will not be realized.

The Company accounts for uncertain tax positions using a more likely than not recognition threshold. The evaluation of uncertain tax positions is based on factors including, but not limited to, changes in tax law, the measurement of tax positions taken or expected to be taken in tax returns, the effective settlement of matters subject to audit, new audit activity and changes in facts or circumstances related to a tax position. The Company recognizes interest expense related to uncertain tax positions as Provision for Income Taxes. Penalties, if incurred, are recognized as a component of Selling, General and Administrative Expenses. These tax positions are evaluated on a quarterly basis. See Note 8 "Income Taxes" for additional information.

***Subsequent Events*** – The Company considers events or transactions that occur after the balance sheet date but prior to the issuance of the financial statements to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure.

## 2. PROPERTY, PLANT AND EQUIPMENT, NET

PP&E is comprised of the following (in thousands):

| | At | |
|---|---|---|
| | December 30, 2016 | January 1, 2016 |
| Machinery and equipment | $ 1,675 | $ 1,700 |
| Buildings and building improvements | 2,854 | 1,563 |
| Information technology hardware and software | 3,191 | 265 |
| Furniture and fixtures | 314 | 143 |
| Land and land improvements | 390 | 390 |
| Construction work in process | 1,066 | 1,572 |
| Total, gross | 9,490 | 5,633 |
| Accumulated depreciation | (3,173) | (1,164) |
| Total, net | $ 6,317 | $ 4,469 |

During 2015, Integer contributed a building and certain fixed assets located in Blaine, MN to the Company for use in its operations, which had a net book value of $1.8 million as these assets were now being fully utilized by Nuvectra. Previously, these assets were shared by various Integer entities and costs were allocated to each entity by Integer. Additionally, during 2015, the Company transferred certain machinery and equipment with a net book value of $2.0 million, which previously had been used for design verification testing, to Integer to utilize in the production of Algovita. For purposes of the Consolidated Cash Flow Statement for the year ended January 1, 2016, these transfers were treated as non-cash transactions.

Depreciation and rent expense for PP&E were as follows (in thousands):

| | Year Ended | |
|---|---|---|
| | December 30, 2016 | January 1, 2016 |
| Depreciation expense | $ 1,974 | $ 298 |
| Rent expense | 519 | 385 |

Minimum future estimated annual operating lease expenses as of December 30, 2016 were as follows (in thousands):

| | |
|---|---|
| 2017 | $ 588 |
| 2018 | 445 |
| 2019 | 401 |
| 2020 | 375 |
| 2021 | 283 |
| Thereafter | 216 |
| Total estimated operating lease expense | $ 2,308 |

## 3. INTANGIBLE ASSETS

Intangible assets are comprised of the following (in thousands):

| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
|---|---|---|---|
| **At January 1, 2016** | | | |
| Technology and patents | $ 1,058 | $ (388) | $ 670 |
| Customer lists | 1,869 | (556) | 1,313 |
| Total intangible assets | $ 2,927 | $ (944) | $ 1,983 |
| **At December 30, 2016** | | | |
| Technology and patents | $ 1,058 | $ (498) | $ 560 |
| Customer lists | 1,869 | (715) | 1,154 |
| Total intangible assets | $ 2,927 | $ (1,213) | $ 1,714 |

Aggregate intangible asset amortization expense is classified as follows (in thousands):

| | Year Ended | |
|---|---|---|
| | December 30, 2016 | January 1, 2016 |
| Cost of sales | $ 110 | $ 133 |
| Selling, general and administrative expenses | 159 | 156 |
| Total intangible asset amortization expense | $ 269 | $ 289 |

Estimated future intangible asset amortization expense based on the current carrying value is as follows (in thousands):

| | Estimated Amortization Expense |
|---|---|
| 2017 | $ 286 |
| 2018 | 298 |
| 2019 | 293 |
| 2020 | 209 |
| 2021 | 194 |
| Thereafter | 434 |
| Total estimated amortization expense | $ 1,714 |

## 4. ACCRUED LIABILITIES

Accrued liabilities consisted of the following (in thousands):

| | At | |
|---|---|---|
| | December 30, 2016 | January 1, 2016 |
| Regulatory, clinical and quality | $ 640 | $ — |
| Operations engagement fee | 600 | — |
| Inventory | 547 | — |
| Information technology system implementations | 327 | — |
| Travel and entertainment | 285 | — |
| Research and development | 165 | — |
| Interest | 99 | — |
| Legal | 98 | — |
| Warranty reserve | 98 | — |
| Sales and use tax | 56 | — |
| Accrued other | 440 | 18 |
| Total accrued liabilities | $ 3,355 | $ 18 |

## 5. EMPLOYEE BENEFIT PLANS

***Nuvectra Corporation 2016 Equity Incentive Plan*** – The Nuvectra Corporation 2016 Equity Incentive Plan (the "2016 Equity Plan") was adopted by the Board of Managers of QiG Group, LLC and was subsequently ratified and approved by Nuvectra's Board of Directors effective as of March 14, 2016. The 2016 Equity Plan provides that the Compensation and Organization Committee of the Board of Directors (the "Compensation Committee") may award eligible participants, as it may determine from time to time, the following types of awards: stock options, stock appreciation rights, restricted stock, restricted stock units and stock bonuses. Subject to the adjustment clauses in the 2016 Equity Plan, the total number of shares of Nuvectra common stock reserved for issuance under the 2016 Equity Plan is 1,128,410.

During fiscal year 2016, the Compensation Committee granted equity awards aggregating 805,222 shares of common stock under the 2016 Equity Plan in the form of both restricted stock units and non-qualified stock options to its directors and certain officers and key employees. Compensation cost related to the 2016 Equity Plan for fiscal year 2016 was approximately $1.3 million.

***Stock-Based Compensation*** – Certain of the Company's employees participated in the stock-based compensation programs of Integer and prior to the spin-off received awards of time-based stock options and time- and performance-based restricted stock units, which typically vest over a three year period and are settled in shares of Integer common stock. The stock-based payment compensation expense includes the compensation expense directly attributable to Nuvectra employees from these Integer equity incentives. In addition, certain incentive awards that were originally granted under an Integer equity incentive award plan adjusted into an incentive award of Nuvectra common stock in accordance with the terms of the employee matters agreement (a "Spin-off Award"). Compensation cost related to these Integer equity incentives was approximately $1.1 million for both fiscal years 2016 and 2015.

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

| | Year Ended | |
|---|---|---|
| | December 30, 2016 | January 1, 2016 |
| Stock options | $ 638 | $ 265 |
| Restricted stock and restricted stock units | 1,732 | 785 |
| Total stock-based compensation expense | $ 2,370 | $ 1,050 |

| | Year Ended | |
|---|---|---|
| | December 30, 2016 | January 1, 2016 |
| Selling, general and administrative expense | $ 1,565 | $ 727 |
| Research, development and engineering costs, net | 336 | 323 |
| Other operating expenses | 469 | — |
| Total stock-based compensation expense | $ 2,370 | $ 1,050 |

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model with weighted-average assumptions based on the grant date. The weighted average fair value and assumptions used to value options granted under the 2016 Equity Plan during the year ended December 30, 2016 are as follows:

| | |
|---|---|
| Weighted average fair value | $ 4.52 |
| Risk-free interest rate | 1.72% |
| Expected volatility | 55% |
| Expected life (in years) | 10 |
| Expected dividend yield | —% |

Subsequent to the spin-off, the following table summarizes the stock option activity during fiscal year 2016:

| | Number of Time-Vested Stock Options | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at March 14, 2016 | 605,257 | $ 6.09 | | |
| Granted | 361,619 | 7.25 | | |
| Exercised | (50,794) | 4.93 | | |
| Forfeited or expired | (42,090) | 9.00 | | |
| Outstanding at December 30, 2016 | 873,992 | $ 6.49 | 6.96 | $ 258,148 |
| Exercisable at December 30, 2016 | 500,964 | $ 5.72 | 5.29 | $ 258,148 |

The Company received proceeds totaling $0.2 million upon the exercise of 50,794 stock options during the fiscal year 2016.

The following table summarizes the restricted stock and restricted stock unit activity during the fiscal year 2016:

| | Time-Vested Activity | Weighted Average Fair Value |
|---|---|---|
| Nonvested at March 14, 2016 | 172,115 | $ 6.97 |
| Granted | 443,603 | 6.95 |
| Vested | (24,786) | 6.31 |
| Forfeited | (39,708) | 6.80 |
| Nonvested at December 30, 2016 | 551,224 | $ 6.90 |

***Nuvectra 2016 Bonus Plan*** – Under the terms of the Nuvectra Corporation 2016 Bonus Plan (the "2016 Bonus Plan") there is an annual discretionary defined contribution cash bonus and a performance-based bonus plan based upon Nuvectra's company-wide performance measures and, for certain employees, individual performance measures that are set by Nuvectra executive management. Compensation cost related to the 2016 Bonus Plan for fiscal year 2016 was approximately $1.0 million.

***Algovita Bonus Plan*** – Prior to the spin-off certain employees of Nuvectra participated in a performance-based bonus plan based upon the ultimate commercialization value, as defined in the bonus plan, of Algovita (the "Algovita Bonus Plan"). Compensation costs related to the Algovita Bonus Plan for fiscal year 2015 were $2.3 million. The Algovita Bonus Plan is no longer in effect and the Company will have no future liability under the Algovita Bonus Plan.

***Integer's Growth Bonus Plan*** – Under the terms of Integer's Growth Bonus Plan ("G2B Plan") there was an annual discretionary defined contribution cash bonus historically awarded to employees of the Company based upon Integer company-wide performance measures and individual associate performance measures that are set by Integer executive management at the beginning of the year. Additionally, for fiscal year 2015, the Company accrued G2B Plan payments for certain executive officers and key employees in accordance with their employment agreements, which guaranteed a minimum level of payout. Up to 4% of each employee's eligible G2B Plan bonus is contributed by Integer to the participant's 401(k) plan in the form of shares of Integer stock. The G2B Plan compensation expense recognized in these Consolidated Financial Statements includes all of the compensation expenses directly attributable to Nuvectra employees. Direct compensation costs recognized related to the G2B Plan were $0.2 million in fiscal year 2015.

***Defined Contribution Plans*** – The Company sponsors a defined contribution 401(k) plan for its employees. The plan provides for the deferral of employee compensation under Section 401(k) and a discretionary match. In fiscal year 2016 this match was 25% per dollar of participant deferral, up to 6% of the total compensation for each participant. Direct costs related to this defined contribution plan were $0.2 million in fiscal year 2016.

Integer sponsors a defined contribution 401(k) plan for its employees, which the Company's employees historically participated in. The plan provides for the deferral of employee compensation under Section 401(k) and a discretionary match. In fiscal year 2015 this match was 35% per dollar of participant deferral, up to 6% of the total compensation for each participant. The 401(k) compensation expense for fiscal year 2015 recognized in these Consolidated Financial Statements includes all of the compensation expenses directly attributable to Nuvectra employees. Direct costs related to this defined contribution plan allocated to the Company were $0.2 million in fiscal year 2015.

## 6. OTHER OPERATING EXPENSES

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

| | Year Ended | |
|---|---|---|
| | December 30, 2016 | January 1, 2016 |
| Performance restricted stock expense | $ 469 | $ — |
| Cleveland facility shutdown | — | 271 |
| Other expenses | 7 | 41 |
| Total other operating expense | $ 476 | $ 312 |

***Performance Restricted Stock Expense*** – As a result of the spin-off, certain 2015 performance stock units for Nuvectra employees were effectively cancelled with no new issuance. Therefore, the remaining unvested expense as of March 14, 2016 was accelerated and expensed immediately.

***Cleveland Facility Shutdown*** – In fiscal year 2014, the Company initiated a plan to transfer the design engineering responsibilities previously performed at its Cleveland, OH facility to the Company's facility in Blaine, MN. This initiative was completed during fiscal year 2015. Total restructuring charges incurred in connection with this initiative were $1.1 million. Expenses related to this initiative included the following:

- Severance and retention: $0.4 million;
- Asset write-offs: $0.3 million;
- Other: $0.4 million

Other costs primarily consist of costs to relocate certain equipment and personnel and the related travel expenditures. All expenses are cash expenditures, except asset write-offs.

The change in accrued liabilities during fiscal year 2015 related to the closure of the Cleveland, OH facility is as follows (in thousands):

| | Severance and Retention | Asset Write-offs | Other | Total |
|---|---|---|---|---|
| At January 2, 2015 | $ 375 | $ — | $ 200 | $ 575 |
| Restructuring charges (income) | (114) | 235 | 150 | 271 |
| Write-offs | — | (235) | — | (235) |
| Cash payments | (261) | — | (350) | (611) |
| At January 1, 2016 | $ — | $ — | $ — | $ — |

***Other Expenses*** – During fiscal year 2016 and 2015, the Company recorded charges in connection with various asset disposals.

## 7. DEBT

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

| | As of | |
|---|---|---|
| | December 30, 2016 | January 1, 2016 |
| Term loan | $ 16,163 | $ — |
| Deferred financing fees | (1,262) | — |
| Discount on debt | (1,157) | — |
| Total long-term debt | $ 13,744 | $ — |

***Credit Facility*** – The Company has a credit facility, as amended in February 2017 (the "Credit Facility"), that consists of (a) term loan facilities in an aggregate maximum principal amount of $40,000,000 comprised of (i) a $15,000,000 Term Loan A Commitment, which was funded in full on March 18, 2016, (ii) a $12,500,000 Term Loan B Commitment, which is available for draw June 30, 2017 through December 31, 2017, and (iii) a $12,500,000 Term Loan C Commitment, which is available for draw December 31, 2017 through June 30, 2018 (collectively, the "Term Loans"); and (b) a Revolving Line Commitment in a maximum principal amount of $5,000,000 (the "Revolving Loans" and collectively with the Term Loans, the "Loans"). Availability of the Term Loan B Commitment is subject to the Company achieving consolidated trailing six-month revenues of at least $13,500,000, and the availability of the Term Loan C Commitment is subject to the Company achieving consolidated trailing six-month revenues of at least $20,000,000. The Company has the right to draw on each Term Loan B and C Commitments within 60 days of achieving the applicable revenue threshold. The Revolving Line Commitment is subject to a borrowing base of 80% of the aggregate amount of eligible accounts receivable of the Company, which advance rate and eligibility criteria may be modified from time to time based on periodic collateral examinations.

The Term Loans bear interest at a floating rate equal to the prime rate plus 4.15%, with a floor of 7.65%. At December 30, 2016 the interest rate on borrowings under the term loan was 7.65%. The Company pays monthly accrued interest only on the Term Loans through December 2017 (or March 2018 if the Term Loan B Commitment is funded), and thereafter the Company will pay monthly accrued interest on the Term Loans plus equal payments of principal for 33 months (or 30 months if the Term Loan B Commitment is funded). At the maturity of the Term Loans, on September 1, 2020, all principal on the Term Loans then outstanding, plus an additional 7.75% of the funded loan amounts (the "Final Payment"), will be due and payable. This Final Payment has been treated as an in substance discount and will be amortized using the straight-line method over the life of the loan. The Revolving Loans bear interest at a floating rate equal to the prime rate plus 3.45%, with a floor of 6.95%. The Company pays monthly accrued interest only on the Revolving Loans until maturity on March 18, 2018, at which time all principal on the Revolving Loans will be due and payable. There were no borrowings on the Revolving Loans as of December 30, 2016.

The Company paid an arrangement fee of $1,125,000, a commitment fee of $200,000 for all of the Term Loan A, B, and C Commitments, and one-half of a $25,000 commitment fee for the Revolving Loans, with the remaining one-half due and payable on the one year anniversary of the initial closing. In connection with the amendment dated February 14, 2017, the Company also paid an amendment fee of $25,000 plus expenses of the lenders. The Term Loan B Commitment and the Term Loan C Commitment are subject to a non-use fee of 2% of the amount of such commitment if the commitment becomes available, but the Company declines to borrow the Term Loans thereunder. If any Term Loans are voluntarily prepaid prior to their scheduled maturity, the Company must pay, in addition to the Final Payment, a prepayment fee equal to 3% of the prepaid principal if paid in the first year after the initial closing, 2% of the prepaid principal if paid in the second year after the initial closing, and 1% of the prepaid principal if paid thereafter. In connection with arranging the Credit Facility, we paid Piper Jaffray an arrangement fee of $1,125,000, which equals 2.50% of the aggregate principal amount of the Credit Facility.

The Loans are secured by a first priority lien on substantially all of the assets of the Company, including, without limitation, all cash, deposit accounts, accounts receivable, equipment, inventory, contract rights, and the Company's real property located in Blaine, Minnesota, but excluding all intellectual property of the Company (other than accounts receivable and proceeds of intellectual property). The Company's intellectual property is subject to a negative pledge. The Company must maintain its primary operating and investment accounts with Silicon Valley Bank, which accounts are subject to customary control agreements.

The Credit Facility contains customary representations and warranties, reporting and other covenants for credit facilities of this kind including prohibitions on the payment of cash dividends on the Company's capital stock and restrictions on mergers, sales of assets, investments, incurrence of liens, incurrence of indebtedness and transactions with affiliates. If the lenders fund the Term Loan B Commitment, the Company will be subject to a quarterly financial covenant requiring the Company to achieve consolidated revenues of at least 75% of Nuvectra's forecasts that have been previously approved by the lenders. The events of default in the Credit Facility are customary for credit facilities of this kind, and include failure to pay interest or principal, breaches of affirmative and negative covenants, a material adverse change occurring, and cross defaults to other material agreements of the Company.

As a condition to the lenders' funding the Loans under the Credit Facility, concurrently with the funding under the Term Loan A Commitment on March 18, 2016, (i) the Company issued to Oxford Finance LLC a warrant to purchase 56,533 shares of Nuvectra common stock at an exercise price of $5.97 per share, which warrant is exercisable until March 18, 2026 (the "Oxford Warrant"), and (ii) the Company issued to Silicon Valley Bank a warrant to purchase 56,533 shares of Nuvectra common stock at an exercise price of $5.97 per share, which warrant is exercisable until March 18, 2026 (the "Silicon Valley Warrant"). The fair value of the warrants on the date of grant totaled approximately $0.2 million and was recorded as a discount on long-term debt and as additional paid-in capital in the Consolidated Balance Sheets, as the warrants met the criteria under the relevant accounting standard for treatment as an equity instrument. The debt discount will be amortized over the term of the Term Loan A Commitment.

Upon the funding of each of the Term Loan B Commitment and the Term Loan C Commitment, as applicable, Oxford Finance LLC and Silicon Valley Bank will each be entitled to additional warrants for the purchase of Nuvectra common stock. The number of shares under each warrant will be equal to the amount of the Term Loan made by each lender multiplied by 4.50% and divided by the then current trading price of Nuvectra common shares. The exercise price of the warrants will be equal to the trading price of Nuvectra common shares on the date of funding. The fair value of these future warrants as of December 30, 2016 was approximately $0.2 million and is recorded in other long-term liabilities in the Consolidated Balance Sheet. These warrants were classified as a derivative liability because the Company did not meet the criteria under the relevant accounting standard for treatment as equity instruments. As a result, the derivative liability warrants will be remeasured to its fair value at the end of each reporting period until it meets the requirements for equity treatment or is cancelled. See Note 11 "Fair Value Measurements" for additional information.

***Deferred Financing Fees –*** The change in deferred financing fees is as follows (in thousands):

| | |
|---|---|
| At January 1, 2016 | $ — |
| Additions during the period | 1,528 |
| Amortization during the period | (266) |
| At December 30, 2016 | $ 1,262 |

In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2015-03, "Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs," the Company has presented debt issuance costs as a direct deduction from Long-Term Debt in the Consolidated Balance Sheet.

## 8. INCOME TAXES

QiG was initially organized as a limited liability company ("LLC") and immediately prior to completion of the spin-off, was converted into a Delaware corporation and changed its name to Nuvectra Corporation.

For federal income tax purposes, QiG, as a LLC with only one member (a "single member LLC"), had historically been disregarded as an entity separate from its owner. From a federal income tax perspective, there is no substantive difference between a single-member LLC, which is treated as a disregarded entity, and a division that is included in the consolidated tax return. However, subsequent to the spin-off and to comply with Staff Accounting Bulletin Topic 1B, information regarding income taxes has been provided in the Consolidated Financial Statements regardless of whether the limited liability company was historically a disregarded entity for federal income tax purposes.

In connection with the spin-off, certain assets and activities owned by Integer, but related to the Company's business and operations, including shares of stock of NeuroNexus, a Michigan Corporation, were transferred to Nuvectra. NeuroNexus Technologies, Inc. is a taxable corporation and is subject to federal, state, and local taxes based on income.

For purposes of the Consolidated Financial Statements, the Company's income tax expense and deferred tax balances for the periods prior to the spin-off have been prepared as if Nuvectra filed income tax returns on a stand-alone basis and separate from Integer. Subsequent to the spin-off, the Company's deferred taxes and effective tax rate may differ significantly from those in the historical periods prior to the spin-off, as a consequence of the removal of the net operating losses and federal research and development tax credits retained by Integer. The provision for income taxes associated with the Company was comprised of the following (in thousands):

| | Year Ended | |
|---|---|---|
| | December 30, 2016 | January 1, 2016 |
| Current tax expense | $ — | $ — |
| Deferred tax benefit | (13,997) | (10,997) |
| Change in valuation allowance | 13,997 | 10,997 |
| Total provision for income taxes | $ — | $ — |

The provision for income taxes differs from the United States statutory rate due to the following:

| | Year Ended | |
|---|---|---|
| | December 30, 2016 | January 1, 2016 |
| Tax benefit at U.S. statutory rate | $ (13,117) | $ (10,997) |
| State taxes, net of federal benefit | (1,146) | — |
| Other | 266 | — |
| Change in valuation allowance | 13,997 | 10,997 |
| Total provision for income taxes | $ — | $ — |

Deferred tax assets (liabilities) consist of the following (in thousands):

| | At | |
|---|---|---|
| | December 30, 2016 | January 1, 2016 |
| Net operating loss carryforwards | $ 10,998 | $ 45,908 |
| Research & development tax credits | — | 3,190 |
| Property, plant & equipment | 637 | 518 |
| Accruals | 415 | — |
| Intangible assets | 5,603 | — |
| Other | 1,629 | 801 |
| Gross deferred tax assets | 19,282 | 50,417 |
| Less valuation allowance | (19,282) | (49,632) |
| Net deferred tax assets | — | 785 |
| Intangible assets | — | (785) |
| Gross deferred tax liabilities | — | (785) |
| Net deferred tax asset (liability) | $ — | $ — |

Deferred income tax assets or liabilities reflect temporary differences between amounts of assets and liabilities, including net operating loss ("NOL") carryforwards, for financial and tax reporting. A valuation allowance is established for any deferred income tax asset for which realization is uncertain.

Net Operating losses and Research and Development Credits were retained by Integer as of the date of the spin-off of Nuvectra. From the date of the spin to December 30, 2016, the Company incurred approximately $29,393 million in federal NOL that could be used to offset taxable income in future periods and reduce its income taxes payable in those future periods. Many of these NOL carryforwards will expire if they are not used within certain periods. The Company considers all available positive and negative evidence, including the Company's current and past performance, the market environment in which the Company operates, the utilization of past tax credits, length of carry back and carry forward periods, existing contracts or sales backlog that will result in future profits, as well as other factors, to determine whether, based on the weight of that evidence, a valuation allowance is needed for some portion or all of a net deferred income tax asset. Judgment is used in considering the relative impact of negative and positive evidence. In arriving at these judgments, the weight given to the potential effect of negative and positive evidence is commensurate with the extent to which such evidence can be objectively verified. In evaluating the objective evidence that historical results provide, the Company considered the past three years of operating results.

Based on an assessment of the available positive and negative evidence, including the historical operating results, the Company has concluded that it is more likely than not that the net deferred tax assets will not be realized. As such, the Company has provided a full valuation allowance on the net deferred income tax assets as of December 30, 2016 and January 1, 2016. Until an appropriate level of profitability is sustained, the Company expects to continue to record a full valuation allowance on future tax benefits.

For purposes of the Consolidated Financial Statements, the Company's income tax expense and deferred tax balances prior to the spin-off have been prepared as if Nuvectra filed income tax returns on a stand-alone basis separate from Integer. Historically, the net operating losses and federal research and development tax credits generated by Nuvectra have been fully retained by Integer, which files a consolidated federal income tax return.

The Company files annual income tax returns in the United States and various state and local jurisdictions. As of December 30, 2016, the Company maintained no reserve related to unrecognized tax benefits.

Pursuant to the terms of the tax matters agreement with Integer, for a period of two years following the date of the spin-off, the Company will be prohibited from (i) causing or permitting to occur any transaction or series of transactions, subject to certain exceptions provided under the U.S. federal income tax rules, in connection with which one or more persons would (directly or indirectly) acquire an interest in its capital stock that, when combined with any other acquisition of an interest in its capital stock that occurs after the spin-off, comprises 30% or more of the value or the total combined voting power of all interests that are treated as outstanding equity of Nuvectra for U.S. federal income tax purposes immediately after such transaction or, in the case of a series of related transactions, immediately after any transaction in such series; (ii) transferring, selling or otherwise disposing of 35% or more of its gross assets if such transfer, sale or other disposition would violate the IRS' rules and regulations; (iii) liquidating its business or (iv) ceasing to maintain its active business. If the Company takes any of these actions and such actions result in tax-related costs for Integer, then the Company would generally be required to indemnify Integer for such costs. If the Company is unable to raise or are prohibited under the terms of the tax matters agreement with Integer from raising additional funds when needed, it may be required to delay, reduce, or terminate some or all of its development plans.

## 9. COMMITMENTS AND CONTINGENCIES

***Litigation*** – Periodically the Company is a party to various legal actions, both threatened and filed, arising in the normal course of business. While the Company does not expect that the ultimate resolution of any pending actions will have a material effect on its results of operations, financial position, or cash flows, litigation is subject to inherent uncertainties. As such, there can be no assurance that any pending or threatened legal action, which the Company currently believes to be immaterial, does not become material in the future.

***Purchase Commitments*** – Contractual obligations for purchase of goods or services are defined as agreements that are enforceable and legally binding on the Company and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum, or variable price provisions; and the approximate timing of the transaction. The Company's purchase orders are normally based on its current manufacturing or other operational needs. Inventory to be purchased by Nuvectra in fiscal year 2017 under its supply agreements with Integer and Minnetronix, Inc. will be subject to certain minimum order quantity requirements. The Company also enters into contracts for outsourced services; however, the obligations under these contracts were not significant and the contracts generally contain clauses allowing for cancellation without significant penalty.

***Operating Leases*** – The Company is a party to various operating lease agreements. See Note 2 "Property, Plant and Equipment, Net" for information on the Company's future lease obligations, which primarily relates to building leases.

## 10. EARNINGS PER SHARE ("EPS")

Basic net loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted net loss per share is equal to basic net loss per share as the Company had no potentially dilutive securities outstanding for any of the periods presented. Prior to the spin-off, the Company operated as part of Integer and not as a separate entity. As a result, the Company did not have any common shares outstanding prior to March 14, 2016. The calculation of basic and diluted net loss per share assumes that the 10,258,278 shares issued to Integer shareholders in connection with the spin-off have been outstanding for all prior periods presented.

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

| | Year Ended | |
|---|---|---|
| | December 30, 2016 | January 1, 2016 |
| Basic net loss per share: | | |
| Net loss | $ (38,428) | $ (24,416) |
| Weighted average common shares outstanding | 10,277 | 10,258 |
| Basic net loss per share | $ (3.74) | $ (2.38) |
| Diluted net loss per share: | | |
| Net loss | $ (38,428) | $ (24,416) |
| Weighted average common shares outstanding | 10,277 | 10,258 |
| Dilutive stock options, restricted stock and restricted stock units | — | — |
| Weighted average common shares outstanding – assuming dilution | 10,277 | 10,258 |
| Diluted net loss per share | $ (3.74) | $ (2.38) |
| Outstanding securities and warrants that were not included in the diluted calculation because their effect would be anti-dilutive | 1,538 | 1,538 |

## 11. FAIR VALUE MEASUREMENTS

The carrying amounts of cash, accounts receivable, accounts payable, and accrued expenses approximate fair value because of the short-term nature of these items. As of December 30, 2016, the fair value of the Company's variable rate long-term debt approximates its carrying value and is categorized in Level 2 of the fair value hierarchy.

***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).

The Company has categorized its warrants measured at fair value on a recurring basis in Level 3 of the fair value hierarchy. The fair value of the warrants classified as liability awards was determined by utilizing a Monte Carlo simulation model, which projects the value of Nuvectra stock versus its peer group under numerous scenarios, and determines the value of the award based upon the present value of these projected outcomes. The estimated fair value of the warrants as of the date of issuance was approximately $0.5 million and was recorded as a long-term asset and a liability in the Consolidated Balance Sheet. The estimated fair value of the warrant liability will be revalued on a periodic basis and any resulting increases or decreases in the estimated fair value will be recorded as an adjustment to operating earnings. For fiscal year 2016, the Company recorded approximately $0.3 million in fair value adjustments. The estimated fair value of the warrants as of December 30, 2016 was approximately $0.2 million.

The Company's investments in marketable securities primarily consist of investments in debt securities, which are classified as available-for-sale and presented as current assets within Cash and Cash Equivalents on the balance sheet because of their original maturities of three months or less. Unrealized gains or losses for the periods presented are included in other comprehensive loss.

The fair values of marketable securities were estimated using the market approach using prices and other relevant information generated by market transactions involving identical or comparable assets. The Company uses quoted market prices in active markets or quoted market prices in markets that are not active to measure fair value. When developing fair value estimates, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs. As of December 30, 2016, the fair market value of marketable securities was approximately $55.0 million, all of which matures in three months or less.

Marketable securities, measured at fair value, by level within the fair value hierarchy were as follows (in thousands):

| | | December 30, 2016 | | |
|---|---|---|---|---|
| | **Fair Value Hierarchy** | **Cost** | **Unrealized Loss** | **Fair Value** |
| Cash | Level 1 | $ 33,821 | $ — | $ 33,821 |
| Government | Level 1 | 2,005 | — | 2,005 |
| Financial | Level 2 | 8,064 | (1) | 8,063 |
| Industrial | Level 2 | 11,125 | (1) | 11,124 |
| Total | | $ 55,015 | $ (2) | $ 55,013 |

***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. A summary of the valuation methodologies for assets and liabilities measured on a nonrecurring basis is as follows:

***Long-lived Assets*** – The Company reviews the carrying amount of its long-lived assets to be held and used, other than goodwill, for potential impairment whenever certain indicators are present as described in Note 1 "Summary of Significant Accounting Policies."

***Goodwill*** – Goodwill recorded is not amortized but is periodically tested for impairment. The Company assesses goodwill for impairment on the last day of each fiscal year, or more frequently if certain events occur as described in Note 1 "Summary of Significant Accounting Policies." During fiscal year 2016 and 2015, no impairment charges were recorded related to the Company's Goodwill.

***Warrants*** – In order to determine the fair value of the warrants classified as equity awards, the Company used a Monte Carlo simulation model. The risk-free interest rate represents the 10-Year U.S. Treasury rate as of March 18, 2016. The expected volatility assumption is based on historical volatilities for publicly traded stock of comparable companies.

The following table summarizes the assumptions used for estimating the fair value of the warrants classified as liability awards:

| | |
|---|---|
| Risk-free interest rate | 1.88 % |
| Expected volatility | 45.00 % |
| Contractual term (in years) | 10 |
| Dividend yield | — % |

## 12. STOCKHOLDERS' EQUITY

The Company is authorized to issue 100 million shares of common stock, $0.001 par value per share. Holders of common stock are entitled to one vote per share. Holders of common stock are entitled to receive dividends, if and when declared by the Board of Directors, and to share ratably in the Company's assets legally available for distribution to its stockholders in the event of liquidation. Holders of common stock have no preemptive, subscription, redemption, or conversion rights. The holders of common stock do not have cumulative voting rights. The holders of a majority of the shares of common stock can elect all of the directors and can control our management and affairs. On March 14, 2016, in connection with the spin-off, the Company issued 10,258,278 shares of common stock to Integer shareholders.

## 13. BUSINESS SEGMENTS, GEOGRAPHIC AND CONCENTRATION RISK INFORMATION

As a new public entity, the Company commenced its first comprehensive annual operational planning process with its executive leadership team and board of directors in the fourth quarter of 2016. As part of that process, the Company assessed its reporting structure and changed the composition of its reporting units. Following this process, based on information that is regularly reviewed by our chief operating decision maker, the Company now has two reportable segments consisting of: Nuvectra and NeuroNexus. The Company determined its new reporting units by identifying its operating segments and assessing whether any components of these segments constituted a business for which discrete financial information is available and whether segment management would regularly review the operating results of any components. Through this process, the Company identified two reporting units: Nuvectra and NeuroNexus.

Nuvectra is a neurostimulation company committed to helping physicians improve the lives of people with chronic neurological conditions. Algovita is the Company's first commercial offering and is approved for the treatment of chronic pain of the trunk and/or limbs. Nuvectra's innovative technology platform also has capabilities under development to support other neurological indications such as SNS and DBS. Revenue includes development and engineering service fees and sales from the limited release of Algovita in the United States and Europe. Future revenues of Nuvectra are expected to come primarily from sales of Algovita, particularly after expansion of its launch commercially in the United States, and Virtis™, the second application of the Company's neurostimulation technology platform and its first product for the SNS market.

NeuroNexus designs, manufactures and markets neural-interface technologies for the neuroscience clinical research market. Revenue includes sales of neural interface technology, components and systems to the neuroscience and clinical markets.

An analysis and reconciliation of the Company's product lines, business segments and geographic information to the respective information in the Consolidated Financial Statements follows. Sales by geographic area are presented by allocating sales from external customers based on where the products are shipped or services are rendered (in thousands):

| | Year Ended | |
|---|---|---|
| | December 30, 2016 | January 1, 2016 |
| Product line sales: | | |
| Neural interface components and systems | $ 5,152 | $ 3,920 |
| Algovita | 4,162 | 1,318 |
| Development and engineering service | 3,221 | — |
| Total sales | $ 12,535 | $ 5,238 |

| | Year Ended | |
|---|---|---|
| | December 30, 2016 | January 1, 2016 |
| Business segment sales: | | |
| Nuvectra | $ 7,383 | $ 1,318 |
| NeuroNexus | 5,152 | 3,920 |
| Total sales | $ 12,535 | $ 5,238 |

| | Year Ended | |
|---|---|---|
| | December 30, 2016 | January 1, 2016 |
| Segment loss from operations: | | |
| Nuvectra | $ (37,702) | $ (23,452) |
| NeuroNexus | 300 | (964) |
| Total segment loss from operations | (37,402) | (24,416) |
| Unallocated operating expenses | — | — |
| Operating loss | (37,402) | (24,416) |
| Unallocated other income (expense), net | (1,026) | — |
| Loss before provision for income taxes | $ (38,428) | $ (24,416) |

| | Year Ended | |
|---|---|---|
| | December 30, 2016 | January 1, 2016 |
| Depreciation and amortization: | | |
| Nuvectra | $ 1,908 | $ 257 |
| NeuroNexus | 335 | 330 |
| Total depreciation and amortization included in segment income from operations | 2,243 | 587 |
| Unallocated depreciation and amortization | — | — |
| Total depreciation and amortization | $ 2,243 | $ 587 |

| | Year Ended | |
|---|---|---|
| | December 30, 2016 | January 1, 2016 |
| Expenditures for tangible long-lived assets: | | |
| Nuvectra | $ 3,950 | $ 511 |
| NeuroNexus | 81 | 18 |
| Total reportable segments | 4,031 | 529 |
| Unallocated tangible long-lived assets | — | — |
| Total expenditures | $ 4,031 | $ 529 |

| | At | |
|---|---|---|
| | December 30, 2016 | January 1, 2016 |
| Identifiable assets: | | |
| Nuvectra | $ 111,503 | $ 37,762 |
| NeuroNexus | 7,799 | 7,636 |
| Total reportable segments | 119,302 | 45,398 |
| Unallocated assets | — | — |
| Total assets | $ 119,302 | $ 45,398 |

| | Year Ended | |
|---|---|---|
| | December 30, 2016 | January 1, 2016 |
| Sales by geographic area: | | |
| United States | $ 5,800 | $ 2,060 |
| Non-Domestic locations: | | |
| Switzerland | 3,461 | 83 |
| Germany | 1,567 | 1,668 |
| Rest of world | 1,707 | 1,427 |
| Total sales | $ 12,535 | $ 5,238 |

All of the Company's long-lived tangible assets are located in the United States.

## 14. RELATED PARTY TRANSACTIONS

***Corporate Overhead Allocations from Integer*** – As discussed in Note 1 "Summary of Significant Accounting Policies," the Company historically operated as part of Integer and as a result shared many overhead functions and services performed by various Integer corporate departments. Costs of these departments were allocated across the Integer entities, including the Company, that benefited from those services during the periods presented herein. The indirect costs allocated included executive oversight, finance, legal, human resources, tax, information technology, product development, corporate procurement, and facilities. These expenses have been charged to the Company on a pro rata basis based upon estimated hours incurred, headcount, square footage, or other measures. The Company considers the expense allocation methodology and results to be reasonable for all periods presented. However, these allocations are not indicative of the actual expenses that would have been incurred if the Company was an independent publicly-traded company or of the costs the Company will incur in the future. At this time, the Company is unable to determine what its expenses would have been on a standalone basis if the Company had operated as an unaffiliated entity for each period in which a statement of operations is presented. Beginning in 2016, research, development and engineering costs were no longer allocated to the Company as it was not receiving a benefit from these services.

Corporate overhead allocations from Integer were classified as follows (in thousands):

| | Year Ended | |
|---|---|---|
| | December 30, 2016 | January 1, 2016 |
| Selling, general and administrative expenses | $ 236 | $ 1,064 |
| Research, development and engineering costs, net | — | 1,780 |
| Total | $ 236 | $ 2,844 |

The Company entered into, or amended, various agreements with Integer to effect the spin-off and to provide a framework for the Company's relationship with Integer going forward after the spin-off including a supply agreement, license agreements, a separation and distribution agreement, a tax matters agreement, a transition services agreement and an employee matters agreement, which provided for the allocation between Nuvectra and Integer of assets, employees, liabilities and obligations (including PP&E, employee benefits, and tax-related assets and liabilities) attributable to the Company's business for the period prior to, at, and after the spin-off. Immediately prior to the completion of the spin-off, Integer made a cash capital contribution to Nuvectra of $75.0 million. This cash capital contribution, together with the Company's cash on hand and borrowings under the Credit Facility, $25 million of which is subject to achieving trailing six month revenue milestones and compliance with specified conditions and covenants, is an amount that the Company estimates will, based on its current plans and expectations, meet its cash needs for at least two years after the completion of the spin-off. The Company periodically evaluates its liquidity requirements, alternative uses of capital, capital needs and available resources. As a result of this process, the Company has in the past sought, and may in the future seek, to explore strategic alternatives to finance its business plan, including but not limited to, a public offering of its common stock, private equity or debt financings, or other sources, such as strategic partnerships. The Company is also focusing on increasing the sales of its products to generate cash flow to fund its operations. However, there can be no assurance that the Company will be successful in its plans described above or in attracting alternative debt or equity financing.

***Employee Benefit Plans*** – Certain of the Company's employees historically participated in various Integer defined contribution and stock-based compensation plans. Compensation expense allocated to Nuvectra for these plans from Integer was based upon the costs directly attributable to Nuvectra employees. See Note 5 "Employee Benefit Plans" for additional information.

***Insurance*** – The Company has historically participated in Integer's various insurance programs, to insure for property and casualty risks, product liability, employee health care, workers' compensation and other casualty losses. Many of the potential losses were covered under conventional insurance programs with third-party carriers with high deductible limits. In other areas, Integer was self-insured with stop-loss coverage. The Company was charged a fee from Integer for these insurance programs based upon square footage, headcount, or a direct charge for those policies directly attributable to Nuvectra. As of March 14, 2016 the Company is covered by its own insurance policies and, since that time, no insurance fee has been allocated from Integer. Total insurance charges allocated by Integer were $0.1 million in fiscal year 2015.

***Supply Agreement*** – The Company has a supply agreement with Integer pursuant to which Integer manufactures Algovita and certain of its components. Total charges incurred under this supply agreement are included in cost of sales and totaled $1.5 million in fiscal year 2015.

***Purchase of Non-controlling Interests*** – During the fourth quarter of 2015, the Company purchased the outstanding non-controlling interests of Algostim and PelviStim for $16.7 million, of which $9.9 million was paid in 2015 and $6.8 million was accrued at January 1, 2016 and paid by Integer in January 2016 prior to the spin-off. Included in the purchased amount was $6.9 million paid to Drees Holding LLC, which is a limited liability company of which Scott F. Drees, CEO of Nuvectra, is the principal owner and the sole managing director and approximately $848 thousand paid to Norbert Kaula, Executive Vice President of Research and Development of Nuvectra. Mr. Drees and Mr. Kaula each received their interests in Algostim and PelviStim in connection with entering into a long-term consulting agreement with Nuvectra and prior to being appointed to their current positions. The consulting agreements were terminated in connection with Mr. Drees and Mr. Kaula agreeing to serve in their current roles for Nuvectra. The buyout of the non-controlling interests was funded by a cash contribution from Integer.

## 15. RECENTLY ISSUED ACCOUNTING STANDARDS

In the normal course of business, management evaluates all new accounting pronouncements issued by the FASB, Securities and Exchange Commission ("SEC"), Emerging Issues Task Force ("EITF"), and 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.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments." This update provides clarification regarding how certain cash receipts and cash payment are presented and classified in the statement of cash flows. ASU 2016-15 addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. This update is effective for annual and interim periods beginning after December 15, 2017, which will require the Company to adopt these provisions in the first quarter of fiscal 2018 using a retrospective approach. Early adoption is permitted. The Company does not expect its pending adoption of ASU 2016-15 to have a material impact on its Consolidated Financial Statements.

In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting," which amends Accounting Standards Codification ("ASC") Topic 718, Compensation – Stock Compensation. ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years and early adoption is permitted. The Company is currently in the process of evaluating the impact of adoption of the ASU on its Consolidated Financial Statements.

In February 2016, the FASB issued ASU 2016-02, "Leases" in order to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under previous GAAP. ASU 2016-02 requires that a lessee should recognize a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term on the balance sheet. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018 (including interim periods within those periods) using a modified retrospective approach and early adoption is permitted. The Company is currently in the process of evaluating the impact of adoption of the ASU on its Consolidated Financial Statements.

In January 2016, the FASB issued ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities," which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The standard is effective for interim and annual periods beginning after December 15, 2017, and early adoption is generally not permitted. The Company is currently in the process of evaluating the impact of adoption of the ASU on its Consolidated Financial Statements.

In July 2015, the FASB issued ASU 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory." This update requires inventory within the scope of the standard to be measured at the lower of cost and net realizable value. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The amendments in this update do not apply to inventory that is measured using last-in, first-out ("LIFO") or the retail inventory method. The amendments apply to all other inventory, which includes inventory that is measured using FIFO or average cost. This update is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2016, which will require the Company to adopt these provisions in the first quarter of fiscal 2017. The Company does not expect its pending adoption of ASU 2015-11 to have a material impact on its Consolidated Financial Statements.

In August 2014, the FASB issued ASU 2014-15, "Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern," to provide guidance on management's responsibility in evaluating whether there is substantial doubt about a company's ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. This ASU is effective for annual periods ending after December 15, 2016. The adoption of ASU 2014-15 did not have a material impact on the Company's Consolidated Financial Statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers." The core principle behind ASU 2014-09 is that an entity should recognize revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for delivering goods and services. This model involves a five-step process that includes identifying the contract with the customer, identifying the performance obligations in the contract, determining the transaction price, allocating the transaction price to the performance obligations in the contract, and recognizing revenue when the entity satisfies the performance obligations. This ASU allows two methods of adoption; a full retrospective approach where historical financial information is presented in accordance with the new standard, and a modified retrospective approach where this ASU is applied to the most current period presented in the financial statements. In August 2015, the FASB issued ASU 2015-14 "Revenue from Contracts with Customers: Deferral of the Effective Date," which deferred the effective date of ASU 2014-09 to annual reporting periods beginning after December 15, 2017, with earlier application permitted as of annual reporting periods beginning after December 15, 2016. In March 2016, the FASB issued ASU 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)," which clarified the revenue recognition implementation guidance on principal versus agent considerations and is effective during the same period as ASU 2014-09. In April 2016, the FASB issued ASU 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing," which clarified the revenue recognition guidance regarding the identification of performance obligations and the licensing implementation and is effective during the same period as ASU 2014-9. In May 2016, the FASB issued ASU 2016-11, "Revenue Recognition (Topic 605) and Derivatives and Hedging (Topic 815): Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting." The purpose of ASU 2016-11 is to rescind from the FASB Accounting Standards Codification certain SEC paragraphs as a result of two SEC Staff Announcements at the March 3, 2016 meeting. For public entities, the amendments in ASU 2016-11 related to Topic 605 are effective for interim and annual reporting periods beginning after December 15, 2017 and amendments related to Topic 815 are effective for interim and annual reporting periods beginning after December 15, 2015. In May 2016, the FASB also issued ASU 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients," which narrowly amended the revenue recognition guidance regarding collectability, noncash consideration, presentation of sales tax and transition and is effective during the same period as ASU 2014-9. The Company is currently assessing the financial impact of adopting these ASUs and the methods of adoption. Given the scope of the new standard, the Company is currently unable to provide a reasonable estimate regarding the financial impact or which method of adoption will be elected.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this annual report pursuant to Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended. Disclosure controls and procedures are designed to ensure that material information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and ensure that such material information is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Based on that evaluation, our CEO and CFO concluded that as of the end of the period covered by this annual report, our disclosure controls and procedures were effective.

**Management's Annual Report on Internal Control Over Financial Reporting**

This Annual Report on Form 10-K does not include a report of management's assessment regarding internal control over financial reporting nor an attestation report of the company's registered public accounting firm due to a transition period established by rules of the Securities and Exchange Commission for newly public companies.

**Changes in Internal Control over Financial Reporting**

There have been no changes in our internal control over financial reporting during the fourth quarter of the year ended December 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Item 9B. Other Information**

Not applicable

## PART III

### Item 10. Directors, Executive Officers, and Corporate Governance

The information required by this Item is incorporated herein by reference to the information that will be contained in our proxy statement related to the 2017 Annual Meeting of Stockholders, which we intend to file with the Securities and Exchange Commission within 120 days of the end of our fiscal year pursuant to General Instruction G(3) of Form 10-K.

### Item 11. Executive Compensation

The information required by this Item is incorporated herein by reference to the information that will be contained in our proxy statement related to the 2017 Annual Meeting of Stockholders, which we intend to file with the Securities and Exchange Commission within 120 days of the end of our fiscal year pursuant to General Instruction G(3) of Form 10-K.

### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item is incorporated herein by reference to the information that will be contained in our proxy statement related to the 2017 Annual Meeting of Stockholders, which we intend to file with the Securities and Exchange Commission within 120 days of the end of our fiscal year pursuant to General Instruction G(3) of Form 10-K.

### Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated herein by reference to the information that will be contained in our proxy statement related to the 2017 Annual Meeting of Stockholders, which we intend to file with the Securities and Exchange Commission within 120 days of the end of our fiscal year pursuant to General Instruction G(3) of Form 10-K.

### Item 14. Principal Accounting Fees and Services

The information required by this Item is incorporated herein by reference to the information that will be contained in our proxy statement related to the 2017 Annual Meeting of Stockholders, which we intend to file with the Securities and Exchange Commission within 120 days of the end of our fiscal year pursuant to General Instruction G(3) of Form 10-K.

## PART IV

### Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this report:

(1) Financial Statements:

See Part II, Item 8. "Financial Statements and Supplementary Data."

(2) Financial Statement Schedules:

All financial statement schedules have been omitted because they are not applicable, not required or the information required is shown in the financial statements or the notes thereto.

(3) Exhibits.

The exhibits filed as part of this Annual Report on Form 10-K are set forth on the following Exhibit Index:

| Exhibit No. | Description |
|---|---|
| 3.1 | Certificate of Incorporation (filed as Exhibit 3.1 to our current report on Form 8-K on March 18, 2016, and incorporated herein by reference) |
| 3.2 | Bylaws of Nuvectra Corporation (filed as Exhibit 3.2 to our current report on Form 8-K on March 18, 2016, and incorporated herein by reference) |
| 4.1 | Warrant to Purchase Common Stock, dated March 18, 2016, issued to Oxford Finance LLC (filed as Exhibit 4.1 to our current report on Form 8-K on March 18, 2016, and incorporated herein by reference) |
| 4.2 | Warrant to Purchase Common Stock, dated March 18, 2016, issued to Silicon Valley Bank (filed as Exhibit 4.2 to our current report on Form 8-K on March 18, 2016, and incorporated herein by reference) |
| 10.1 | Transition Services Agreement, dated March 14, 2016, between Greatbatch, Inc. and QiG Group, LLC (filed as Exhibit 10.1 to our current report on Form 8-K on March 18, 2016, and incorporated herein by reference) |
| 10.2 | Tax Matters Agreement, dated March 14, 2016, between Greatbatch, Inc. and QiG Group, LLC (filed as Exhibit 10.2 to our current report on Form 8-K on March 18, 2016, and incorporated herein by reference) |
| 10.3 | Employee Matters Agreement, dated March 14, 2016, between Greatbatch, Inc. and QiG Group, LLC (filed as Exhibit 10.3 to our current report on Form 8-K on March 18, 2016, and incorporated herein by reference) |
| 10.4 | Supply Agreement, dated March 14, 2016, between Greatbatch Ltd. and QiG Group, LLC (filed as Exhibit 10.4 to our current report on Form 8-K on March 18, 2016, and incorporated herein by reference) |
| 10.5 | Product Component and Framework Agreement, dated March 14, 2016, between Greatbatch Ltd. and QiG Group, LLC (filed as Exhibit 10.5 to our current report on Form 8-K on March 18, 2016, and incorporated herein by reference) |
| 10.6 | Restricted License Agreement, dated March 14, 2016, between Greatbatch Ltd. and QiG Group, LLC (filed as Exhibit 10.6 to our current report on Form 8-K on March 18, 2016, and incorporated herein by reference) |
| 10.7 | Unrestricted License Agreement, dated March 14, 2016, between Greatbatch Ltd. and QiG Group, LLC (filed as Exhibit 10.7 to our current report on Form 8-K on March 18, 2016, and incorporated herein by reference) |
| 10.8 | License Agreement, dated March 13, 2016, between Greatbatch Ltd. and NeuroNexus Technologies, Inc. (filed as Exhibit 10.8 to our current report on Form 8-K on March 18, 2016, and incorporated herein by reference) |
| 10.9 | Agreement of Sublease, dated March 14, 2016, between Greatbatch Ltd. and QiG Group, LLC (filed as Exhibit 10.9 to our current report on Form 8-K on March 18, 2016, and incorporated herein by reference) |

10.10 Office Lease, dated December 2, 2015, by and between EOS Development 1 LLC and Greatbatch Ltd., as assigned by Greatbatch Ltd. to Nuvectra Corporation on March 14, 2016 (filed as Exhibit 10.10 to our current report on Form 8-K on March 18, 2016, and incorporated herein by reference)

10.11 Loan and Security Agreement, dated March 18, 2016, among Oxford Finance, LLC, Silicon Valley Bank, Nuvectra Corporation, Algostim, LLC, PelviStim LLC and NeuroNexus Technologies, Inc. (filed as Exhibit 10.11 to our current report on Form 8-K on March 18, 2016, and incorporated herein by reference)

10.12 First Amendment to Loan and Security Agreement, dated February 14, 2017, among Nuvectra Corporation, Algostim, LLC, PelviStim LLC and NeuroNexus Technologies, Inc., and Oxford Finance LLC and Silicon Valley Bank (filed as Exhibit 10.1 to our current report on Form 8-K on February 14, 2017, and incorporated herein by reference)

10.13 Nuvectra Corporation 2016 Equity Incentive Plan (filed as Exhibit 99.1 to Nuvectra Corporation's Registration Statement on Form S-8 filed on March 14, 2016, and incorporated herein by reference)

10.14 Form of Nonqualified Stock Option Agreement – Employee (filed as Exhibit 10.13 to our current report on Form 8-K on March 18, 2016, and incorporated herein by reference)†

10.15 Form of Restricted Stock Unit Agreement – Employee (filed as Exhibit 10.14 to our current report on Form 8-K on March 18, 2016, and incorporated herein by reference)†

10.16 Form of Nonqualified Stock Option Agreement – Non-Employee Director (filed as Exhibit 10.15 to our current report on Form 8-K on March 18, 2016, and incorporated herein by reference)†

10.17 Form of Restricted Stock Unit Agreement – Non-Employee Director (filed as Exhibit 10.16 to our current report on Form 8-K on March 18, 2016, and incorporated herein by reference)†

10.18 License Agreement, dated June 14, 2016, between Nuvectra Corporation and Aleva Neurotherapeutics S.A. (filed as Exhibit 10.1 to our current report on Form 8-K on June 17, 2016, and incorporated herein by reference)

10.19 Manufacturing and Supply Amendment, dated December 9, 2016, between Nuvectra Corporation and Minnetronix, Inc. (filed as Exhibit 10.1 to our current report on Form 8-K on December 12, 2016, and incorporated herein by reference)

10.20 Business Agreement, dated April 30, 2009, between QiG Group, LLC and Minnetronix, Inc. (filed as Exhibit 10.2 to our current report on Form 8-K on December 12, 2016, and incorporated herein by reference)

10.21 Letter Agreement, dated June 29, 2009, between QiG Group, LLC and Minnetronix, Inc. (filed as Exhibit 10.3 to our current report on Form 8-K on December 12, 2016, and incorporated herein by reference)

10.22 First Amendment to Business Agreement, dated April 10, 2010, between QiG Group, LLC and Minnetronix, Inc. (filed as Exhibit 10.4 to our current report on Form 8-K on December 12, 2016, and incorporated herein by reference)

10.23 Manufacturing and Quality Addendum, dated August 1, 2013, between QiG Group, LLC and Minnetronix, Inc. (filed as Exhibit 10.5 to our current report on Form 8-K on December 12, 2016, and incorporated herein by reference)

10.24 Executive Employment Agreement between Nuvectra Corporation and Mr. Scott Drees, dated January 13, 2017 (filed as Exhibit 10.1 to our current report on Form 8-K on January 17, 2017, and incorporated herein by reference) †

10.25 Executive Employment Agreement between Nuvectra Corporation and Mr. Walter Berger, dated January 13, 2017 (filed as Exhibit 10.2 to our current report on Form 8-K on January 17, 2017, and incorporated herein by reference) †

23.1 Consent of Independent Registered Public Accounting Firm*

| | |
|---|---|
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act* |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act* |
| 32.1 | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002** |
| 100.INS | XBRL Instance Document* |
| 100.SCH | XBRL Extension Schema Document* |
| 100.CAL | XBRL Extension Calculation Linkbase Document* |
| 100.LAB | XBRL Extension Label Linkbase Document* |
| 100.PRE | XBRL Extension Presentation Linkbase Document* |
| 100.DEF | XBRL Extension Definition Linkbase Document* |

* Filed herewith.
** Furnished herewith.
† Management contract or compensatory plan or arrangement.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NUVECTRA CORPORATION

Date: March 9, 2017

/s/ Scott F. Drees
Scott F. Drees
Chief Executive Officer
(Principal Executive Officer)

Date: March 9, 2017

/s/ Walter Z. Berger
Walter Z. Berger
Chief Operating Officer and Chief Financial Officer
(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Dated: March 9, 2017 By: /s/ Dr. Joseph A. Miller, Jr.
Dr. Joseph A. Miller, Jr.
Chairman of the Board

Dated: March 9, 2017 By: /s/ Anthony P. Bhil III
Anthony P. Bhil III
Director

Dated: March 9, 2017 By: /s/ Scott F. Drees
Scott F. Drees
Director

Dated: March 9, 2017 By: /s/ Kenneth G. Hawari
Kenneth G. Hawari
Director

Dated: March 9, 2017 By: /s/ David D. Johnson
David D. Johnson
Director

Dated: March 9, 2017 By: /s/ Dr. Fred B. Parks, PhD
Dr. Fred B. Parks, PhD
Director

Dated: March 9, 2017 By: /s/ Jon T. Tremmel
Jon T. Tremmel
Director

Dated: March 9, 2017 By: /s/ Thomas E. Zelibor
Thomas E. Zelibor
Director

**EXHIBIT 23.1**

## CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-210150 on Form S-8 of our report dated March 9, 2017, relating to the consolidated financial statements of Nuvectra Corporation and subsidiaries appearing in this Annual Report on Form 10-K of Nuvectra Corporation for the year ended December 30, 2016.

/s/ Deloitte & Touche LLP

Dallas, Texas
March 9, 2017

**CERTIFICATIONS**

I, Scott F. Drees, certify that:

*1* I have reviewed this Annual Report on Form 10-K of Nuvectra Corporation;

*2* Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

*3* Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

*4*

The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

*a)* Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

*b)* Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

*c)* Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

*5* The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

*a)* All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

*b)* Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 9, 2017

/s/ Scott F. Drees

Scott F. Drees

Chief Executive Officer

**EXHIBIT 31.2**

**CERTIFICATIONS**

I, Walter Z. Berger, certify that:

*1* I have reviewed this Annual Report on Form 10-K of Nuvectra Corporation;

*2* Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

*3* Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

*4*

The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

*a)* Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

*b)* Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

*c)* Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

*5* The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

*a)* All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

*b)* Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 9, 2017

/s/ Walter Z. Berger

Walter Z. Berger

Chief Operating Officer and Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of Nuvectra Corporation (the "Company") for the period ending December 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that based on their knowledge:

*(1)* the Report fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and

*(2)* the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 9, 2017

/s/ Scott F. Drees
Scott F. Drees
Chief Executive Officer

Date: March 9, 2017

/s/ Walter Z. Berger
Walter Z. Berger
Chief Operating Officer and Chief Financial Officer

This certification is being furnished solely to accompany this Form 10-K pursuant to 18 U.S.C. Section 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, and is not to be deemed incorporated by reference into any filing of the Company except to the extent the Company specifically incorporates it by reference therein.

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## Officers and Executive Leadership Team

**Scott Drees,** Chief Executive Officer

**Melissa Beare,** Vice President, General Counsel

**Walter Berger,** Chief Operating Officer & Chief Financial Officer

**Paul Hanchin,** President

**Thomas Hickman,** Executive Vice President, Worldwide Marketing & Strategic Development

**Norbert Kaula, PhD,** Executive Vice President, Research & Development

**Daryl Kipke, PhD,** President, NeuroNexus

**Alan Mock,** Vice President, Business Development

**Bonnie Schmidt,** Director, Human Resources

## Board of Directors

**Joseph A. Miller, Jr., MD, PhD,** Chairman of the Board

**Scott F. Drees,** Director

**Anthony P. Bihl III,** Director

**Kenneth G. Hawari,** Director

**David D. Johnson,** Director

**Fred B. Parks, PhD,** Director

**Jon T. Tremmel,** Director

**Thomas E. Zelibor,** Director

## Transfer Agent

**Computershare Trust Company, N.A.**
Canton, MA

## Independent Registered Public Accounting Firm

**Deloitte & Touche LLP**
Dallas, TX

## Mission

To help physicians improve the lives of people with chronic neurological conditions through life-enhancing products and services.

## Values

Our core values of **quality**, **integrity**, and **trust** motivate and guide the way we work as a team, with our customers, and in our community.

## Culture

We believe in a company culture where new ideas are encouraged and people can thrive. We believe in attending to the details, taking personal accountability, acting with humility, and respecting the diversity of individuals in everything we do. We place the team before the individual and spend company resources like they are our own.

# Commitments

To successfully achieve our mission, we shall have an unrelenting personal leadership focus on these seven commitments.

**People**
Affirm that our people are our greatest asset and it's our responsibility to hire, train, develop, and retain them in order to be a world-class organization.

**Service**
Individually deliver the highest level of service to our patients and clinicians.

**Innovation**
Create new ideas and intellectual property, resulting in superior products and services.

**Growth**
Focus on growing Nuvectra's revenue and market share every day.

**Execution**
Efficiently and ceaselessly deliver on our individual responsibilities so the team can succeed.

**Shareholders**
Acknowledge that our shareholders own the company and we owe them a fair return on their investment.

**Community Service**
Recognize that we are part of a larger community and the importance of giving back.

**Nuvectra Corporation**
5830 Granite Parkway
Suite 1100
Plano, Texas 75024

www.nuvectramed.com



NUVECTRA™