SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2000

Commission file number 0-26224

INTEGRA LIFESCIENCES HOLDINGS CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	51-0317849
(State or other jurisdiction of or organization)	(I.R.S. Employer incorporation Identification No.)

105 Morgan Lane Plainsboro, New Jersey	08536
(Address of principal executive offices)	(Zip code)

(609) 275-0500
(Registrant's telephone number, including area code)

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

As of August 10, 2000 the registrant had outstanding 16,414,516 shares of Common Stock, $.01 par value.

INTEGRA LIFESCIENCES HOLDINGS CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

INTEGRA LIFESCIENCES HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(In thousands)

	June 30, 2000	December 31, 1999
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 5,676	$ 19,301
Short-term investments	3,575	4,311
Accounts receivable, net of allowances of $588 and $944	10,908	8,365
Inventories	15,731	10,111
Prepaid expenses and other current assets	753	718
Total current assets	36,643	42,806
Property and equipment, net	12,060	9,699
Goodwill and intangible assets, net	26,393	13,219
Other assets	1,193	529
Total assets	$ 76,289	$ 66,253
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Short-term loans and current maturities of long-term loans	$ 3,512	$ 2,254
Current portion of note payable	1,516	--
Accounts payable, trade	2,489	994
Accrued expenses and other liabilities	6,551	5,540
Income taxes payable	642	643
Customer advances and deposits	2,537	3,901
Deferred revenue	1,053	1,460
Total current liabilities	18,300	14,792
Long-term loan	6,375	7,625
Note payable	1,204	--
Deferred revenue	4,671	5,049
Deferred tax liability	2,023	392
Other liabilities	261	406
Total liabilities	32,834	28,264
Commitments and contingencies		
Stockholders' Equity:		
Preferred stock, $.01 par value (15,000 authorized shares; 500 Series A Convertible shares issued and outstanding at June 30, 2000 and December 31, 1999, $4,000 liquidation preference; 100 Series B Convertible shares issued and outstanding at June 30, 2000 and December 31, 1999, $11,275 with a 10% compounded annual dividend liquidation preference; 54 Series C Convertible shares issued and outstanding at June 30, 2000, $5,535 with a 10% compounded annual dividend liquidation preference)	7	6
Common stock, $.01 par value (60,000 authorized shares; 16,390 and 16,131 shares issued at June 30, 2000 and December 31, 1999, respectively)	164	161
Additional paid-in capital	139,109	132,340
Treasury stock, at cost (20 and 1 shares at June 30, 2000 and December 31, 1999, respectively)	(180)	(7)
Other	(77)	(143)
Accumulated other comprehensive income (loss)	(285)	(64)
Accumulated deficit	(95,283)	(94,304)
Total stockholders' equity	43,455	37,989
Total liabilities and stockholders' equity	$ 76,289	$ 66,253

The accompanying notes are an integral part of the consolidated financial statements

INTEGRA LIFESCIENCES HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

(In thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999
REVENUES				
Product sales	$15,684	$12,133	$28,920	$16,738
Other revenue	1,231	417	2,402	780
Total revenues	16,915	12,550	31,322	17,518
COSTS AND EXPENSES				
Cost of product sales, including depreciation of $429, $346, $799 and $638, respectively	7,062	7,689	13,654	10,383
Research and development	1,929	2,255	3,757	4,195
Selling and marketing	3,868	2,914	6,785	4,474
General and administrative	3,739	4,036	7,347	6,187
Amortization and other depreciation	933	488	1,645	639
Total costs and expenses	17,531	17,382	33,188	25,878
Operating loss	(616)	(4,832)	(1,866)	(8,360)
Interest income	141	233	432	511
Interest expense	(320)	(230)	(600)	(257)
Gain on disposition of product line	1,031	--	1,146	4,161
Other income, net	9	6	132	8
Income (loss) before income taxes	245	(4,823)	(756)	(3,937)
Income tax expense (benefit)	161	(1,241)	223	(781)
Net income (loss)	$ 84	$(3,582)	$ (979)	$(3,156)
Basic and diluted net loss per share	$ (0.02)	$ (0.23)	$ (0.34)	$ (0.21)
Basic and diluted weighted average common shares outstanding	17,341	16,785	17,282	16,785

The accompanying notes are an integral part of the consolidated financial statements

INTEGRA LIFESCIENCES HOLDINGS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(In thousands)

	Six Months Ended June 30, 2000	Six Months Ended June 30, 1999
OPERATING ACTIVITIES:		
Net loss	$ (979)	$(3,156)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,444	1,277
Gain on sale of product line and investments	(1,356)	(4,161)
Deferred tax benefit	--	(1,241)
Amortization of discount and interest on investments	(42)	(211)
Amortization of unearned compensation	41	217
Changes in assets and liabilities, net of business acquisitions:		
Accounts receivable	(1,147)	(63)
Inventories	(1,761)	2,047
Prepaid expenses and other current assets	28	175
Non-current assets	(561)	(74)
Accounts payable, accrued expenses and other liabilities	11	124
Customer advances and deposits	(1,364)	1,466
Deferred revenue	(407)	5,221
Net cash (used in) provided by operating activities	(5,093)	1,621
INVESTING ACTIVITIES:		
Proceeds from sale of product line and other assets	1,600	6,354
Proceeds from sale/maturity of investments	16,072	15,000
Purchases of available-for-sale investments	(14,928)	(10,817)
Cash used in business acquisition, net of cash acquired	(15,712)	(14,161)
Purchases of property and equipment	(2,223)	(776)
Net cash used in investing activities	(15,191)	(4,400)
FINANCING ACTIVITIES:		
Net proceeds from revolving credit facility	1,008	13
Repayments of term loan	(1,000)	(375)
Proceeds from sale of preferred stock	5,375	9,924
Proceeds from exercised stock options	1,429	--
Treasury stock purchases	(130)	--
Collection of related party note receivable	36	
Preferred dividends paid	(40)	(40)
Net cash provided by financing activities	6,678	9,522
Effect of exchange rate changes on cash and cash equivalents	(19)	--
Net (decrease) increase in cash and cash equivalents	(13,625)	6,743
Cash and cash equivalents at beginning of period	19,301	5,277
Cash and cash equivalents at end of period	$ 5,676	$ 12,020
Non-cash investing and financing activities:		
Business acquisition costs accrued in liabilities	$ 634	$ 1,696
Note issued in a business acquisition	2,654	--
Term loan assumed in connection with a business acquisition	--	11,000

The accompanying notes are an integral part of the consolidated financial statements

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

1. General

In the opinion of management, the June 30 unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) which the Company considers necessary for a fair presentation of the financial position and results of operations of the Company. Operating results for the periods ended June 30, 2000 are not necessarily indicative of the results to be expected for the entire year. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including disclosures of contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. These unaudited consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 1999 included in the Company's Annual Report on Form 10-K.

2. Acquisitions

On April 6, 2000, the Company purchased the Selector(R) Ultrasonic Aspirator, Ruggles(TM) hand-held neurosurgical instruments and Spembly Medical cryosurgery product lines, including certain assets and liabilities, from NMT Medical, Inc. for $11.6 million in cash. On January 17, 2000, the Company purchased the business, including certain assets and liabilities, of Clinical Neuro Systems, Inc. ("CNS") for $6.8 million. CNS designs, manufactures and sells neurosurgical external ventricular drainage systems, including catheters and drainage bags, as well as cranial access kits. The purchase price of the CNS business consisted of $4.0 million in cash and a 5% $2.8 million promissory note issued to the seller. The promissory note, which is payable in two principal payments of $1.4 million each, plus accrued interest, in January 2001 and 2002, is collateralized by inventory, property and equipment of the CNS business and by a collateral assignment of a $2.8 million promissory note from one of the Company's subsidiaries.

These acquisitions have been accounted for using the purchase method of accounting, and the results of operations of the acquired businesses have been included in the consolidated financial statements since their respective dates of acquisition. The allocation of the purchase price of these acquisitions resulted in acquired intangible assets, consisting primarily of completed technology, customer lists and trademarks of approximately $10.0 million, which are being amortized on a straight-line basis over lives ranging from 5 to 15 years, and residual goodwill of approximately $4.5 million, which is being amortized on a straight-line basis over 15 years.

The following unaudited pro forma financial information assumes that the acquisitions had occurred as of the beginning of each period (in thousands):

	For the Six Months Ended June 30, 2000	1999
Total revenue	$ 34,252	$ 24,205
Net loss	(733)	(2,523)
Basic and diluted loss per share	$(0.33)	$(0.17)

The pro forma amounts for the six month periods ended June 30, 2000 and 1999, respectively, include $1.1 million ($0.07 per share) and $3.7 million ($0.22 per share) gains, net of tax, from the sale of product lines. Also, included in the historical and pro forma results for the six months ended June 30, 2000 and the pro forma results for the six month period ended June 30, 1999 are $429,000 of fair value inventory purchase accounting adjustments. The pro forma results do not necessarily represent results that would have occurred if the acquisition had taken place on the basis assumed above, nor are they indicative of the results of future combined operations.

3. Issuance of Series C Preferred Stock

On March 29, 2000, the Company issued 54,000 shares of Series C Convertible Preferred Stock ("Series C Preferred") and warrants to purchase 300,000 shares of common stock at $9.00 per share to affiliates of Soros Private Equity Partners LLC for $5.4 million, net of issuance costs. The Series C Preferred is convertible into 600,000 shares of common stock and has a liquidation preference of $5.4 million with a 10% annual cumulative dividend associated with the liquidation preference. The Series C Preferred was issued with a beneficial conversion feature that resulted in a nonrecurring, non-cash dividend of $4.2 million, which has been reflected in the net loss per share applicable to common stock for the six months ended June 30, 2000. The beneficial conversion dividend is based upon the excess of the closing price of the underlying common stock as compared to the fixed conversion price of the Series C Preferred Stock, after taking into account the value assigned to the common stock warrants.

4. Income (Loss) per Share

Basic and diluted net income (loss) per share for the periods ended June 30 were as follows:

(In thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999
Basic and diluted loss per share:				
Net income (loss)	$ 84	$ (3,582)	$ (979)	$(3,156)
Dividends on Series A preferred stock	(20)	(20)	(40)	(40)
Dividends on Series B preferred stock	(275)	(250)	(550)	(250)
Dividends and beneficial conversion feature on Series C preferred stock	(135)	--	(4,305)	--
Net loss applicable to common stock	$ (346)	$ (3,852)	$(5,874)	$(3,446)
Average number of shares outstanding	17,341	16,785	17,282	16,785
Basic and diluted loss per share	$ (0.02)	$ (0.23)	$ (0.34)	$ (0.21)

Options and warrants to purchase 4,365,816 and 4,018,077 shares of common stock and preferred stock convertible into 3,467,801 and 2,867,801 shares of common stock at June 30, 2000 and 1999, respectively, were not included in the computation of diluted net loss per share because their effect would have been antidilutive.

5. Comprehensive Loss

Comprehensive loss for the three and six months ended June 30 was as follows:

(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999
Net income (loss)	84	$ (3,582)	$ (979)	$ (3,156)
Foreign currency translation adjustments...........	(338)	--	(338)	--
Unrealized (loss) gain on investments	(7)	(108)	293	(92)
Reclassification adjustment for gains included in net income	--	--	(176)	--
Comprehensive loss	$(261)	$ (3,690)	$(1,200)	$(3,248)

6. Inventories

Inventories consist of the following:

(In thousands)	June 30, 2000	December 31, 1999
Finished goods...........	$ 8,411	$ 3,786
Work-in-process..........	3,456	2,224
Raw materials............	3,864	4,101
	$15,731	$10,111

7. Current Liabilities

Accrued expenses consist of the following:

(In thousands)	June 30, 2000	December 31, 1999
Legal fees................	$ 434	$ 526
Vacation..................	622	533
Acquisition related costs.	730	658
Contract research.........	298	378
Other.....................	4,467	3,445
	$ 6,551	$ 5,540

8. Segment Reporting

The Company's reportable business segments consist of the Integra NeuroSciences division, which is a leading provider of implants, instruments and monitors used in neurosurgery, neurotrauma, and related critical care, and the Integra LifeSciences division, which develops and manufactures a variety of medical products and devices, including products based on the Company's proprietary tissue regeneration technology which are used to treat soft-tissue and orthopedic conditions. Integra NeuroSciences sells primarily through a direct sales organization, and Integra LifeSciences sells primarily through strategic alliances and distributors. Selected financial information on the Company's business segments is reported below (in thousands):

	Integra NeuroSciences	Integra LifeSciences	Total Reportable Segments	Corporate	Total
Three months ended June 30, 2000					
Product sales	$ 11,037	$ 4,647	$ 15,684	$ --	$ 15,684
Total revenue	11,287	5,628	16,915	--	16,915
Operating costs	10,043	5,299	15,342	1,519	16,861
Segment profits (loss)..	1,244	329	1,573	(1,519)	54
Amortization expense					(670)
Operating loss					$ (616)
1999					
Product sales	$ 7,396	$ 4,737	$12,133	$ --	$ 12,133
Total revenue	7,396	5,154	12,550	--	12,550
Operating costs	9,619	5,923	15,542	1,637	17,179
Segment profits (loss)..	(2,223)	(769)	(2,992)	(1,637)	(4,629)
Amortization expense					(203)
Operating loss					$ (4,832)
Six months ended June 30, 2000					
Product sales	$ 19,794	$ 9,126	$ 28,920	$ --	$ 28,920
Total revenue	20,294	11,028	31,322	--	31,322
Operating costs	18,117	10,491	28,608	3,431	32,039
Segment profits (loss)..	2,177	537	2,714	3,431	(717)
Amortization expense					(1,149)
Operating loss					$(1,866)
1999					
Product sales...........	$ 7,917	$ 8,821	$16,738	$ --	$16,738
Total revenue...........	7,917	9,601	17,518	--	17,518
Operating costs.........	10,392	12,129	22,521	3,138	25,659
Segment profits (loss)..	(2,475)	(2,528)	(5,003)	(3,138)	(8,141)
Amortization expense					(219)
Operating loss					$(8,360)

8. Segment Reporting (continued)

Included in segment operating expenses were the following amounts of depreciation:

	Integra NeuroSciences	Integra LifeSciences	Total Reportable Segments	Corporate	Total
Three months ended June 30,					
2000	299	326	625	67	692
1999	274	255	529	102	631
Six months ended June 30,					
2000	559	611	1,170	125	1,295
1999	314	627	941	117	1,058

For the six months ended June 30, 2000 and 1999, the Company's foreign sales, primarily to Europe and the Asia Pacific regions, were 17% and 25% of total product sales, respectively.

9. Legal Matters

In July 1996, the Company filed a patent infringement lawsuit in the United States District Court for the Southern District of California against Merck KGaA, a German corporation, Scripps Research Institute, a California nonprofit corporation, and David A. Cheresh, Ph.D., a research scientist with Scripps, seeking damages and injunctive relief. The complaint charged, among other things, that the defendant Merck KGaA willfully and deliberately induced, and continues to willfully and deliberately induce, defendants Scripps Research Institute and Dr. David A. Cheresh to infringe certain of the Company's patents. These patents are part of a group of patents granted to The Burnham Institute and licensed by the Company that are based on the interaction between a family of cell surface proteins called integrins and the arginine-glycine-aspartic acid (known as "RGD") peptide sequence found in many extracellular matrix proteins. The defendants filed a countersuit asking for an award of defendants' reasonable attorney fees. This case went to trial in February 2000, and on March 17, 2000, a jury found that Merck KgaA had willfully induced infringement of the Company's patents and awarded the Company $15.0 million in damages. The Court has since awarded the Company pre-judgment interest of $1.15 million. The Company anticipates that judgment will be entered by the Court within the next sixty days. The Company expects that Merck KgaA will appeal various decisions of the court and request a new trial. No amounts for this favorable verdict have been reflected in the Company's financial statements.

Bruce D. Butler, Ph.D., Bruce A. McKinley, Ph.D., and C. Lee Parmley (the "Optex Claimants"), each parties to a Letter Agreement (the "Letter Agreement") with Camino NeuroCare, Inc., a wholly-owned subsidiary of the Company ("Camino"), dated as of December 18, 1996, have alleged that Camino breached the terms of the Letter Agreement prior to the Company's acquisition of the NeuroCare Group (Camino's prior parent company). The Letter Agreement contains arbitration provisions, and the Company and the Optex Claimants have agreed to negotiate rather than seek arbitration for a limited time. While we believe that Camino has valid legal and factual defenses, the Optex Claimants have asserted unspecified significant damages, and we believe that the Optex Claimants are likely to pursue arbitration under the Letter Agreement if the matter is not settled otherwise. We cannot predict the outcome of such an arbitration, were it to take place. In addition, we have asserted a right to indemnification from the seller of the NeuroCare businesses, but there can be no assurance that indemnification, if any, will be obtained.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the Company's consolidated financial statements, the notes thereto and the other financial information included elsewhere in this report and in the Company's 1999 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

General

The Company develops, manufactures and markets medical devices, implants and biomaterials. The Company's operations consist of (1) Integra NeuroSciences, which is a leading provider of implants, instruments, and monitors used in neurosurgery, neurotrauma, and related critical care and (2) Integra LifeSciences, which develops and manufactures a variety of medical products and devices, including products based on our proprietary tissue regeneration technology which are used to treat soft tissue and orthopedic conditions. Integra NeuroSciences sells primarily through a direct sales organization, and Integra LifeSciences sells primarily through strategic alliances and distributors.

The Company's segment financial results for the three and six months ended June 30, 2000 and 1999 may not be directly comparable as a result of the certain transactions occurring in 1999 and 2000. In March 1999, the Company acquired the NeuroCare Group of companies ("NeuroCare") for $25.4 million and, in June 1999, the Company transitioned all selling and marketing efforts related to INTEGRA(R) Dermal Regeneration Template to Johnson & Johnson Medical (now Ethicon, Inc.) ("Ethicon") under an agreement with Ethicon (the "Ethicon Agreement"). In January 2000, the Company acquired the business, including certain assets and liabilities, of Clinical Neuro Systems, Inc. ("CNS") for $4.0 million in cash and a $2.8 million note payable to the seller. CNS designs, manufactures and sells neurosurgical external ventricular drainage systems, including catheters and drainage bags, as well as cranial access kits. In April 2000, the Company acquired the Selector(R) Ultrasonic Aspirator, Ruggles(TM) hand-held neurosurgical instruments and the Spembly Medical cryosurgery product lines, including certain assets and liabilities, from NMT Medical, Inc ("NMT") for $11.6 million in cash.

Results of Operations

Three Months Ended June 30, 2000 Compared to Three Months Ended June 30, 1999

Overall, the Company recorded net income of $0.1 million for the three months ended June 30, 2000, as compared to a net loss of $3.6 million for the comparable period in 1999. Operating results for the three months ended June 30, 2000 improved by $4.2 million, with an operating loss of $0.6 million recorded in 2000 as compared to a $4.8 million operating loss in 1999. The improvement in 2000 operating results was primarily due to continued product sales growth and operating cost containment in the second quarter of 2000 and the effects of certain special charges approximating $2.5 million incurred in the second quarter of 1999 in connection with the NeuroCare acquisition. Sales growth resulted primarily from business acquisitions and the successful launch of the DuraGen(TM) Dural Graft Matrix in the third quarter of 1999.

Total revenues increased by $4.3 million to $16.9 million for the three months ended June 30, 2000 as compared to $12.6 million for the three months ended June 30, 1999, primarily as a result of increased product sales. Product sales increased by $3.6 million to $15.7 million for the three months ended June 30, 2000 as compared to $12.1 million for the three months ended June 30, 1999. Product sales and cost of product sales were as follows (in thousands):

	Integra NeuroSciences	Integra LifeSciences	Consolidated
Three months ended June 30, 2000:			
Product sales...................	$11,037	$4,647	$15,684
Cost of product sales...........	4,717	2,345	7,062
Gross margin on product sales...	6,320	2,302	8,622
Gross margin percentage.........	57%	50%	55%

	Integra NeuroSciences	Integra LifeSciences	Consolidated
Three months ended June 30, 1999:			
Product sales...................	$ 7,396	$ 4,737	$12,133
Cost of product sales...........	5,094	2,595	7,689
Gross margin on product sales...	2,302	2,142	4,444
Gross margin percentage.........	31%	45%	37%

Product sales in the Integra NeuroSciences division increased $3.6 million for the three months ended June 30, 2000 primarily as a result of acquired product lines and sales of the DuraGen(TM) product. Sales of products acquired in the CNS and NMT product line acquisitions totaled $2.9 million and DuraGen(TM) sales totaled $1.2 million for the three months ended June 30, 2000. Gross margin on product sales increased to 57% for the three months ended June 30, 2000, with $0.2 million of fair value purchase accounting adjustments from the acquired NMT product lines recorded in cost of product sales in the second quarter of 2000. Gross margin on product sales for the quarter ended June 30, 1999 was adversely affected by $1.4 million of fair value purchase accounting adjustments and $0.5 million of inventory reserves against slow-moving products recorded in cost of product sales. Excluding purchase accounting adjustments, gross margin on product sales would have been 60% and 50% in the second quarter of 2000 and 1999, respectively. The increase in adjusted gross margins resulted from the higher gross margins on the sale of products acquired in the CNS and NMT product line acquisitions and the DuraGen(TM) product, as well as increased capacity utilization.

Product sales in the Integra LifeSciences division decreased $0.1 million for the three months ended June 30, 2000, with a $0.6 million decrease in sales of INTEGRA(R) Dermal Regeneration Template to Ethicon under the Ethicon Agreement offset by $0.5 million of sales of a product line acquired from NMT. Gross margin on product sales increased to 50% for the three months ended June 30, 2000, as compared to 45% for the three months ended June 30, 1999. Excluding $0.1 million and $0.3 million of fair value purchase accounting adjustments recorded in the second quarter of 2000 and 1999, respectively, gross margin on product sales would have been 52% in 2000 and 52% in 1999. Lower gross margins on sales of INTEGRA(R) Dermal Regeneration Template to Ethicon during the three months ended June 30, 2000 were offset by increased utilization of the Plainsboro manufacturing facility during the period.

Other revenue in the Integra NeuroSciences segment increased $0.3 million to $0.3 million for the three months ended June 30, 2000 and consisted of royalty income. Other revenue in the Integra LifeSciences segment increased to $0.9 million for the three months ended June 30, 2000, as compared to $0.4 million for the three months ended June 30, 1999. The majority of this increase relates to contract research funding related to INTEGRA(R) Dermal Regeneration Template received under the Ethicon Agreement.

Research and development expenses were as follows (in thousands):

	Three Months Ended June 30, 2000	1999
Integra NeuroSciences	$ 720	$ 760
Integra LifeSciences	1,209	1,494
Total	$1,929	$2,255

Research and development activities within the Integra LifeSciences segment decreased $0.3 million to $1.2 million for the three months ended June 30, 2000 primarily because of reduced headcount and a reduction in spending in the DePuy cartilage program prior to moving into large animal studies. Future expenditures will depend upon the progress of ongoing research and development programs, including those for which the Company receives funding from third parties.

Approximately 42% and 15% of the Company's total research and development expenses for the three months ended June 30, 2000 and 1999, respectively, were funded through external grants and development funding programs. The increase in funded research in 2000 is primarily the result of research funding received from Ethicon under the Ethicon Agreement related to research on INTEGRA(R) Dermal Regeneration Template.

Selling and marketing expenses were as follows (in thousands):

	Three Months Ended June 30, 2000	1999
Integra NeuroSciences	$ 3,005	$1,707
Integra LifeSciences	863	1,207
Total	$ 3,868	$2,914

Integra NeuroSciences selling and marketing expenses increased by $1.3 million to $3.0 million for the three months ended June 30, 2000 due to the expansion of the direct sales force to over 40 field personnel in 2000, increased sales commissions incurred on higher sales, and higher tradeshow costs in the second quarter of 2000. The decrease of $0.3 million in Integra LifeSciences selling and marketing expenses to $0.9 million for the three months ended June 30, 2000 is the result of lower costs associated with the transition of INTEGRA(R) Dermal Regeneration Template selling and marketing activities to Ethicon, offset by costs associated with the Company's new distribution center, which was opened in the second quarter of 2000.

General and administrative expenses were as follows (in thousands):

	Three Months Ended June 30, 2000	1999
Integra NeuroSciences	$1,496	$1,975
Integra LifeSciences	791	525
Corporate	1,452	1,536
Total	$3,739	$4,036

Integra NeuroSciences general and administrative expenses decreased $0.5 million to $1.5 million for the three months ended June 30, 2000. Included in general and administrative expenses for the second quarter of 1999 were $0.8 million of severance costs in connection with the closure of an administrative facility in Wisconsin that was acquired in the NeuroCare acquisition. Offsetting this decrease are general and administrative costs associated with facilities acquired in the CNS and NMT product line acquisitions. General and administrative expenses in the Integra LifeSciences segment increased $0.3 million to $0.8 million for the three months ended June 30, 2000 primarily due to additional headcount. The decrease of $0.1 million in corporate general and administrative expenses to $1.4 million for the three months ended June 30, 2000 is primarily the result of decreased legal fees associated with less activity in the Merck KGaA litigation in the first quarter of 2000, offset by higher costs associated with additional headcount.

The $0.4 million increase in amortization and other depreciation (excluding $0.4 million and $0.3 million of depreciation included in cost of sales for the three months ended June 30, 2000 and 1999, respectively) to $0.9 million in the second quarter of 2000 was the result of additional amortization related primarily to the CNS and NMT product line acquisitions.

Interest expense increased $0.1 million for the three months ended June 30, 2000 to $0.3 million as a result of interest incurred on the $2.8 million note payable to the seller of the CNS business and an increase in interest rates in the second quarter of 2000 as compared to the comparable quarter in 1999. Interest income decreased because of lower average cash and investment balances outstanding during the second quarter of 2000.

Income tax expense increased to $0.2 million in the second quarter of 2000, as compared to income tax benefit of $1.2 million recorded in the second quarter of 1999 that was attributed to the deferred tax benefits recognized on the consolidated post-acquisition losses to the extent of the deferred tax liability recorded in the NeuroCare acquisition. Income taxes recorded in the second quarter of 2000 relate primarily to taxes incurred by a foreign subsidiary.

Six Months Ended June 30, 2000 Compared to Six Months Ended June 30, 1999

Overall, the Company recorded a net loss of $1.0 million for the six months ended June 30, 2000, as compared to a net loss of $3.2 million for the comparable period in 1999. Operating results for the six months ended June 30, 2000 improved by $6.5 million, with an operating loss of $1.9 million recorded in 2000 as compared to a $8.4 million operating loss in 1999. The improvement in 2000 operating results was primarily due to continued product sales growth and operating cost containment in 2000 and the effects of certain nonrecurring charges incurred in the second quarter of 1999 in connection with the NeuroCare acquisition. Sales growth resulted primarily from business acquisitions and the successful launch of the DuraGen(TM) Dural Graft Matrix in the third quarter of 1999.

Total revenues increased by $13.8 million to $31.3 million for the six months ended June 30, 2000 as compared to $17.5 million for the six months ended June 30, 1999, primarily as a result of increased product sales. Product sales increased by $12.2 million to $28.9 million for the six months ended June 30, 2000 as compared to $16.7 million for the six months ended June 30, 1999. Product sales and cost of product sales were as follows (in thousands):

	Integra NeuroSciences	Integra LifeSciences	Consolidated
Consolidated Six months ended June 30, 2000:			
Product sales...................	$19,794	$9,126	$28,920
Cost of product sales...........	8,836	4,818	13,654
Gross margin on product sales...	10,958	4,308	15,266
Gross margin percentage.........	55%	47%	53%

	Integra NeuroSciences	Integra LifeSciences	Consolidated
Consolidated Six months ended June 30, 1999:			
Product sales...................	$ 7,917	$ 8,821	$16,738
Cost of product sales...........	5,392	4,991	10,383
Gross margin on product sales...	2,525	3,830	6,355
Gross margin percentage.........	32%	43%	38%

Product sales in the Integra NeuroSciences division increased $11.9 million for the six months ended June 30, 2000 as a result of acquired product lines and $2.0 million in sales of the DuraGen(TM) product. Gross margin on product sales increased to 55% for the six months ended June 30, 2000, with $0.3 million of fair value purchase accounting adjustments from the acquired CNS and NMT product lines recorded in cost of product sales in 2000. Gross margin on product sales for the six months ended June 30, 1999 was adversely affected by $1.5 million of fair value purchase accounting adjustments and $0.5 million of inventory reserves against slow-moving products recorded in cost of product sales. Excluding purchase accounting adjustments, gross margin on product sales would have been 57% and 51% in the second quarter of 2000 and 1999, respectively. The increase in adjusted gross margins resulted from the higher gross margins on sale of products acquired in the CNS and NMT product line acquisitions and the DuraGen(TM) product, as well as increased capacity utilization.

Product sales in the Integra LifeSciences division increased $0.3 million for the six months ended June 30, 2000. Sales increases included $1.6 million of sales from acquired product lines, $0.6 million of sales from the first commercial shipment of tyrosine polycarbonate polymers for use in clinical development of various fixation devices and a $0.5 million increase in sales of the Company's hemostatic agent product lines. Offsetting these increases were a $1.2 million decrease in sales of INTEGRA(R) Dermal Regeneration Template to Ethicon under the Ethicon Agreement and a $1.0 million decrease in sales of a product line sold in the first quarter of 1999. Gross margin on product sales increased to 47% for the six months ended June 30, 2000, as compared to 43% for the six months ended June 30, 1999. Excluding $0.1 million and $0.5 million of fair value purchase accounting adjustments recorded in the six months ended June 30, 2000 and 1999, respectively, gross margin on product sales would have been 48% in 2000 and 49% in 1999. Lower gross margins on sales of INTEGRA(R) Dermal Regeneration Template to Ethicon during the six months ended June 30, 2000 were offset by increased utilization of the Plainsboro manufacturing facility and sales of higher margin acquired product lines during the period.

Other revenue in the Integra NeuroSciences segment increased $0.5 million to $0.5 million for the six months ended June 30, 2000 and consisted of royalty income. Other revenue in the Integra LifeSciences segment increased to $1.9 million for the six months ended June 30, 2000, as compared to $0.8 million for the six months ended June 30, 1999. The majority of this increase relates to contract research funding related to INTEGRA(R) Dermal Regeneration Template received under the Ethicon Agreement.

Research and development expenses were as follows (in thousands):

	Six Months Ended June 30, 2000	1999
Integra NeuroSciences	$ 1,211	$ 873
Integra LifeSciences	2,546	3,322
Total	$ 3,757	$4,195

Research and development activities within the Integra NeuroSciences segment increased $0.3 million for the six months ended June 30, 2000 to $1.2 million as a result of the NeuroCare acquisition in March 1999. Research and development activities within Integra LifeSciences segment decreased $0.8 million to $2.5 million for the six months ended June 30, 2000 primarily because of the elimination of several research programs that were ongoing in the first quarter of 1999, reduced headcount, and a reduction in spending in the DePuy cartilage program prior to moving into large animal studies.

Approximately 41% and 16% of the Company's total research and development expenses for the six months ended June 30, 2000 and 1999, respectively, were funded through external grants and development funding programs. The increase in funded research in 2000 is primarily the result of research funding received from Ethicon under the Ethicon Agreement related to research on INTEGRA(R) Dermal Regeneration Template.

Selling and marketing expenses were as follows (in thousands):

	Six Months Ended June 30, 2000	1999
Integra NeuroSciences	$5,422	$1,997
Integra LifeSciences	1,363	2,477
Total	$ 6,785	$4,474

Integra NeuroSciences selling and marketing expenses increased by $3.4 million to $5.4 million for the six months ended June 30, 2000 due to the expansion of the direct sales force to over 40 field personnel in 2000, increased sales commissions incurred on higher sales, and higher tradeshow costs in the second quarter of 2000. The decrease of $1.1 million in Integra LifeSciences selling and marketing expenses to $1.4 million for the six months ended June 30, 2000 is the result of lower costs associated with the transition of INTEGRA(R) Dermal Regeneration Template selling and marketing activities to Ethicon, offset by costs associated with the Company's new distribution center, which was opened in the second quarter of 2000.

General and administrative expenses were as follows (in thousands):

	Six Months Ended June 30, 2000	1999
Integra NeuroSciences	$2,464	$2,030
Integra LifeSciences	1,580	1,152
Corporate	3,303	3,005

Total	$7,347	$6,187

Integra NeuroSciences general and administrative expenses increased $0.4 million to $2.4 million for the six months ended June 30, 2000. This increase relates primarily to general and administrative costs associated with acquisitions. Offsetting this increase were $0.8 million of severance costs incurred in the six months ended June 30, 1999 in connection with the closure of an administrative facility in Wisconsin that was acquired in the NeuroCare acquisition. General and administrative expenses in the Integra LifeSciences segment increased $0.4 million to $1.6 million for the six months ended June 30, 2000 primarily due to additional headcount. The increase of $0.3 million in corporate general and administrative expenses to $3.3 million for the six months ended June 30, 2000 is primarily the result of increased legal fees associated with the Merck KGaA litigation incurred in the first quarter of 2000, when the case went to trial, and costs associated with additional headcount.

The $1.0 million increase in amortization and other depreciation (excluding $0.8 million and $0.6 million of depreciation included in cost of sales for the six months ended June 30, 2000 and 1999, respectively) to $1.6 million in 2000 was the result of $0.9 million of additional amortization from acquisitions and $0.1 million of additional depreciation.

Interest expense increased $0.3 million for the six months ended June 30, 2000 to $0.6 million as a result of interest incurred on the $2.8 million note payable to the seller of the CNS business acquired in January 2000, two full quarters of interest on debt assumed in the NeuroCare acquisition, and an increase in interest rates in 2000 as compared to the comparable period in 1999.

For the six months ended June 30, 2000 and 1999, the Company recorded a gain of $1.1 million and $4.2 million, respectively, in connection with the sale of product lines.

Income tax expense increased to $0.2 million for the six months ended June 30, 2000, as compared to income tax benefit of $0.8 million recorded for the six months ended June 30, 1999. This $0.8 million tax benefit related to $1.2 million of the deferred tax benefits recognized on the consolidated post-acquisition losses to the extent of the deferred tax liability recorded in the NeuroCare acquisition, offset by a $0.4 million tax provision on the sale of a product line. Income taxes recorded in the six months ended June 30, 2000 relate primarily to taxes incurred by a foreign subsidiary and state income taxes.

Liquidity and Capital Resources

The Company has incurred losses from operations since its inception and will continue to incur such losses unless and until product sales and research and collaborative arrangements generate sufficient revenue to fund continuing operations. As of June 30, 2000, the Company had an accumulated deficit of $95.3 million.

The Company has funded its operations to date primarily through private and public offerings of equity securities, product revenues, research and collaboration funding, borrowings under a revolving credit line and cash acquired in connection with business acquisitions and dispositions. At June 30, 2000, the Company had cash, cash equivalents and short-term investments of approximately $9.3 million and $12.6 million in short and long-term borrowings. The Company's principal uses of funds during the six months ended June 30, 2000 were $4.1 million for the acquisition of CNS, $11.6 million for the acquisition of certain product lines from NMT, $2.2 million in purchases of property and equipment and $5.1 million used in operations. During this same period, the Company raised $5.4 million from the sale of Series C Preferred Stock and warrants to affiliates of Soros Private Equity Partners LLC, $1.4 million from the issuance of common stock through exercised stock options and $1.6 million from the sale of product lines.

The Company maintains a term loan and the revolving credit facility from Fleet Capital Corporation (collectively, the "Fleet Credit Facility"), which is collateralized by all the assets and ownership interests of various subsidiaries of the Company including Integra NeuroCare LLC, and NeuroCare Holding Corporation (the parent company of Integra NeuroCare LLC) has guaranteed Integra NeuroCare LLC's obligations. Integra NeuroCare LLC is subject to various financial and non-financial covenants under the Fleet Credit Facility, including significant restrictions on its ability to transfer funds to the Company or the Company's other subsidiaries. The financial covenants specify minimum levels of interest and fixed charge coverage and net worth, and also specify maximum levels of capital expenditures and total indebtedness to operating cash flow, among others. While the Company anticipates that Integra NeuroCare LLC will be able to satisfy the requirements of these financial covenants, there can be no assurance that Integra NeuroCare LLC will generate sufficient earnings before interest, taxes, depreciation and amortization to meet the requirements of such covenants. The term loan is subject to mandatory prepayment amounts if certain levels of cash flow are achieved.

Additionally, in January 2000, the Company issued a 5% $2.8 million promissory note to the seller of the CNS business. The promissory note, which is payable in two principal payments of $1.4 million each, plus accrued interest, in January 2001 and 2002, is collateralized by inventory, property and equipment of the CNS business and by a collateral assignment of a $2.8 million promissory note from one of the Company's subsidiaries.

In the short-term, the Company believes that it has sufficient resources to fund its operations. However, in the longer-term, there can be no assurance that the Company will be able to generate sufficient revenues to obtain positive operating cash flows or profitability.

Other Matters

New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Investments and Hedging Activities" ("SFAS No. 133"). SFAS No. 133 establishes accounting and reporting standards for derivatives and hedging activities and supercedes several existing standards. SFAS No. 133, as amended by SFAS No. 137, is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. The Company does not expect that the adoption of SFAS No. 133 will have a material impact on the consolidated financial statements.

In December 1999 (as amended in March 2000 and June 2000) the staff of the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin 101, Revenue Recognition (the "SAB"). To the extent the guidance in the SAB differs from generally accepted accounting principles previously utilized by an SEC registrant, the SAB indicates that the SEC staff will not object to reporting the cumulative effect of a change in accounting principle. The Company is currently assessing the full impact that the SAB will have on its financial statements. Once the final assessment is complete, the total financial impact of the SAB, if any, will be recorded as a cumulative effect of a change in accounting principle in the fourth quarter of 2000.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

In July 1996, the Company filed a patent infringement lawsuit in the United States District Court for the Southern District of California against Merck KGaA, a German corporation, Scripps Research Institute, a California nonprofit corporation, and David A. Cheresh, Ph.D., a research scientist with Scripps, seeking damages and injunctive relief. The complaint charged, among other things, that the defendant Merck KGaA willfully and deliberately induced, and continues to willfully and deliberately induce, defendants Scripps Research Institute and Dr. David A. Cheresh to infringe certain of the Company's patents. These patents are part of a group of patents granted to The Burnham Institute and licensed by the Company that are based on the interaction between a family of cell surface proteins called integrins and the arginine-glycine-aspartic acid (known as "RGD") peptide sequence found in many extracellular matrix proteins. The defendants filed a countersuit asking for an award of defendants' reasonable attorney fees. This case went to trial in February 2000, and on March 17, 2000, a jury found that Merck KGaA had willfully induced infringement of the Company's patents and awarded the Company $15.0 million in damages. The Court has since awarded the Company pre-judgment interest of $1.15 million. The Company anticipates that judgment will be entered by the Court within the next sixty days. The Company expects that Merck KGaA will appeal various decisions of the court and request a new trial. No amounts for this favorable verdict have been reflected in the Company's financial statements.

Item 4. Submission of Matters to a Vote of Security Holders

The Company's Annual Meeting of Stockholders was held on May 16, 2000 and in connection therewith, proxies were solicited by management pursuant to Regulation 14 under the Securities Exchange Act of 1934. An aggregate of 16,312,094 shares of the Company's common stock ("Common Stock"), 500,000 shares of Series A Preferred Stock (which are convertible into 250,000 shares of Common Stock), 100,000 shares of Series B Preferred Stock (which are convertible into 2,617,801 shares of Common Stock), and 54,000 shares of Series C Preferred Stock (which are convertible into 600,000 shares of Common Stock) (collectively, "Shares") were outstanding and entitled to a vote at the meeting. At the meeting the following matters (not including ordinary procedural matters) were submitted to a vote of the holders of Shares, with the results indicated below:

1. Approval of the Company's 2000 Equity Incentive Plan. The Company's 2000 Equity Incentive Plan was approved. The tabulation of votes was as follows:

For	Against	Abstentions
13,338,101	101,156	21,049

2. Election of directors to serve until the 2001 Annual Meeting. The following persons, all of whom were serving as directors and were management's nominees for election, were elected. There was no solicitation in opposition to such nominees. The tabulation of votes was as follows:

Nominee	For	Withheld
Keith Bradley	15,251,568	34,771
Richard E. Caruso	15,251,654	34,685
Stuart M. Essig	15,250,698	35,641
George W. McKinney, III	15,251,768	34,571
Neil Moszkowski	15,250,966	35,373
James M. Sullivan	15,251,021	35,318

3. Ratification of independent auditors. The appointment of PricewaterhouseCoopers LLP as the Company's independent auditors for the current fiscal year was ratified. The tabulation of votes was as follows:

For	Against	Abstentions
15,244,757	17,863	24,419

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit Number	Description of Exhibit
10.1	Equipment Lease Agreement between Medicus Corporation and the Company, dated as of June 1, 2000.
27	Financial Data Schedule

(b) Reports on Form 8-K

The Company filed with the Securities and Exchange Commission a Report on Form 8-K dated March 29, 2000 with respect to (i) the Company's acquisition of certain assets and liabilities from NMT Medical, Inc. and (ii) the sale of Series C Convertible Preferred Stock to investment affiliates of Soros Private Equity Partners LLC.

SIGNATURES

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

INTEGRA LIFESCIENCES HOLDINGS CORPORATION

Date: August 14, 2000	/s/ Stuart M. Essig ------------------------------------- Stuart M. Essig President and Chief Executive Officer
Date: August 14, 2000	/s/ David B. Holtz ------------------------------------- David B. Holtz Vice President, Finance and Treasurer

INDEX OF EXHIBITS

Exhibit Number	Description of Exhibit
10.1	Equipment Lease Agreement between Medicus Corporation and the Company, dated as of June 1, 2000.
27	Financial Data Schedule

Exhibit 10.1

EQUIPMENT LEASE

This Equipment Lease Agreement (hereinafter referred to as the "Lease") is made and entered into as of the 1st day of June, 2000 by and between Medicus Corporation, a Delaware corporation (hereinafter referred to as the "Lessor"), with its principal address at 919 Conestoga Road, Suite 106, Building #2, Rosemont, PA 19010, and Integra LifeSciences Corporation, a Delaware corporation (hereinafter referred to as "Lessee"), whose principal address is 105 Morgan Lane, Plainsboro, NJ 08536.

WITNESSETH:

1. Lease. The Lessor shall Lease to the Lessee the following equipment and appurtenances, hereinafter variously referred to as machinery, equipment:

See Attached "Schedule A"

2. Delivery and Possession. The Lessee shall take possession of the equipment at 515 South Franklin Street, West Chester, PA on or before June 1, 2000 and shall cause it to be shipped at the Lessee's sole cost and expense to the principal location of Lessee's business.

3. Term and Commencement.

(a) Term. The term of this Lease shall commence on June 1, 2000 (the "Commencement Date") and shall terminate on May 31, 2010 unless sooner terminated or extended as hereinafter set forth.

(b) Option to Renew. Provided that the Lessee is not in default of any material obligation to Lessor, its successors or assigns (if any) under this Lease, Lessor hereby grants to Lessee an option to renew this Lease for an additional term of one year and ten months ending on March 31, 2012. (the "Option Period").

(i) Notice to Exercise Option. To exercise the option under this Lease, Lessee must notify Lessor in writing, not less than ninety (90) days prior to the expiration date of the term that it elects to exercise said option.

4. Rent.

(a) As rent, the Lessee shall pay to Lessor each month during the Term of this Lease the sum of seven thousand five hundred dollars ($7500.00) with the first payment being due on the first day of the month following the Commencement Date, and all payments on the first day of each calendar month thereafter.

(b) All rental payments hereunder shall be paid to the Lessor as provided above, without notice or demand.

(c) If any installment is paid more than fifteen (15) days after the date said installment is due, the Lessee shall pay Lessor an additional sum equal to one and one half percent (1.5%) of the amount of the installment due and unpaid or the highest allowable late fee permitted by law in the jurisdiction in which the equipment is located, whichever is less ("Late Payment Charge"), and said Late Payment Charge shall be due for each and every month thereafter until said delinquent amount and all Late Payment Charges have been paid thereon. Said amount shall be due not as a penalty but as liquidated damages to reimburse the Lessor for the additional expenses it incurs therefrom, the exact amount of which the parties stipulate and agree is difficult or impossible to compute.

5. Operation. The equipment shall be principally operated at 105 Morgan Lane, Plainsboro, NJ 08536 or at such other location as Lessee shall determine. Lessee shall have the right to move the equipment upon ten days written notice of Lessor. However, notwithstanding the foregoing, Lessee shall not move the equipment outside the State of New Jersey or the Commonwealth of Pennsylvania without the written consent of Lessor. Said consent shall not be unreasonably withheld.

6. Use. Lessee shall use the equipment in a careful and proper manner and shall comply with all national, state, municipal, police and other laws, ordinances and regulations in anyway relating to the possession, use, or maintenance of the equipment. If at any time during the term hereof, the Lessor supplies the Lessee with labels, plates, or other markings stating that the equipment is owned by Lessor, the Lessee shall affix and keep the same upon a prominent place on the equipment.

7. Installation and Service. The Lessor shall assign to the Lessee all the vendor's warranties and guarantees, if any, BUT MAKES NO REPRESENTATION OR WARRANTY WITH RESPECT TO THE EQUIPMENT INCLUDING WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE and assumes no obligation with respect to the equipment's operation or maintenance.

8. Liability of Lessor. THE LESSOR SHALL NOT BE LIABLE FOR ANY DAMAGES BY REASON OF THE FAILURE OF THE EQUIPMENT TO OPERATE OR OF FAULTY OPERATION OF THE EQUIPMENT OR SYSTEM. THE LESSOR SHALL NOT BE HELD RESPONSIBLE FOR ANY DIRECT OR CONSEQUENTIAL DAMAGES OR LOSSES RESULTING FROM THE INSTALLATION, OPERATION, OR USE OF THE PRODUCTS OR MATERIALS FURNISHED BY LESSOR.

9. Lessor's Right of Inspection. Lessee shall permit Lessor and its agents, upon at least one days written notice, to enter into and upon the premises where the equipment is operated at all reasonable times for the purpose of inspecting the equipment or observing its use. The Lessee shall give the Lessor immediate notice of any attachment or other judicial process affecting any item of equipment.

10. Alterations. Without the prior written consent of Lessor, Lessee shall not make at any time during the Term of this Lease, changes, additions, improvements and/or alterations to the equipment unless they are initiated and recommended by the manufacturer of the equipment to improve performance or for modernization. All additions and improvements of any kind or nature made to the equipment shall belong to and become the property of Lessor upon the expiration or earlier termination of this Lease.

11. Repairs. The Lessee, at its own cost and expense, shall keep the equipment in good repair, condition and working order and shall furnish any and all parts, mechanisms, and devices required to keep the equipment in good mechanical and working order.

12. Risk of Loss and Damage; Stipulated Loss Value.

(a) The Lessee hereby assumes and shall bear the entire risk of loss and damage to the equipment from any and every cause. No loss or damage to the equipment or any part thereof shall impair any obligation of the Lessee under this Lease which shall continue in full force and effect, including but not limited to obligations of the Lessee to make rental payments.

(b) In the event of a Loss, the Lessee, pay the Lessor therefore in cash the replacement cost of the item(s), but in no event less than the net present value of the rent discounted at nine percent (9%) per annum. Upon the cash payment this lease shall terminate.

13. Surrender. Upon the expiration or termination of the Lease, Lessee shall surrender the equipment to Lessor in good repair and condition, ordinary wear and tear excepted unless the Lessee has paid the Lessor in cash the Stipulated Loss Value of the items(s) of equipment pursuant to Paragraph 12 above. The equipment shall be returned either (i) by delivering the equipment at the Lessee's cost and expense to such place as the Lessor shall specify or (ii) by loading the equipment at the Lessee's sole cost and expense on board such carrier as the Lessor shall specify and shipping the same, freight collect, to the destination designated by Lessor.

14. Insurance. Lessee shall obtain and maintain during the term of this Lease, fire and all risk insurance, insuring against all reasonable perils and liabilities, for one hundred percent (100%) of the replacement value of the equipment as determined by the Lessor; and shall carry public liability, contractual liability, and property damage insurance covering the equipment, its operation and use. Such insurance shall be issued by an insurance company licensed to do business in the State of New Jersey and shall be in the joint names of Lessor and Lessee. The Lessee shall pay the premiums and deliver the policies or duplicates thereof to Lessor. Each insurer shall agree, by endorsement of the policy or policies issued by it or by independent instrument furnished to the Lessor, that it will give Lessor thirty (30) days written notice before the policy in question shall be cancelled or altered. The proceeds of insurance, at the option of the Lessee, shall be applied either (i) towards the replacement, restoration, or repair of the equipment, or (ii) toward payment of the obligations of the Lessee. If, within ten days following notice by the Lessor to the Lessee, the Lessor has failed to receive policies or certificates of insurance in accordance with this paragraph, the Lessor shall, at the Lessor's option, have the right to procure the insurance and any sums so expended by the Lessor shall thereafter be reimbursed by the Lessee to the Lessor and shall become additional rent under this lease and shall be payable in its entirety, on the next rental payment date or within 30 days, whichever event is sooner.

15. Liens, Taxes, Assessments, and Licenses. The Lessee shall keep the equipment free and clear of all levies, liens, and encumbrances and shall pay all license fees, registration fees, assessments, charges, and taxes (municipal, state, and federal) which may now or hereafter be imposed upon the ownership, leasing, renting, sale, possession, or use of the equipment, excluding however, all taxes on or measured by the Lessor's income. The Lessee shall also provide all permits and licenses, if any, necessary for the installation and operation of the equipment or any parts thereof. The Lessee shall pay, or reimburse to the Lessor, forthwith as additional rent if the Lessor is charged for the same, all freight, packing, and handling charges (including related insurance charges) as billed by manufacturer, vendor, or carrier. If Lessee shall fail to pay the required fees, assessments, charges and taxes, the Lessor may pay the same. In that event, the cost thereof shall become additional rent and shall be due and payable to the Lessor on the next rental payment date or within 30 days, whichever event is sooner.

16. Encumbrances and Breakages. The Lessee shall not lease, sublease, mortgage or otherwise encumber, remove, or suffer to be removed from the stipulated premises or part with possession of the equipment or any part hereof,

and shall pay to the Lessor as additional rent any charges that may be due to cover replacement, broken, or missing parts or service at the vendor's regular established price if the Lessor shall, at its sole option, elect to make repairs or replacement.

17. Warranties. The Lessor shall request the supplier to authorize the Lessee to enforce in its own name all warranties, agreements, or representations, if any, which may be made by the supplier to the Lessee or Lessor, BUT THE LESSOR ITSELF MAKES NO EXPRESS OR IMPLIED WARRANTIES AS TO ANY MATTER WHATSOEVER, INCLUDING, WITHOUT LIMITATION, THE CONDITION OF EQUIPMENT, ITS MERCHANTABILITY OR ITS FITNESS FOR ANY PARTICULAR PURPOSE. NO DEFECT IN, OR UNFITNESS OF, THE EQUIPMENT SHALL RELIEVE THE LESSEE OF THE OBLIGATION TO PAY RENT OR ANY OTHER OBLIGATION UNDER THIS LEASE.

18. Indemnity. The Lessee shall indemnify the Lessor against, and shall hold the Lessor harmless from, any and all claims, actions, suits, proceedings, costs, expenses, damages, and liabilities, including attorney's fees, arising out of, connected with, or resulting from the equipment, including without limiting the generality of the foregoing, the manufacture, selection, delivery, possession, use, operation or return of the equipment.

19. Default. If the Lessee fails to pay any rent or other amount herein provided within fifteen (15) days when the same shall become due and payable, or if the Lessee fails to observe, keep or perform any other provisions of this lease required by it to be observed, kept, or performed, and such failure is not cured within fifteen (15) days of receipt of written notice of such failure from Lessor, or if any execution or other writ or process shall be issued in any action or proceeding against the Lessee whereby the equipment may be taken or distrained, the Lessor may exercise any one or more of the following remedies:

(a) To declare the entire amount of rent immediately due and payable as to any or all items of equipment, without notice or demand to the Lessee.

(b) To sue for and recover all rents, and other payments, then accrued or thereafter accruing, with respect to any or all items of equipment.

(c) To take possession of any or all items of equipment, without demand or notice, wherever the same shall be located, without any court order or other process of law. The Lessee hereby waives any and all damage occasioned by such taking of possession. Any said taking of possession shall not constitute a termination of this lease as to any or all items of equipment unless the Lessor expressly so notifies the Lessee in writing.

(d) To terminate this Lease as to any or all items of equipment.

(e) To pursue any other remedy at law or in equity.

Notwithstanding any such repossession or any other action, which Lessor may take, the Lessee shall remain liable for the full performance of all obligations on its part to be performed under this Lease; provided however, that if the Lessor obtains any money for the equipment from rerental or sale thereof, said moneys, less expenses, shall be credited to the last payments of the Lessee's obligation.

20. Bankruptcy or Insolvency. Neither this Lease nor any interest therein is assignable or transferable by operation of law. If any proceeding under any bankruptcy law is commenced by or against Lessee, or if the Lessee is adjudged insolvent, or if the Lessee makes an assignment by the benefit his creditors, or if a writ of attachment or execution is levied on any item or items of equipment and is not released or satisfied within ten days thereafter, or if a receiver is appointed in any proceeding or action, to which the Lessee is a party, with authority to take possession or control of any item or items of the equipment, the Lessor shall have and may exercise any one or more of the remedies set forth in paragraph 19; and this lease shall, at the option of the Lessor, and without further notice immediately terminate and shall not be treated as an asset of the Lessee after the exercise of said option.

21. Concurrent Remedies. No right or remedy conferred upon or reserved to the Lessor is exclusive of any other right or remedy in this Lease or by law or in equity provided or permitted; but each shall be cumulative of every other right or remedy given hereunder or now or hereafter existing at law or in equity or by status or otherwise, and may be enforced concurrently therewith or from time to time.

22. Lessor's Expenses. The Lessee shall pay the Lessor all costs and expenses, including attorney's fees, incurred by the Lessor in exercising any of its rights or remedies under this Lease or enforcing any of the terms, conditions, or provisions hereof.

23. Lessee's Assignment. Without the prior written consent of Lessor, the Lessee shall not (a) assign, transfer, pledge, or hypothecate this Lease, the equipment or any part thereof, or any interest therein to anyone, other than an affiliate of Lessee, or (b) sublet or lend the equipment or any part thereof, or permit the equipment or any part thereof to be used by anyone other than the Lessee or the Lessee's employees or affiliates. Consent to any of the foregoing prohibited acts shall apply only in the given instance, and shall not be a consent to any subsequent like act by the Lessee or any other person. Subject always to the foregoing, this Lease shall inure to the benefit of, and is binding upon, the heirs, legatees, personal representatives, successors, and assigns of the parties hereto.

24. Lessor's Assignment. All rights of Lessor whether hereunder may be assigned, pledged, mortgaged, transferred, or otherwise disposed of, in whole or in part, without notice to Lessee.

25. Ownership. The equipment is, and shall at all times be and remain, the sole and exclusive property of the Lessor which shall be entitled to the Investment Credit, if any, to the extent provided under Section 38 of the Internal Revenue Code; and the Lessee shall have no right, title and interest in or to the equipment except as expressly set forth in this Lease.

26. Separability. Each provision hereof shall be separate and independent and the breach of any such provision by Lessor shall not discharge or relieve Lessee from its obligations to perform each and every covenant to be performed by Lessee hereunder. If any provision hereof or the application thereof to any person or circumstance shall to any extent be invalid or unenforceable, the remaining provisions hereof, or the application of such provision to persons or circumstances other than those as to which it is invalid or unenforceable, shall not be affected thereby, and each provision hereof shall be valid and enforceable to the extent permitted by law.

27. Governing Law. This Lease shall be governed by and interpreted in accordance with the laws of the Commonwealth of Pennsylvania.

28. Headings. The headings of various paragraphs herein and hereto have been inserted for convenient reference only and shall not to any extend have the effect of modifying or amending the express terms and provisions of this Lease.

29. Personal Property. The equipment is, and shall at all times be and remain, personal property, notwithstanding that the equipment or any part thereof may now be, or hereafter become, in any manner, affixed, attached, embedded or permanently resting upon real property or any building thereon, or attached in any manner to what is permanent, as by means of cement, plaster, nails, bolts, screws, or otherwise.

30. Notice. Any and all notices or demands by or from Lessor to Lessee, or lessee to Lessor, shall be in writing. They shall be served either personally, by certified mail or by telegraphic method, or by a nationally recognized courier service such as Federal Express or United Parcel Service where a receipt is produced evidencing confirmation of service. If served personally or by a nationally recognized courier service, service shall be conclusively made at the time of service. If served by certified mail, service shall be conclusively deemed upon deposit thereof in the United States mail, postage prepaid. All notices shall be sent as follows:

To the Lessor:

Medicus Corporation
919 Conestoga Road
Suite 106, Building #2
Rosemont, PA 19010

To the Lessee:

Integra LifeSciences Corporation
105 Morgan Lane
Plainsboro, NJ 08536

The parties agree to provide each other promptly with any address changes.

31. Accord and Satisfaction. No payment by Lessee or receipt by Lessor of a lesser amount than the correct rent or other moneys due under the Lease shall be deemed to be other than a payment on account, nor shall any endorsement or statement on any check or letter accompanying any check or payment of rent or any other amounts owed to Lessor be deemed to effect or evidence an accord and satisfaction, and Lessor may accept such check or payment without prejudice to Lessor's right to recover the balance of the rent or other amount owed and pursue any other remedy provided in this Lease

32. Miscellaneous Provisions.

(a) If the Lessee consists of more than one person, then the covenants, agreements and obligations of the respective parties shall be binding upon all such parties, jointly and severally.

(b) Nothing contained in this Lease shall be deemed or construed by the parties hereto, or any other third party, to create the relationship of principal and agent, or of partnership or of joint venture, or of trustee and beneficiary, or of any other association between the parties hereto other than is clearly and expressly set forth in this Lease, other than that of Lessor and Lessee, and neither the method of payment of any moneys hereunder, nor any other provisions of this Lease, nor any relationship other than Lessor and Lessee.

(c) This Lease may be amended, modified and changed only by a written instrument signed by all the parties hereto.

(d) The various rights, options, elections, powers and remedies of a party or parties to this Lease shall be construed as cumulative, and no one of them exclusive of any others or of any legal or equitable remedy which said party or parties might otherwise have in the event of breach or default in terms hereof, and the exercise of one right or remedy by a party or parties shall not in any way impair his rights to any other right or remedy until all obligations imposed on a party or parties have been fully performed.

(e) This Lease may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original, but such counterparts together shall constitute but one Lease.

(f) It is expressly understood that this Lease contains all terms, covenants, conditions and agreements between the parties hereto relating to the subject matter of this Lease, and that no prior agreements or understandings, either oral or written, pertaining to the same, shall be valid or of any force or effect, and that the terms, covenants, conditions and provisions of this Lease cannot be altered, changed, modified or added to except in writing by all the parties hereto.

(g) Should any party or parties hereto institute any action or proceeding in Court to enforce any provision or provisions hereof, or for damages by reason of any default under this Lease, or for a declaration of such party's or parties' rights or obligations hereunder, or for any other judicial remedies, the prevailing party or parties shall be entitled to receive from the losing party or parties such amount as the Court may adjudge to be reasonable attorney's fees for the services rendered the party or parties prevailing in any such action or proceeding.

(h) This Lease shall be binding upon and inure to the benefit of the personal and legal representatives, successors and assigns of the parties and also upon the heirs, executors and administrators of any individuals executing this Lease.

(i) In interpreting this Lease, the masculine includes the feminine and neuter genders; the plurals include the singular, and vice versa as the context may require.

33. No Waiver. The failure of Lessor or Lessee to insist upon the strict performance of any provision of this Lease, or the failure by Lessor or Lessee to exercise any right, option or remedy hereby reserved shall not be construed as a waiver for the future of any such provision, right, option or remedy or as a waiver of a subsequent breach thereof. No provision of this Lease shall be deemed to have been waived unless such waiver shall be in writing signed by the party waiving such provision.

34. Authority. Each party represents to the other that the execution and delivery of this Lease and the performance of its respective obligations hereunder have been authorized by all parties necessary to make this Lease a valid, binding and enforceable Agreement in accordance with the terms hereof, and the person executing this Lease on behalf of each party likewise has all requisite authority so to do.

IN WITNESS WHEREOF, the parties hereto have caused this Lease to be executed as of the date first above written.

	LESSOR:
ATTEST:	Medicus Corporation
----------------------------	By: --------------------------------
	LESSEE:
ATTEST:	Integra LifeSciences Corporation
----------------------------	By: --------------------------------

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