UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

# FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

(MARK ONE)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2004

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

For the transition period from to

COMMISSION FILE NO. 0-26224

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

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

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
COMMON STOCK, PAR VALUE $.01 PER SHARE

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

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 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 an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [X] No [ ]

As of June 30, 2004, the aggregate market value of the registrant's common stock held by non-affiliates was approximately $632,254,000, based upon the closing sales price of the registrant's common stock on NASDAQ on such date. For purposes of this calculation only, all directors, executive officers and holders of more than 10% of the registrant's outstanding common stock as of such date were deemed to be "affiliates" of the registrant.

The number of shares of the registrant's Common Stock outstanding as of March 11, 2005 was 29,311,367.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant's definitive proxy statement relating to its scheduled May 17, 2005 Annual Meeting of Stockholders are incorporated by reference in Part III of this report.

PART I

ITEM 1. BUSINESS

The terms "we," "our," "us," "Company" and "Integra" refer to Integra LifeSciences Holdings Corporation and its subsidiaries unless the context suggests otherwise.

Integra develops, manufactures and markets medical devices for use in neuro-trauma, neurosurgery, reconstructive surgery and general surgery. Integra was founded in 1989 and over the next decade developed technologies and products directed toward tissue regeneration. In 1999, we entered the neurosurgery market through an acquisition and the launch of our DuraGen(R) Dural Graft Matrix product for the repair of the dura mater. Since 1999, we have increased our revenues from $42.9 million to $229.8 million, a compound annual growth rate of 40%, and we have broadened our product offerings to include more than 15,000 products. We have achieved this growth in our overall business through the development and introduction of new products, the development of our distribution channels and acquisitions.

Our product lines include innovative tissue repair products that incorporate our proprietary absorbable implant technology, such as the DuraGen(R) Dural Graft Matrix, the DuraGen Plus(TM) Dural Regeneration Matrix, the DuraGen Plus(TM) Adhesion Barrier Matrix, the NeuraGen(TM) Nerve Guide, the NeuraWrap(TM) Nerve Protector, the INTEGRA(R) Dermal Regeneration Template, and the INTEGRA(TM) Bilayer Matrix and INTEGRA(TM) Matrix Wound Dressings. In addition, we offer a full range of medical devices that include monitoring and drainage systems, surgical instruments and fixation systems.

Financial information about our geographical areas is set forth in our financial statements under Notes to Consolidated Financial Statements, Note 14- Segment and Geographic Information.

STRATEGY

Our goal is to become a global leader in the development, manufacturing and marketing of medical devices, implants and biomaterials in the neurosurgery, reconstructive surgery and general surgery markets. Key elements of our strategy include the following:

EXPAND OUR PRESENCE IN HOSPITALS AND OTHER HEALTH CARE FACILITIES. Through acquisitions and internal growth, we have become a leading provider of products used in the diagnosis, monitoring and treatment of chronic diseases and acute injuries and have become a leading provider of surgical instruments. We focus on cranial, spinal, peripheral nervous system and small bone and joint injuries, as well as the repair and reconstruction of soft tissue, such as dermis. We believe that additional growth potential exists through the following:

- expanding our product portfolio and market reach through additional acquisitions;

- increasing the penetration of our existing products into closely related markets, such as the ear, nose, throat (ENT), maxillofacial, extremities and spine markets;

- continuing the development and promotion of innovative new products, such as our Dura Gen dural repair and anti-adhesion products, the NeuraGen(TM) Nerve Guide, the NeuraWrap(TM) Nerve Protector, the NeuroSensor(R) Cerebral Blood Flow Monitoring System and the LICOX(R) Brain Tissue Oxygen Monitoring System; and

- expanding our sales force and product offerings focused on orthopedic foot and ankle, podiatric and reconstructive surgeons.

ADDITIONAL STRATEGIC ACQUISITIONS. Since 1999 we have completed more than twenty acquisitions focused primarily on our neurosurgical product lines, reconstructive surgery, surgical instrumentation and orthopedic surgery. We regularly evaluate potential acquisition candidates in this market and in other specialty medical technology markets characterized by high margins, fragmented competition and focused target customers.

CONTINUE TO DEVELOP NEW AND INNOVATIVE MEDICAL PRODUCTS. We have built a leading proprietary absorbable implant franchise through our development of the INTEGRA(R) Dermal Regeneration Template, the INTEGRA(TM) Bilayer Matrix and

INTEGRA(TM) Matrix Wound Dressings, the DuraGen(R) Dural Graft Matrix, the DuraGen Plus(TM) Dural Regeneration Matrix, the DuraGen Plus(TM) Adhesion Barrier Matrix, the NeuraGen(TM) Nerve Guide, the NeuraWrap(TM) Nerve Protector, Biomend(R) and Biomend(R) Extend Absorbable Collagen Membranes and biomaterials for the orthopedic implant market. We currently are developing a variety of innovative neurosurgical and other medical products and are seeking expanded applications for our existing products.

PRODUCT GROUPS, MARKETING AND SALES

Our business is organized into product groups and distribution channels. Our product groups include Monitoring Products, Implants, Instruments and Private Label Products. Our distribution channels include two direct sales organizations (Integra NeuroSciences and Integra Reconstructive Surgery), one distributor network managed by a direct sales organization (JARIT) and strategic alliances. We sell the products from our four product groups through our various distribution channels, as follows:

PRODUCT
GROUPS ------
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MONITORING
IMPLANTS
INSTRUMENTS
PRIVATE LABEL
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D INTEGRA I
NEUROSCIENCES
X X X S T R
INTEGRA X X I
RECONSTRUCTIVE
B U T JARIT X
I O ALLIANCES
X N

The following table summarizes the most important products in each of our product groups, which we discuss in more detail in the text following the table:

PRODUCT LINES
APPLICATIONS
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MONITORING
PRODUCTS
Camino(R) and
Ventrix(R)
Intracranial
Pressure
(ICP)
Continuous
monitoring of
intracranial
pressure,
Monitoring
Systems and
NeuroSensor(R)
Cerebral
Blood
temperature
and cerebral
blood flow
following
injury or

Flow and ICP
System
neurosurgical
procedures
LICOX(R)
Oxygen
Monitoring
Systems
Continuous
monitoring of
intracranial
oxygen
following
injury or
neurosurgical
procedures
Integra
Systems of
Cranial
Access and
CSF Drainage
Access to the
cranial
cavity and
drainage of
excess
cerebrospinal
fluid from
the brain
Integra
Epilepsy
Monitoring
Electrodes
Specialty
electrodes
for the
intraoperative
monitoring of
epileptic
seizures EEG,
EP and EMG
electrodes,
disposables
and other The
diagnosis and
monitoring of
neurological,
ENT and
supplies
pulmonary
disorders
IMPLANTS
DuraGen(R)
Dural Graft
and DuraGen
Plus(TM)
Dural Onlay
collagen
matrix to
repair dura
mater
Regeneration
Matrices
DuraGen
Plus(TM)
Adhesion
Barrier
Matrix(1)
Onlay
collagen
matrix to
provide an
adhesion
barrier
following
spinal and
cranial
surgery and
for
restoration

of the dura
mater

PRODUCT LINES
APPLICATIONS
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EnDura(TM)
No-React(R)
(2) Dural
Substitute
Bovine
pericardium
suturable
product for
repair of
dura mater
NeuraGen(TM)
Nerve Guide
and
NeuraWrap(TM)
Nerve Repair
and
protection of
peripheral
nerves
Protector
Hydrocephalus
shunts,
including the
new Integra
Specifically
designed for
the
management of
NPH(TM) Valve
hydrocephalus,
a chronic
condition
involving
excess
cerebrospinal
fluid in the
brain
INTEGRA(R)
Dermal
Regeneration
Template,
INTEGRA(TM)
Regenerate
dermis,
repair skin
defects and
wound Bilayer
Matrix Wound
Dressing,
INTEGRA(TM)
Matrix
dressings
Wound
Dressing
Newdeal
products,
including the
Bold(R)
Screw, Full
line of
specialty
implants and
instruments
Uniclip(R)
Compression
Staple,

Hallu-Fix(R)
plate
specifically
designed for
foot and
ankle surgery
system and
the
HINTEGRA(R)
total ankle
prosthesis(1)
Sundt(TM) and
other carotid
shunts For
shunting
blood during
carotid
endarterectomy
INSTRUMENTS
Selector(R)
Integra
Ultrasonic
Aspirator;
Electronic
surgical
systems that
use
ultrasonic
energy
Dissectron(R)
Ultrasonic
Aspirator(1)
to
selectively
dissect and
ablate tissue
JARIT
Surgical
Instruments
General and
specialty
instruments
for open and
endoscopic
surgery
MAYFIELD(R)
(3) Cranial
Stabilization
and
Intraoperative
cranial
stabilization
and
retraction
Positioning
Systems and
the BUDDE(R)
Halo
instruments
for use
during
neurosurgical
procedures
Retractor
System
Elektrotom(R)
electrosurgery
generators(1)
Electrosurgery
system used
to cut and
coagulate
selected
tissue
Ruggles(TM)
Neurosurgical
and Spinal
Instruments
Specialized
surgical
instruments

for use in
cranial and
R&B
Redmond(TM)
Spinal
Instruments
and/or spinal
surgery
Padgett
Instruments
Instruments
used in
reconstructive
and plastic
surgery
Padgett
Dermatomes
and Meshers
Devices for
harvesting
and
conditioning
skin grafts
Spinal
Specialties
Custom
spinal,
epidural,
discogram and
nerve block
kits and
products for
chronic pain
management
PRIVATE LABEL
PRODUCTS
Absorbable
Collagen
Sponge and
other
matrices for
Fracture
management /
enabling
spinal fusion
use with bone
morphogenetic
protein
(rhBMP-2)
(manufactured
for Wyeth
BioPharma;
Medtronic
Sofamor
Danek)
BioMend(R)
and
BioMend(R)
Extend
Absorbable
Used in
guided tissue
regeneration
in
periodontal
Collagen
Membranes,
CollaCote(R),
CollaTape(R)
and surgery
and to
control
bleeding in
dental
surgery
CollaPlug(R)
Absorbable
Wound
Dressings
(manufactured
for Zimmer)

PRODUCT
LINES
APPLICATIONS
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VitaCuff(R)
Percutaneous
Infection
Control
Device
Provide
protection
against
infection
arising from
and
BioPatch(R)
(4)
Antimicrobial
Wound
Dressing
long-term
catheters
and in
wounds
(manufactured
for various
medical
device
companies)

(1) Not available for sale in the United States

(2) No-React is a registered trademark of Shelhigh, Inc.

(3) Mayfield is a registered trademark of SM USA, Inc., a wholly owned subsidiary of Schaerer Mayfield USA, Inc.

(4) BioPatch is a registered trademark of Johnson & Johnson

MONITORING PRODUCTS

THE MONITORING OF BRAIN PARAMETERS. Neurosurgeons use intracranial monitors to diagnose and treat cases of severe head trauma and other diseases. There are approximately 500,000 cases of head trauma each year in the United States, and the market for monitoring and intervention is estimated to approximate $110 million.

We sell the Camino(R) and Ventrix(R) lines of intracranial pressure and temperature monitoring systems and the LICOX(R) Brain Tissue Oxygen Monitoring System. Currently more than 3,000 of our intracranial monitors are installed and in use worldwide. The Camino(R) and Ventrix(R) systems measure the intracranial pressure and temperature in the brain and ventricles, and the LICOX(R) system allows for continuous qualitative regional monitoring of dissolved oxygen in cerebral tissues.

We expect to introduce the NeuroSensor(R) Cerebral Blood Flow Monitoring System in the first half of 2005. This monitoring system measures both intracranial pressure and cerebral blood flow using a single combined probe and an electronic monitor for data display. Cerebral blood flow is considered to be an important parameter for monitoring cerebral auto-regulation and, when combined with the measurement of intracranial pressure, is expected to facilitate improved patient care and clinical management with applications in neuro-trauma, cerebrovascular disease and post-operative neurosurgical treatment.

Core technologies underlying the brain parameter monitoring product line include the design and manufacture of the disposable catheters used in the monitoring systems, pressure transducer technology, optical detection/fiber optic transmission technology, sensor characterization and calibration technology and

monitor design.

CRANIAL ACCESS AND EXTERNAL DRAINAGE. Neurosurgeons use cranial access kits and external drainage systems to gain access to the cranial cavity and to drain excess cerebrospinal fluid from the ventricles of the brain into an external container. We manufacture and market a broad line of cranial access kits and ventricular and lumbar external drainage systems under the Integra CSF Drainage and Cranial Access Systems brand names.

EPILEPSY ELECTRODES AND NEUROLOGICAL SUPPLIES. Neurosurgeons use electrodes for the intraoperative monitoring of epileptic seizures to determine if surgical options can be used in the treatment of epilepsy. Seizures vary from a momentary disruption of the senses to short periods of unconsciousness or convulsions. Seizures are caused by the sudden change in how the cells of the brain send electrical signals to each other. The neurosurgeon uses the electrodes in conjunction with an electroencephalography video monitor to determine if a patient is a viable candidate for surgery, which involves the removal of the damaged portion of brain tissue. The worldwide market for intraoperative epilepsy electrodes is estimated to be $10 million. We sell these products in the United States through our Integra NeuroSciences sales force.

We distribute a wide variety of disposables and supplies, including surface electrodes, needle electrodes, recording transducers and stimulators, and respiratory sensors, that are used in the diagnosis and monitoring of neurological disorders. These products are designed to monitor and perform tests of the nervous system and brain, including electromyography (EMG), evoked potential (EP) and electroencephalography (EEG) tests, and to evaluate sleep disorders.

We sell these products under the Integra Supplies(TM) name primarily through catalogs and telemarketing to more than 6,000 neurologists, hospitals, sleep clinics and other physicians. Neurologists are the referring physicians for Integra's existing neurosurgeon customers and participate in the decision to use our line of epilepsy monitoring electrodes.

IMPLANTS

REPAIR OF THE DURA MATER. The dura mater is the thick membrane that contains the cerebrospinal fluid within the brain and the spine. The dura mater often must be penetrated during brain surgery and is often damaged during spinal surgery. In either case, surgeons may close or repair the dura mater with a graft. The graft may consist of tissue taken from elsewhere in the patient's body, or it may be one of the dural substitute products currently on the market, which are made of collagen, synthetic materials, processed human cadaver or bovine pericardium. The DuraGen(R) Dural Graft and DuraGen Plus(TM) Dural Regeneration Matrices are absorbable collagen products indicated for the repair of the dura mater surrounding the brain and spine. The worldwide market for dural repair, including cranial and spinal applications, is estimated to be $120 million.

The DuraGen Plus(TM) Adhesion Barrier Matrix is an absorbable collagen product, which is CE marked in the European Union as a barrier against adhesions following spinal and cranial surgery and for restoration of the dura mater. We estimate that the total worldwide market for treatment of spinal adhesions exceeds $300 million. The DuraGen Plus(TM) Adhesion Barrier Matrix is not approved for sale in the United States.

We believe that the DuraGen(R) Dural Graft and DuraGen Plus(TM) Dural Regeneration Matrices, as well as the DuraGen Plus(TM) Adhesion Barrier Matrix, address the shortcomings of other methods for repairing the dura mater. Clinical trials have shown our DuraGen(R) and DuraGen Plus(TM) products to be an effective means for closing the dura mater without the need for suturing, which allows the neurosurgeon to conclude the operation more efficiently. In addition, because the human body ultimately absorbs the DuraGen(R) and DuraGen Plus(TM) Matrices and replaces them with new natural tissues, the patient avoids some of the risks associated with a permanent implant inside the cranium or spinal cavity.

EnDura(TM) No-React(R) Dural Substitute is a bovine pericardium suturable product for the repair of the dura mater. It is treated with the proprietary No-React(R) process, which reduces the body's inflammatory response to the implant, prolongs the product's durability and eliminates the need for rinsing prior to implantation. Through the EnDura product, we address the approximately 15% of dural repair procedures that, due to pressure existing at the dural breach location, require a suturable graft.

SKIN REPLACEMENT AND ENGINEERED WOUND DRESSINGS. Our skin replacement products address the market need created by severe burns, reconstructive surgery, trauma and chronic wounds.

The INTEGRA(R) Dermal Regeneration Template is designed to enable the human body to regenerate functional dermal tissue. The Food and Drug Administration (FDA) initially approved the product under a Premarket Approval application (PMA) for the post-excisional treatment of life-threatening deep or full-thickness dermal injury where sufficient autograft is not available at the time of excision or is not desirable due to the physiological condition of the patient.

In 2002, we received FDA approval to market our skin replacement products for use in certain procedures in which cadaver skin or an autograft would typically be used. The FDA approved a PMA supplement to permit the marketing of the INTEGRA(R) Dermal Regeneration Template for the repair of scar contractures in patients who have already recovered from their initial wound. The FDA also granted a Section 510(k) clearance for the sale of a related product, INTEGRA(TM) Bilayer Matrix Wound Dressing, for the dressing of wounds, including chronic wounds. We estimate that the worldwide market now addressable by our skin replacement products exceeds $1.0 billion.

Between 1999 and 2003, the ETHICON division of Johnson & Johnson was the exclusive seller of the INTEGRA(R) Dermal Regeneration Template and the INTEGRA(TM) Bilayer Matrix Wound Dressing worldwide, except in Japan where Century Medical, Inc. has rights to distribute the INTEGRA(R) Dermal Regeneration Template. Effective December 31, 2003, we terminated our agreement with ETHICON and again assumed the sales and marketing responsibility for both products. We now distribute the INTEGRA(R) Dermal Regeneration Template and the INTEGRA(TM) Bilayer Matrix Wound Dressing through our Reconstructive surgery sales organization in the United States and parts of Western Europe and through a network of distributors elsewhere.

In 2004, we received FDA approval and introduced the INTEGRA(R) Dermal Regeneration Template - Terminally Sterilized (IDRT-TS). We also introduced the INTEGRA(TM) Matrix Wound Dressing. IDRT-TS is a terminally sterilized version of the INTEGRA(R) Dermal Regeneration Template. Although functionally the same as the INTEGRA(R) Dermal Regeneration Template, IDRT-TS does not require refrigeration and is not stored in alcohol,

which simplifies considerably the preparation and handling of the INTEGRA product in the operating room. The INTEGRA(TM) Matrix Wound Dressing is a single layer version of our advanced wound care product line, which is indicated for the management of partial and full-thickness soft tissue wounds.

REPAIR AND PROTECTION OF PERIPHERAL NERVES. Peripheral nerves may become severed or damaged through traumatic accidents or surgical injuries, often resulting in the permanent loss of motor and sensory function. Although severed peripheral nerves regenerate spontaneously, they do not establish functional connections unless the nerve stumps are surgically reconnected. We estimate the worldwide market for the repair of severed and damaged peripheral nerves to be $110 million.

The NeuraGen(TM) Nerve Guide and the NeuraWrap(TM) Nerve Protector are absorbable collagen implants for the repair and protection of severed and injured peripheral nerves. The NeuraGen(TM) product, used in the repair of severed peripheral nerves, is a collagen tube designed to provide an environment for the regenerating nerve and to provide a conduit through which regenerating nerves can bridge the gap caused by the injury. The NeuraGen(TM) Nerve Guide offers a rapid method for rejoining severed peripheral nerves. The NeuraWrap(TM) product, designed for the treatment of injured, compressed or scarred nerves, provides a protective environment for nerve healing, serving as an interface between damaged nerves and surrounding tissue.

HYDROCEPHALUS MANAGEMENT. Hydrocephalus is an incurable condition resulting from an imbalance between the amount of cerebrospinal fluid produced by the brain and the rate at which the body absorbs cerebrospinal fluid. This condition causes the ventricles of the brain to enlarge and the pressure inside the head to increase. Hydrocephalus often is present at birth, but may also result from other causes, including head trauma, spina bifida, intraventricular hemorrhage, intracranial tumors and cysts. Hydrocephalus is most commonly treated by inserting a shunt into the ventricular system of the brain to divert the flow of cerebrospinal fluid out of the brain and using a pressure valve to maintain a normal level of cerebrospinal fluid within the ventricles.

According to the Hydrocephalus Association, hydrocephalus affects approximately one in 500 children born in the United States. We estimate that greater than 50% of total cerebrospinal fluid shunt sales address birth-related hydrocephalus, while the remainder address surgical procedures involving excess cerebrospinal fluid due to head trauma and adult onset normal pressure hydrocephalus. Based on industry sources, we believe that the total United States market for hydrocephalus management, including monitoring, shunting and drainage, is approximately $150 million. Of that amount, it is estimated that a little more than half consists of sales of monitoring products, and the balance consists of sales of shunts and drains for the management of hydrocephalus.

In recent years, neurosurgeons have increased their use of programmable valves, which allow the neurosurgeon to adjust the pressure settings of the shunt while it is implanted in the patient. Shunts that do not incorporate programmable valve technology must be removed from the patient for subsequent pressure adjustments, a process that requires an additional surgical procedure. We do not market hydrocephalus management shunts with programmable valves and believe that the increasing use of programmable valves has negatively affected, and may continue to negatively affect, the sales of our shunt products.

In 2004, we introduced the NPH(TM) Low Flow Hydrocephalus Valve that regulates the flow of cerebrospinal fluid out of the brain, rather than the pressure created by cerebrospinal fluid inside the head. Designed specifically to meet the needs of patients with normal pressure hydrocephalus (NPH), the NPH(TM) Valve controls cerebrospinal fluid flow at a lower rate than Integra's other flow-control valves. Normal pressure hydrocephalus is a syndrome that occurs in both adults who have previously experienced birth-related hydrocephalus and those who have not. It is characterized by dementia, gait disturbance and urinary incontinence in patients that are typically over 65 years of age. As many as 10% of all patients with symptoms of dementia have NPH. While the symptoms associated with NPH can intensify over time if the condition is left untreated, the dementia associated with NPH can be reversed if treated properly. While shunting is the preferred treatment method for patients diagnosed with NPH, only approximately 5% of those with NPH are currently treated with a surgically implanted shunt. Based on these current treatment statistics, we estimate that the market opportunity for shunt systems designed to treat NPH is approximately $35 million. Certain reports estimate that approximately 20% of total cerebrospinal fluid shunt sales address normal pressure hydrocephalus. Based on the NPH population as a whole, the potential market opportunity exceeds $500 million.

SMALL BONE AND JOINT FIXATION DEVICES AND INSTRUMENTS. Our line of Newdeal foot

and ankle surgery devices address the reconstructive and fracture repair portion of the orthopedic market. The Newdeal line of implants include a wide range of products for the forefoot, the mid-foot and the hind foot, including the Bold(R) Screw, the

Uniclip(R) Compression Staple, the Hallu-Fix(R) plate system and the HINTEGRA(R) total ankle prosthesis. These implants and the instruments used to implant them are specifically designed for foot and ankle surgery. We estimate that the current Newdeal products address an approximately $500 million worldwide market.

HEMODYNAMIC SHUNTS. Our Sundt(TM) and other carotid shunts are used to divert blood to vital organs, such as the brain, during surgical procedures involving blood vessels.

INSTRUMENTS

NEUROSURGICAL SYSTEMS FOR TISSUE ABLATION. More than 145,000 primary and metastatic brain tumors are diagnosed annually in the United States alone. Our Selector(R) Integra Ultrasonic Aspirator, Dissectron(R) Ultrasonic Surgical Aspirator and Sonotom(R) Ultrasonic Surgical Aspirator systems address surgeons' needs for the surgical fragmentation and removal of malignant and non-malignant tumors and other tissue on a worldwide basis.

The Selector(R) Integra Ultrasonic Aspirator, Dissectron(R) Ultrasonic Surgical Aspirator and Sonotom(R) Ultrasonic Surgical Aspirator systems use very high frequency sound waves to ablate cancer tumors and allow the surgeon to remove the damaged tumor tissue by aspiration. Unlike other surgical techniques, ultrasonic surgery selectively dissects and fragments soft tissue leaving fibrous tissues such as nerves and blood vessels intact. Ultrasonic aspiration facilitates the removal of unwanted tissue adjacent or attached to vital structures. The Selector(R) product is indicated for use in general, gynecological, urological, plastic and reconstructive, orthopedic, thoracic and thorascopic surgery procedures. We offer the Dissectron(R) and Sonotom(R) products only outside the United States.

The Elektrotom(R), offered only outside the United States, is an electrosurgery system used to cut and coagulate selected tissue, automatically regulating and adapting the power required for the target tissue. The system is available with both monopolar and bipolar handpieces and accessories.

CRANIAL STABILIZATION AND BRAIN RETRACTION SYSTEMS. The MAYFIELD(R) Headrest System is a market leader in cranial stabilization equipment. We work closely with surgeons and other health care providers throughout the world to develop unique cranial stabilization products.

JARIT(R) SURGICAL INSTRUMENTS. For more than 30 years, JARIT has marketed a wide variety of high quality, reusable surgical instruments to virtually all surgical disciplines. With more than 5,000 instrument patterns and a 98% order fill rate, the JARIT brand has a strong reputation for high-quality surgical instruments and customer service.

NEUROSURGICAL AND SPINAL INSTRUMENTATION. We provide neurosurgeons and spine surgeons with a full line of specialty hand-held spinal and neurosurgical instruments. We sell instruments under the R&B Redmond(TM) name primarily for spinal procedures (including neuro-spine) and instruments under the Ruggles(TM) brand name primarily for cranial surgery.

PLASTIC AND RECONSTRUCTIVE INSTRUMENTS. We market a wide variety of high quality, reusable surgical instruments under the Padgett Instruments(TM) brand to plastic and reconstructive surgeons, burn surgeons, ENT surgeons, hospitals, surgery centers and other physicians.

DERMATOMES AND MESHERS. We sell a range of manual, air- and electric-powered dermatomes and related disposables for harvesting skin grafts. In 2003, we launched our new Padgett Dermatome-S, which is lighter, more ergonomic and more powerful than the other dermatomes in our line. Our variable skin mesher is designed to expand skin grafts prior to implantation to provide for greater coverage.

SPINAL SPECIALTIES. Spinal Specialties' products include the OsteoJect(TM) Bone Cement Delivery System and the ACCU-DISC(TM) Pressure Monitoring System. Physicians use these products in a variety of spinal, orthopedic and pain management procedures. The OsteoJect product allows precise delivery of bone cement to a surgical site under active fluoroscopy by a surgeon whose hands remain outside the fluoroscopy field. The ACCU-DISC, which is used to interpret discography results, offers the accurate delivery of fluids to the body and the ability to monitor the fluids in discography interpretation.

## PRIVATE LABEL PRODUCTS

ORTHOPEDIC BIOMATERIALS. Since 1994, we have supplied Wyeth BioPharma with Absorbable Collagen Sponges for use in developing bone regeneration implants, including use with Wyeth BioPharma's recombinant human bone morphogenetic protein-2 (rhBMP-2), which Wyeth BioPharma is developing for clinical evaluation in several areas of bone repair and augmentation, including orthopedic, oral and maxillofacial surgery applications. We sell Absorbable Collagen Sponges for spinal applications through a related collaboration with Medtronic Sofamor Danek in North America. The FDA has approved Medtronic Sofamor Danek's InFUSE(TM) Bone Graft used with the LT-CAGE(TM) Lumbar Tapered Fusion Device and the INTER FIX and INTER FIX Threaded Fusion Devices for use in spinal fusion procedures. The InFUSE Bone Graft uses rhBMP-2 applied to our Absorbable Collagen Sponge in place of a painful secondary procedure to harvest small pieces of bone from the patient's own hip (autograft). When used with the LT-CAGE(TM) Lumbar Tapered Fusion Device and the INTER FIX and INTER FIX Threaded Fusion Devices, the InFUSE(TM) Bone Graft is indicated to treat certain types of spinal degenerative disc disease, a common cause of low back pain. InFUSE received a new PMA Approval from the FDA in 2004 for the treatment of open, acute tibial shaft fractures.

GUIDED TISSUE REGENERATION IN PERIODONTAL SURGERY. Our BioMend(R) Absorbable Collagen Membrane is used for guided tissue regeneration in periodontal surgery. The BioMend(R) membrane is inserted between the gum and the tooth after surgical treatment of periodontal disease, preventing the gum tissue from interfering with the regeneration of the periodontal ligament that holds the tooth in place. The body absorbs the BioMend(R) product after approximately four to seven weeks, avoiding the requirement for additional surgical procedures to remove a non-absorbable membrane. The BioMend(R) Extend product has the same indication for use as the BioMend(R) product, except that it absorbs in approximately 16 weeks. The BioMend(R) and BioMend(R) Extend Absorbable Collagen Membranes are sold through Zimmer Holdings, Inc.

OTHER PRIVATE LABEL PRODUCTS. Our current private label products also include the VitaCuff(R) catheter access infection control device, the BioPatch(R) anti-microbial wound dressing and a wide range of absorbable collagen products for hemostasis.

## DISTRIBUTION CHANNELS

We sell our products through various direct sales forces and a variety of other distribution channels. Our direct sales forces include the following:

INTEGRA NEUROSCIENCES(TM). Integra NeuroSciences' direct marketing effort in the United States and Europe currently involves more than 130 professionals, including direct salespeople (called neurospecialists in the United States), sales management, and clinical educators who educate and train both our salespeople and customers in the use of our products. Our Integra NeuroSciences(TM) sales force sells our monitoring products (including Camino, LICOX, Ventrix and Neurosensor monitoring lines, cranial access kits, external ventricular and lumbar monitoring and drainage products and epilepsy electrodes), our neurosurgical operating room products (including the DuraGen(R), DuraGen Plus(TM), EnDura(TM) and NeuraGen(TM) products, the NPH(TM) Low Flow Hydrocephalus Valve and the Selector Integra Ultrasonic Aspirator) and the Ruggles line of neurosurgical instruments. These salespeople call primarily on neurosurgeons and intensive care units that are capable of managing neuro-trauma cases. We believe that we effectively address this focused group of hospital-based practitioners through our direct Integra NeuroSciences(TM) sales and marketing infrastructure in the United States and in parts of Europe and our distribution network elsewhere.

RECONSTRUCTIVE SURGERY. Our reconstructive surgery sales and marketing organization in the United States and Europe consists of approximately 50 professionals, including direct salespeople, sales management, clinical educators and marketing managers. This sales and marketing organization sells the Newdeal line of orthopedic implants, devices and instruments, the INTEGRA(R) Dermal Regeneration Template, the INTEGRA(TM) Bilayer Matrix Wound Dressing, the NeuraGen(TM) Nerve Guide, the NeuraWrap(TM) Nerve Protector, Padgett dermatomes and meshers, and a wide variety of high quality surgical instruments and implants to orthopedic surgeons, podiatric surgeons, trauma and reconstructive surgeons, burn surgeons, hospitals, surgery centers and other physicians.

JARIT SURGICAL INSTRUMENTS. Our JARIT organization sells its products to more than 5,200 hospitals and surgery centers worldwide. In the United States, JARIT employs a 20-person sales management force that works with over 100 distributor sales representatives. The JARIT organization sells the JARIT line of general and specialty instruments for open and endoscopic surgery and a line of

specialty instruments for spinal and neurosurgery.

PRIVATE LABEL. We market our private label products through strategic partners or original equipment manufacturer customers. Our private label products address large, diverse markets, and we believe that we can develop and

promote these products more cost-effectively through leveraging the product development and distribution systems of our strategic partners than through developing the products ourselves or selling them through our own direct sales infrastructure. We have partnered with market leaders, such as Johnson & Johnson, Medtronic, Wyeth and Zimmer, for the development and marketing efforts related to many of these products.

We have established a reputation as a value-added and dependable development and manufacturing partner. Many of our current private label products are built on our expertise in absorbable collagen products. In addition, we have expertise in the development, manufacture and supply of a variety of absorbable materials and can provide experienced personnel to support product quality and regulatory review efforts.

## RESEARCH AND DEVELOPMENT STRATEGY

Our research and development programs focus on developing new products based on our materials and collagen engineering technologies and our expertise in fiber optics, ultrasonic technology and surgical fixation. We spent $14.1 million, $12.8 million and $11.5 million in 2004, 2003 and 2002, respectively, on research and development activities. The 2004 amount includes a $1.4 million milestone payment relating to the completion of certain development activities for an advanced neuromonitoring system and a $0.5 licensing fee paid for the development of a data acquisition system to support the integration of our advanced monitoring products. The 2003 and 2002 amounts include $400,000 and $2.3 million, respectively, of acquired in-process research and development charges recorded in connection with acquisitions. In addition to internal research and development activities, we may continue to use our capital resources to acquire businesses that include research and development programs, which could result in additional in-process research and development charges in the future. We also receive contract development revenues and government grant funding which support a portion of our research and development activities. Research and development activities funded by contract development and government grant revenues amounted to $4.5 million and $3.5 million in 2003 and 2002, respectively.

We have either acquired or secured the proprietary rights to several important technological and scientific platforms, including collagen matrix, intracranial monitoring, ultrasonic tissue ablation and implantable fixation technologies. These technologies provide support for our critical applications in neurosurgery and tissue regeneration with additional opportunities for generating near-term and long-term revenues from medical applications. We have been able to identify and bring together critical platform technology components from which we work to develop products for both tissue regeneration and neurosurgical applications. These efforts have led to the successful development of new products, such as the NeuraGen(TM) Nerve Guide, the NeuraWrap(TM) Nerve Protector, the DuraGen Plus(TM) Dural Regeneration Matrix, the DuraGen Plus(TM) Adhesion Barrier Matrix (CE Approved), the INTEGRA(R) Dermal Regeneration Template - TS and the INTEGRA(TM) Matrix Wound Dressing.

We regularly review our research and development programs to ensure that they remain consistent with and supportive of our growth strategies.

## GOVERNMENT REGULATION

As a manufacturer of medical devices, we are subject to extensive regulation by the FDA and, in some jurisdictions, by state and foreign governmental authorities. These regulations govern the introduction of new medical devices, the observance of certain standards with respect to the design, manufacture, testing, labeling and promotion of the devices, the maintenance of certain records, the ability to track devices, the reporting of potential product defects, the export of devices and other matters. We believe that we are in substantial compliance with these governmental regulations.

From time to time, we have recalled certain of our products. We have recalled defective components or devices supplied by other vendors, kits assembled by us that included incorrect combinations of products and defective devices manufactured by us. None of these recalls resulted in a material direct expense to us or a long-term disruption of an important customer or supplier relationship. However, a future voluntary or involuntary recall of one of our major products, particularly if it involved a potential or actual risk to patients, could have an adverse financial impact on us as a result both of direct expenses and disrupted customer relationships.

The FDA requires, as a condition of marketing a medical device in the United States, that we secure a Premarket Notification clearance pursuant to Section 510(k) of the Federal Food, Drug and Cosmetic Act, an approved PMA application

or a supplemental PMA application. Alternatively, we may seek United States market clearance through a Product Development Protocol approved by the FDA. Establishing and completing a Product Development Protocol, or obtaining a PMA application or supplemental PMA application, can take up to several years and can

involve preclinical studies and clinical testing. To perform clinical testing in the United States on an unapproved product, we are also required to obtain an Investigational Device Exemption from the FDA. In addition to requiring clearance for new products, FDA rules may require a filing and FDA approval, usually through a PMA application supplement or a 510(k) Premarket Notification clearance, prior to marketing products that are modifications of existing products or new indications for existing products. The FDA Medical Device User Fee and Modernization Act of 2002 (MDUFMA) imposes user fees payable to FDA for submission of Premarket Notifications, PMA applications, Product Development Protocols, certain supplemental PMA applications and other types of FDA submissions. The regulatory process of obtaining product approvals/clearances can be onerous and costly.

We may not receive the necessary regulatory approvals, including approval for product improvements and new products, on a timely basis, if at all. Delays in receipt of, or failure to receive, regulatory approvals could have a material adverse effect on our business. Moreover, after clearance is given, if the product is shown to be hazardous or defective, the FDA and foreign regulatory agencies have the power to withdraw the clearance or require us to change the device, its manufacturing process or its labeling, to supply additional proof of its safety and effectiveness or to recall, repair, replace or refund the cost of the medical device. In addition, federal, state and foreign regulations regarding the manufacture and sale of medical devices are subject to future changes. We cannot predict what impact, if any, these changes might have. These changes, however, could have a material impact on our business.

We have received or acquired more than 245 Premarket Notification 510(k) clearances, five approved PMA applications and 57 supplemental PMA applications. We expect to file new applications during the next year to cover new products and variations on existing products.

We are also required to register with the FDA as a device manufacturer. As such, we are subject to periodic inspection by the FDA for compliance with the FDA's Quality Systems Regulations. These regulations require that we manufacture our products and maintain our documents in a prescribed manner with respect to design, manufacturing, testing and control activities. Further, we are required to comply with various FDA requirements for labeling and promotion. The Medical Device Reporting regulations require that we provide information to the FDA whenever there is evidence to reasonably suggest that one of our devices may have caused or contributed to a death or serious injury or, if a malfunction were to recur, could cause or contribute to a death or serious injury. In addition, the FDA prohibits us from promoting a medical device before marketing clearance has been received or promoting an approved device for unapproved indications. Under FDA regulations, we are required to submit reports of certain voluntary recalls and corrections to FDA. If the FDA believes that a company is not in compliance with applicable regulations, it can institute proceedings to detain or seize products, issue a warning letter, issue a recall order, impose operating restrictions, enjoin future violations and assess civil penalties against that company, its officers or its employees and can recommend criminal prosecution to the Department of Justice. These actions could have a material impact on our business. Other regulatory agencies may have similar powers.

Medical Device Regulations also are in effect in many of the countries outside the United States in which we do business. These laws range from comprehensive device approval and quality system requirements for some or all of our medical device products to simpler requests for product data or certifications. The number and scope of these requirements are increasing. In June 1998, the European Union Medical Device Directive became effective, and all medical devices must meet the Medical Device Directive standards and receive CE Mark certification. CE Mark certification requires a comprehensive Quality System program and submission of data on a product to the Notified Body in Europe. The Medical Device Directive, ISO 9000 series and ISO 13485 are recognized international quality standards that are designed to ensure that we develop and manufacture quality medical devices. A recognized Notified Body (an organization designated by the national governments of the European Union member states to make independent judgments about whether or not a product complies with the protection requirements established by each CE marking directive) audits our facilities annually to verify our compliance with these standards. In 2004, each of our certified facilities was audited, and we have maintained our certification to these standards.

In addition, we are required to notify the FDA if we export specified medical devices manufactured in the United States that have not been approved by the FDA for distribution in the United States. We are also required to maintain certain records relating to exports and make the records available to the FDA for inspection, if required. We currently export medical devices manufactured in the United States that have not been approved by the FDA.

OTHER UNITED STATES REGULATORY REQUIREMENTS

In addition to the regulatory framework for product approvals, we are and may be subject to regulation under federal

and state laws, including requirements regarding occupational health and safety; laboratory practices; the maintenance of personal health information; sales and marketing practices, including product discounting practices; and the use, handling and disposal of toxic or hazardous substances. We may also be subject to other present and possible future local, state, federal and foreign regulations.

Our research, development and manufacturing processes involve the controlled use of certain hazardous materials. We are subject to federal, state and local laws and regulations governing the use, manufacture, storage, handling and disposal of these materials and certain waste products. Although we believe that our safety procedures for handling and disposing of these materials comply with the standards prescribed by the controlling laws and regulations, the risk of accidental contamination or injury from these materials cannot be eliminated. In the event of this type of an accident, we could be held liable for any damages that result and any liability could exceed our resources. Although we believe that we are in compliance in all material respects with applicable environmental laws and regulations, we could incur significant costs to comply with environmental laws and regulations in the future, and our operations, business or assets could be materially adversely affected by current or future environmental laws or regulations.

## PATENTS AND INTELLECTUAL PROPERTY

We seek patent protection of our key technology, products and product improvements both in the United States and in selected foreign countries. When determined appropriate, we have enforced and plan to continue to enforce and defend our patent rights. In general, however, we do not rely on our patent estate to provide us with any significant competitive advantages as it relates to our existing product lines. We rely upon trade secrets and continuing technological innovations to develop and maintain our competitive position. In an effort to protect our trade secrets, we have a policy of requiring our employees, consultants and advisors to execute proprietary information and invention assignment agreements upon commencement of employment or consulting relationships with us. These agreements provide that all confidential information developed or made known to the individual during the course of their relationship with us must be kept confidential, except in specified circumstances.

ACCU-DISC(TM), BioMend(R), Bold(R), BUDDE(R), CALCANEA(R), Camino(R), CollaCote(R), CollaPlug(R), CollaStat(TM), CollaTape(R), Dissectron(R), DuraGen(R), DuraGen Plus(TM), Elektrotom(R), EquiFlow(R), Hallu-Fix(R), Helistat(R), Helitene(R), Heyer-Schulte(R), HINTEGRA(R), INTEGRA(TM), INTEGRA(TM) Bilayer Matrix Wound Dressing, INTEGRA(R) Dermal Regeneration Template, Integra NeuroSciences(TM), Integra NeuroSupplies(TM), Integra Supplies(TM), JARIT(R), LICOX(R), LPV(R), Moni-Torr(R), NeuraGen(TM), NeuraWrap(TM), Neurosensor(R), Orbis-Sigma(R), Osteoject(R), Padgett Instruments, Inc(R), Pudenz(TM), Redmond(TM), Ruggles(TM), Selector(R), Sonotom(R), Spetzler(R), Spin(R), Spinal Specialties(R), Sundt(TM), Uniclip(R), Ventrix(R), VitaCuff(R) are some of the trademarks of Integra and its subsidiaries. All other brand names, trademarks and service marks appearing in this report are the property of their respective holders.

## COMPETITION

Our largest competitors in the neurosurgery markets are the Medtronic Neurotechnologies division of Medtronic, Inc., the Codman division of Johnson & Johnson, the Aesculap division of B. Braun and the Valleylab division of Tyco International Ltd. In addition, many of our neurosurgery product lines compete with smaller specialized companies or larger companies that do not otherwise focus on neurosurgery.

Our largest competitors in reconstructive surgery are Smith and Nephew plc, LifeCell Corporation, Organogenesis Inc., Wright Medical Group, Inc., the DePuy division of Johnson & Johnson and Synthes, Inc.

We believe that we are the second largest re-usable surgical instrument company in the United States. The largest re-usable instrument company is V. Mueller, a division of Cardinal Healthcare. In addition, the Codman division of Johnson & Johnson and many smaller instrument companies compete with both re-usable and disposable specialty instruments. We rely on the depth and breadth of our sales and marketing organization to maintain our competitive position in surgical instruments.

Our private label products face diverse and broad competition, depending on the market addressed by the product.

Finally, in certain cases our products compete primarily against medical practices that treat a condition without using a medical device, rather than any particular product (such as autograft tissue as a substitute for the INTEGRA(R) Dermal Regeneration Template, our duraplasty products, the NeuraGen(TM) Nerve Guide and NeuraWrap(TM) Nerve Protector). Depending on the product line, we compete on the basis of our products' features, strength of our sales

force or marketing partner, sophistication of our technology and cost effectiveness of our solution to the customer's medical requirements.

## EMPLOYEES

At December 31, 2004, we had approximately 922 full-time employees and 214 temporary employees engaged in production and production support (including warehouse, engineering and facilities personnel), quality assurance/quality control, research and development, regulatory and clinical affairs, sales, marketing, administration and finance. Except for certain employees at our facilities in Belgium, France and Germany, none of our current employees are subject to a collective bargaining agreement.

Many of our employees, including those holding senior positions in our regulatory, operations, research and development, and sales and marketing departments, were recruited from large pharmaceutical or medical technology companies. Our sales representatives and regional sales managers attend in-depth product training meetings throughout the year, and our clinical development team consists of medical professionals who specialize in specific therapeutic areas that our products serve. We believe that our clinical development team differentiates us from our competition, as their knowledge and experience as medical professionals allows them to more effectively educate and train both our sales force and the customers who use our products. This team is especially valuable in communicating the clinical benefits of new products.

## AVAILABLE INFORMATION

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, which we refer to as the "Exchange Act". In accordance with the Exchange Act, we file annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission. You may view our financial information, including the information contained in this report, and other reports we file with the Securities and Exchange Commission, on the Internet, without charge as soon as reasonably practicable after we file them with the Securities and Exchange Commission, in the "SEC Filings" page of the Investor Relations section of our website at www.Integra-LS.com. You may also obtain a copy of any of these reports, without charge, from our investor relations department, 311 Enterprise Drive, Plainsboro, NJ 08536. Alternatively, you may view or obtain reports filed with the Securities and Exchange Commission at the SEC Public Reference Room at 450 Fifth Street, N.W. in Washington, D.C. 20549, or at the SEC's Internet site at www.sec.gov. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the operation of the public reference facilities.

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

We have made statements in this report, including statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business," that constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are subject to a number of risks, uncertainties and assumptions about us including, among other things:

- general economic and business conditions, both nationally and in our international markets;

- our expectations and estimates concerning future financial performance, financing plans and the impact of competition;

- anticipated trends in our business;

- existing and future regulations affecting our business;

- our ability to obtain additional debt and equity financing to fund capital expenditures and working capital requirements and acquisitions;

- physicians' willingness to adopt our recently launched and planned products and our ability to secure regulatory approval for products in development;

- our ability to protect our intellectual property, including trade secrets;

- our ability to complete acquisitions, integrate operations post-acquisition and maintain relationships with customers of acquired entities;

- work stoppages at our facilities; and

- other risk factors described in the section entitled "Factors That May Affect Our Future Performance" in this report.

You can identify these forward-looking statements by forward-looking words such as believe, may, could, will, estimate, continue, anticipate, intend, seek, plan, expect, should, would and similar expressions in this report.

We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks and uncertainties, the forward-looking events and circumstances discussed in this report may not occur and actual results could differ materially from those anticipated or implied in the forward-looking statements.

## FACTORS THAT MAY AFFECT OUR FUTURE PERFORMANCE

### OUR OPERATING RESULTS MAY FLUCTUATE.

Our operating results, including components of operating results, such as gross margin on product sales, may fluctuate from time to time, which could affect our stock price. Our operating results have fluctuated in the past and can be expected to fluctuate from time to time in the future. Some of the factors that may cause these fluctuations include:

- the impact of acquisitions;
- the timing of significant customer orders;
- market acceptance of our existing products, as well as products in development;
- the timing of regulatory approvals;
- the timing of payments received and the recognition of those payments as revenue under collaborative arrangements and other alliances;
- changes in the rate of exchange between the U.S. dollar, the euro and the British pound;
- expenses incurred and business lost in connection with product field corrections or recalls;
- our ability to manufacture our products efficiently; and
- the timing of our research and development expenditures.

### NON-CASH COMPENSATION CHARGES MAY AFFECT OUR FUTURE EARNINGS.

In December 2004, the Financial Accounting Standards Board issued Statement No. 123 (revised 2004), "Share-Based Payment," which is a revision of Statement No. 123, "Accounting for Stock-Based Compensation." Statement 123(R) replaces APB Opinion No. 25, "Accounting for Stock Issued to Employees". Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair value.

Statement 123(R) must be adopted no later than July 1, 2005, and we expect to adopt Statement 123(R) on July 1, 2005. For purposes of disclosing pro forma financial results in our financial statements as if compensation cost for our stock option plans had been determined based on the fair value at the grant consistent with the provisions of Statement No. 123, we historically estimated the fair value of stock options granted prior to October 1, 2004 using the Black-Scholes valuation model. However, we estimated the pro forma additional compensation expense related to all options granted on or after October 1, 2004 using a binomial distribution model. Management believes that the binomial distribution model is preferable to the Black-Scholes model because the binomial distribution model is a more flexible model that considers the impact of non-transferability, vesting and forfeiture provisions in the valuation of employee stock options. Because Statement 123(R) prohibits pro forma footnote disclosure as an alternative to financial statement recognition, management is currently evaluating the potential impact that Statement 123(R) will have on our future results of operations. Previous estimates of option values using the Black-Scholes method may not be indicative of results from applying the binomial distribution model for valuing future option grants.

### THE INDUSTRY AND MARKET SEGMENTS IN WHICH WE OPERATE ARE HIGHLY COMPETITIVE, AND WE MAY BE UNABLE TO COMPETE EFFECTIVELY WITH OTHER COMPANIES.

In general, the medical technology industry is characterized by intense competition. We compete with established medical technology and pharmaceutical companies. Competition also comes from early stage companies that have alternative technological solutions for our primary clinical targets, as well as universities, research institutions and other non-profit entities. Many of our

competitors have access to greater financial, technical, research and development, marketing, manufacturing, sales, distribution services and other resources than we do. Our competitors may be more effective at implementing their technologies to develop commercial products.

Our competitive position will depend on our ability to achieve market acceptance for our products, develop new products, implement production and marketing plans, secure regulatory approval for products under development

and obtain patent protection. We may need to develop new applications for our products to remain competitive. Technological advances by one or more of our current or future competitors could render our present or future products obsolete or uneconomical. Our future success will depend upon our ability to compete effectively against current technology as well as to respond effectively to technological advances. Competitive pressures could adversely affect our profitability. For example, two of our largest competitors have recently introduced an onlay dural graft matrix, and other companies may be preparing to introduce similar products. The introduction of such products could reduce the sales, growth in sales and profitability of our duraplasty products, including our DuraGen(R), DuraGen Plus(TM) and EnDura(TM) product lines, which are among our largest and fastest growing products.

Our largest competitors in the neurosurgery markets are the Medtronic Neurotechnologies division of Medtronic, Inc., the Codman division of Johnson & Johnson, the Aesculap division of B. Braun and the Valleylab division of Tyco International Ltd. In addition, many of our product lines compete with smaller specialized companies or larger companies that do not otherwise focus on neurosurgery. Our reconstructive surgery business is small compared to its principal competitors, which include major medical device and wound care companies such as Smith and Nephew plc, LifeCell Corporation and Organogenesis Inc., as well as companies focused on foot and ankle surgeons including Wright Medical Group, Inc., the DePuy division of Johnson & Johnson and Synthes, Inc. Our private label products face diverse and broad competition, depending on the market addressed by the product. Finally, in certain cases our products compete primarily against medical practices that treat a condition without using a device, rather than any particular product, such as autograft tissue as an alternative for the INTEGRA(R) Dermal Regeneration Template, our duraplasty products and the NeuraGen(TM) Nerve Guide.

OUR CURRENT STRATEGY INVOLVES GROWTH THROUGH ACQUISITIONS, WHICH REQUIRES US TO INCUR SUBSTANTIAL COSTS AND POTENTIAL LIABILITIES FOR WHICH WE MAY NEVER REALIZE THE ANTICIPATED BENEFITS.

In addition to internal growth, our current strategy involves growth through acquisitions. Since 1999, we have acquired 20 businesses or product lines at a total cost of approximately $213 million.

We may be unable to continue to implement our growth strategy, and our strategy ultimately may be unsuccessful. A significant portion of our growth in revenues has resulted from, and is expected to continue to result from, the acquisition of businesses complementary to our own. We engage in evaluations of potential acquisitions and are in various stages of discussion regarding possible acquisitions, certain of which, if consummated, could be significant to us. Any potential acquisitions may result in material transaction expenses, increased interest and amortization expense, increased depreciation expense and increased operating expense, any of which could have a material adverse effect on our operating results. As we grow by acquisitions, we must integrate and manage the new businesses to realize economies of scale and control costs. In addition, acquisitions involve other risks, including diversion of management resources otherwise available for ongoing development of our business and risks associated with entering new markets with which our marketing and sales force has limited experience or where experienced distribution alliances are not available. Our future profitability will depend in part upon our ability to develop further our resources to adapt to these new products or business areas and to identify and enter into satisfactory distribution networks. We may not be able to identify suitable acquisition candidates in the future, obtain acceptable financing or consummate any future acquisitions. If we cannot integrate acquired operations, manage the cost of providing our products or price our products appropriately, our profitability could suffer. In addition, as a result of our acquisitions of other healthcare businesses, we may be subject to the risk of unanticipated business uncertainties, regulatory matters or legal liabilities relating to those acquired businesses for which the sellers of the acquired businesses may not indemnify us. Future acquisitions may also result in potentially dilutive issuances of securities.

TO MARKET OUR PRODUCTS UNDER DEVELOPMENT WE WILL FIRST NEED TO OBTAIN REGULATORY APPROVAL. FURTHER, IF WE FAIL TO COMPLY WITH THE EXTENSIVE GOVERNMENTAL REGULATIONS THAT AFFECT OUR BUSINESS, WE COULD BE SUBJECT TO PENALTIES AND COULD BE PRECLUDED FROM MARKETING OUR PRODUCTS.

Our research and development activities and the manufacturing, labeling, distribution and marketing of our existing and future products are subject to regulation by numerous governmental agencies in the United States and in other countries. The Food and Drug Administration (FDA) and comparable agencies in other countries impose mandatory procedures and standards for the conduct of clinical trials and the production and marketing of products for diagnostic and human therapeutic use.

Our products under development are subject to FDA approval or clearance prior to marketing for commercial use. The process of obtaining necessary FDA approvals or clearances can take years and is expensive and full of uncertainties. Our inability to obtain required regulatory approval on a timely or acceptable basis could harm our

business. Further, approval or clearance may place substantial restrictions on the indications for which the product may be marketed or to whom it may be marketed. Further studies, including clinical trials and FDA approvals, may be required to gain approval for the use of a product for clinical indications other than those for which the product was initially approved or cleared or for significant changes to the product. In addition, for products with an approved PMA, the FDA requires annual reports and may require post-approval surveillance programs to monitor the products' safety and effectiveness. Results of post-approval programs may limit or expand the further marketing of the product.

Another risk of application to the FDA relates to the regulatory classification of new products or proposed new uses for existing products. In the filing of each application, we make a legal judgment about the appropriate form and content of the application. If the FDA disagrees with our judgment in any particular case and, for example, requires us to file a PMA application rather than allowing us to market for approved uses while we seek broader approvals or requires extensive additional clinical data, the time and expense required to obtain the required approval might be significantly increased or approval might not be granted.

Approved products are subject to continuing FDA requirements relating to quality control and quality assurance, maintenance of records, reporting of adverse events and product recalls, documentation, and labeling and promotion of medical devices.

The FDA and foreign regulatory authorities require that our products be manufactured according to rigorous standards. These regulatory requirements may significantly increase our production or purchasing costs and may even prevent us from making or obtaining our products in amounts sufficient to meet market demand. If we or a third-party manufacturer change our approved manufacturing process, the FDA may require a new approval before that process may be used. Failure to develop our manufacturing capability may mean that even if we develop promising new products, we may not be able to produce them profitably, as a result of delays and additional capital investment costs. Manufacturing facilities, both international and domestic, are also subject to inspections by or under the authority of the FDA. In addition, failure to comply with applicable regulatory requirements could subject us to enforcement action, including product seizures, recalls, withdrawal of clearances or approvals, restrictions on or injunctions against marketing our product or products based on our technology, and civil and criminal penalties.

We are also subject to the regulatory requirements of countries outside of the United States where we do business. For example, Japan is in the process of reforming its medical device regulations. A recent amendment to Japan's Pharmaceutical Affairs Law goes into effect on April 1, 2005. New regulations and requirements will exist for obtaining approval of medical devices, including new requirements governing the conduct of clinical trials, the manufacturing of products and the distribution of products in Japan. Significant resources also may be needed to comply with the extensive auditing of all manufacturing facilities of our company and our vendors by the Ministry of Health, Labor and Welfare in Japan to comply with the amendment to the Pharmaceutical Affairs Law. These new regulations may affect our ability to obtain approvals of new products as well as maintain the certain businesses in Japan. Sales in Japan accounted for approximately $3.1 million of our revenues in 2004.

CERTAIN OF OUR PRODUCTS CONTAIN MATERIALS DERIVED FROM ANIMAL SOURCES AND MAY BECOME SUBJECT TO ADDITIONAL REGULATION.

Certain of our products, including the DuraGen(R) Dural Graft Matrix, DuraGen Plus(TM) Dural Regeneration Matrix and DuraGen Plus(TM) Adhesion Barrier Matrix products, the NeuraGen(TM) Nerve Guide, the NeuraWrap(TM) Nerve Protector, the INTEGRA(R) Dermal Regeneration Template, the INTEGRA(TM) Bilayer Matrix and INTEGRA(TM) Matrix Wound Dressing, the Helistat(R)/Helitene(R) Absorbable Collagen Hemostatic Agents, our Absorbable Collagen Sponges, the CollaCote(R), CollaTape(R) and CollaPlug(R) Absorbable Wound Dressings and the BioMend(R) and BioMend(R) Extend Absorbable Collagen Membranes, contain material derived from bovine tissue. Products that contain materials derived from animal sources, including food as well as pharmaceuticals and medical devices, are increasingly subject to scrutiny in the press and by regulatory authorities. Regulatory authorities are concerned about the potential for the transmission of disease from animals to humans via those materials. This public scrutiny has been particularly acute in Japan and Western Europe with respect to products derived from cattle, because of concern that materials infected with the agent that causes bovine spongiform encephalopathy, otherwise known as BSE or mad cow disease, may, if ingested or implanted, cause a variant of the human Creutzfeldt-Jakob Disease, an ultimately fatal disease with no known cure. Recent cases of BSE in cattle discovered in Canada and the United States have

increased awareness of the issue in North America.

We take great care to provide that our products are safe and free of agents that can cause disease. In particular, the collagen used in the manufacture of our products is derived only from the deep flexor tendon of cattle from the

United States that are less than 24 months old. The World Health Organization classifies different types of cattle tissue for relative risk of BSE transmission. Deep flexor tendon, the sole source of our collagen, is in the lowest risk category for BSE transmission (the same category as milk, for example), and is therefore considered to have a negligible risk of containing the agent that causes BSE (an improperly folded protein known as a prion). Nevertheless, products that contain materials derived from animals, including our products, may become subject to additional regulation, or even be banned in certain countries, because of concern over the potential for prion transmission. Significant new regulation, or a ban of our products, could have a material adverse effect on our current business or our ability to expand our business.

In addition, we have been notified that Japan has issued new regulations regarding medical devices that contain tissue of animal origin. Among other regulations, Japan may require that the tendon used in the manufacture of medical devices sold in Japan originate in a country that has never had a case of BSE. Currently, we purchase our tendon from the United States and have qualified a source of tendon from New Zealand, a country which has never had a case of BSE. If we cannot continue to qualify a source of tendon from New Zealand or another country that has never had a case of BSE, we will not be permitted to sell our collagen hemostatic agents and products for oral surgery in Japan. We do not currently sell our dural or skin repair products in Japan.

LACK OF MARKET ACCEPTANCE FOR OUR PRODUCTS OR MARKET PREFERENCE FOR TECHNOLOGIES THAT COMPETE WITH OUR PRODUCTS COULD REDUCE OUR REVENUES AND PROFITABILITY.

We cannot be certain that our current products or any other products that we may develop or market will achieve or maintain market acceptance. Certain of the medical indications that can be treated by our devices can also be treated by other medical devices or by medical practices that do not include a device. The medical community widely accepts many alternative treatments, and certain of these other treatments have a long history of use. For example, the use of autograft tissue is a well-established means for repairing the dermis, and it competes for acceptance in the market with the INTEGRA(R) Dermal Regeneration Template.

We cannot be certain that our devices and procedures will be able to replace those established treatments or that either physicians or the medical community in general will accept and utilize our devices or any other medical products that we may develop. For example, we cannot be certain that the medical community will accept the NeuraGen(TM) Nerve Guide over conventional microsurgical techniques for connecting severed peripheral nerves.

In addition, our future success depends, in part, on our ability to develop additional products. Even if we determine that a product candidate has medical benefits, the cost of commercializing that product candidate may be too high to justify development. Competitors may develop products that are more effective, cost less or are ready for commercial introduction before our products. For example, our sales of shunt products could decline if neurosurgeons increase their use of programmable valves and we fail to introduce a competitive product, or our sales of certain catheters may be adversely affected by the recent introduction by other companies of catheters that contain anti-microbial agents intended to reduce the incidence of infection after implantation. If we are unable to develop additional commercially viable products, our future prospects could be adversely affected.

Market acceptance of our products depends on many factors, including our ability to convince prospective collaborators and customers that our technology is an attractive alternative to other technologies, to manufacture products in sufficient quantities and at acceptable costs, and to supply and service sufficient quantities of our products directly or through our distribution alliances. In addition, limited funding available for product and technology acquisitions by our customers, as well as internal obstacles to customer approvals of purchases of our products, could harm acceptance of our products. The industry is subject to rapid and continuous change arising from, among other things, consolidation and technological improvements. One or more of these factors may vary unpredictably, which could materially adversely affect our competitive position. We may not be able to adjust our contemplated plan of development to meet changing market demands.

OUR INTELLECTUAL PROPERTY RIGHTS MAY NOT PROVIDE MEANINGFUL COMMERCIAL PROTECTION FOR OUR PRODUCTS, WHICH COULD ENABLE THIRD PARTIES TO USE OUR TECHNOLOGY OR VERY SIMILAR TECHNOLOGY AND COULD REDUCE OUR ABILITY TO COMPETE IN THE MARKET.

Our ability to compete effectively depends in part, on our ability to maintain the proprietary nature of our technologies and manufacturing processes, which

includes the ability to obtain, protect and enforce patents on our technology and to protect our trade secrets. We own or have licensed patents that cover aspects of certain of our product lines. However, you should not rely on our patents to provide us with any significant competitive advantage. Others may challenge our patents and, as a result, our patents could be narrowed, invalidated or rendered

unenforceable. Competitors may develop products similar to ours that our patents do not cover. In addition, our current and future patent applications may not result in the issuance of patents in the United States or foreign countries. Further, there is a substantial backlog of patent applications at the U.S. Patent and Trademark Office, and the approval or rejection of patent applications usually takes from 18 to 24 months.

OUR COMPETITIVE POSITION DEPENDS, IN PART, UPON UNPATENTED TRADE SECRETS WHICH WE MAY BE UNABLE TO PROTECT.

Our competitive position also depends upon unpatented trade secrets. Trade secrets are difficult to protect. We cannot assure you that others will not independently develop substantially equivalent proprietary information and techniques or otherwise gain access to our trade secrets, that our trade secrets will not be disclosed or that we can effectively protect our rights to unpatented trade secrets.

In an effort to protect our trade secrets, we require our employees, consultants and advisors to execute proprietary information and invention assignment agreements upon commencement of employment or consulting relationships with us. These agreements provide that, except in specified circumstances, all confidential information developed or made known to the individual during the course of their relationship with us must be kept confidential. We cannot assure you, however, that these agreements will provide meaningful protection for our trade secrets or other proprietary information in the event of the unauthorized use or disclosure of confidential information.

OUR SUCCESS WILL DEPEND PARTLY ON OUR ABILITY TO OPERATE WITHOUT INFRINGING OR MISAPPROPRIATING THE PROPRIETARY RIGHTS OF OTHERS.

We may be sued for infringing the intellectual property rights of others. In addition, we may find it necessary, if threatened, to initiate a lawsuit seeking a declaration from a court that we do not infringe the proprietary rights of others or that their rights are invalid or unenforceable. If we do not prevail in any litigation, in addition to any damages we might have to pay, we would be required to stop the infringing activity or obtain a license for the proprietary rights involved. Any required license may be unavailable to us on acceptable terms, or at all. In addition, some licenses may be nonexclusive and allow our competitors to access the same technology we license. If we fail to obtain a required license or are unable to design our product so as not to infringe on the proprietary rights of others, we may be unable to sell some of our products, which could have a material adverse effect on our revenues and profitability.

IT MAY BE DIFFICULT TO REPLACE SOME OF OUR SUPPLIERS.

Outside vendors, some of whom are sole-source suppliers, provide key components and raw materials used in the manufacture of our products. Although we believe that alternative sources for many of these components and raw materials are available, any supply interruption in a limited or sole source component or raw material could harm our ability to manufacture our products until a new source of supply is identified and qualified. In addition, an uncorrected defect or supplier's variation in a component or raw material, either unknown to us or incompatible with our manufacturing process, could harm our ability to manufacture products. We may not be able to find a sufficient alternative supplier in a reasonable time period, or on commercially reasonable terms, if at all, and our ability to produce and supply our products could be impaired. We believe that these factors are most likely to affect the following products that we manufacture:

- our collagen-based products, such as INTEGRA(R) Dermal Regeneration Template, DuraGen(R) Dural Graft Matrix and DuraGen Plus(TM) Dural Regeneration products, and our Absorbable Collagen Sponges;

- our products made from silicone, such as our neurosurgical shunts and drainage systems and hemodynamic shunts; and

- products which use many different electronic parts from numerous suppliers, such as our Camino(R), Ventrix(R) and NeuroSensor(TM) lines of intracranial monitors and catheters.

If we were suddenly unable to purchase products from one or more of these companies, we could need a significant period of time to qualify a replacement, and the production of any affected products could be disrupted. While it is our policy to maintain sufficient inventory of components so that our production will not be significantly disrupted even if a particular component or material is not available for a period of time, we remain at risk that we will not be able to qualify new components or materials quickly enough to prevent a

disruption if one or more of our suppliers ceases production of important components or materials.

IF ANY OF OUR MANUFACTURING FACILITIES WERE DAMAGED AND/OR OUR MANUFACTURING OR BUSINESS PROCESSES INTERRUPTED, WE COULD EXPERIENCE LOST REVENUES AND OUR BUSINESS COULD BE SERIOUSLY HARMED.

We manufacture our products in a limited number of facilities. Damage to our manufacturing, development or research facilities due to fire, natural disaster, power loss, communications failure, unauthorized entry or other events could cause us to cease development and manufacturing of some or all of our products. In particular, our San Diego, California facility that manufactures our Camino(R) and Ventrix(R) product line is as susceptible to earthquake damage, wildfire damage and power losses from electrical shortages as are other businesses in the Southern California area. Our silicone manufacturing plant in Anasco, Puerto Rico is vulnerable to hurricane damage. Although we maintain property damage and business interruption insurance coverage on these facilities, we may not be able to renew or obtain such insurance in the future on acceptable terms with adequate coverage or at reasonable costs.

In addition, we are implementing in several stages over several years an enterprise business system for use in all of our facilities. This system will replace several systems on which we now rely. We have outsourced our product distribution function in the United States and are also planning to outsource our European product distribution function. A delay or other problem with the system or in our implementation schedule for either of these initiatives could have a material adverse effect on our operations.

WE MAY BE INVOLVED IN LAWSUITS TO PROTECT OR ENFORCE OUR INTELLECTUAL PROPERTY RIGHTS, WHICH MAY BE EXPENSIVE.

To protect or enforce our intellectual property rights, we may have to initiate legal proceedings, such as infringement suits or interference proceedings, against third parties. Intellectual property litigation is costly, and, even if we prevail, the cost of that litigation could affect our profitability. In addition, litigation is time consuming and could divert management attention and resources away from our business. We may also provoke these third parties to assert claims against us.

WE ARE EXPOSED TO A VARIETY OF RISKS RELATING TO OUR INTERNATIONAL SALES AND OPERATIONS, INCLUDING FLUCTUATIONS IN EXCHANGE RATES, LOCAL ECONOMIC CONDITIONS AND DELAYS IN COLLECTION OF ACCOUNTS RECEIVABLE.

We generate significant revenues outside the United States in euros, British pounds and in U.S. dollar-denominated transactions conducted with customers who generate revenue in currencies other than the U.S. dollar. For those foreign customers who purchase our products in U.S. dollars, currency fluctuations between the U.S. dollar and the currencies in which those customers do business may have an impact on the demand for our products in foreign countries where the U.S. dollar has increased in value compared to the local currency.

Because we have operations based in Europe and we generate revenues and incur operating expenses in euros and British pounds, we experience currency exchange risk with respect to those foreign currency-denominated revenues and expenses. In 2003 and 2004, the cost of products we manufactured in our European facilities or purchased in foreign currencies exceeded our foreign currency-denominated revenues. We expect this imbalance to continue. Accordingly, a further weakening of the dollar against the euro and British pound could negatively affect future gross margins and operating margins.

Currently, we do not use derivative financial instruments to manage operating foreign currency risk. As the volume of our business transacted in foreign currencies increases, we will continue to assess the potential effects that changes in foreign currency exchange rates could have on our business. If we believe that this potential impact presents a significant risk to our business, we may enter into derivative financial instruments to mitigate this risk.

In general, we cannot predict the consolidated effects of exchange rate fluctuations upon our future operating results because of the number of currencies involved, the variability of currency exposure and the potential volatility of currency exchange rates.

Our sales to foreign markets also may be affected by local economic conditions, legal, regulatory or political considerations, the effectiveness of our sales representatives and distributors, local competition and changes in local medical practice. Relationships with customers and effective terms of sale frequently vary by country, often with longer-term receivables than are typical in the United States.

CHANGES IN THE HEALTH CARE INDUSTRY MAY REQUIRE US TO DECREASE THE SELLING PRICE FOR OUR PRODUCTS OR MAY REDUCE THE SIZE OF THE MARKET FOR OUR PRODUCTS, EITHER OF WHICH COULD HAVE A NEGATIVE IMPACT ON OUR FINANCIAL PERFORMANCE.

Trends toward managed care, health care cost containment and other changes in government and private sector initiatives in the United States and other countries in which we do business are placing increased emphasis on the delivery of more cost-effective medical therapies that could adversely affect the sale and/or the prices of our products. For example:

- major third-party payors of hospital services and hospital outpatient services, including Medicare, Medicaid and private health care insurers, have substantially revised their payment methodologies, which has resulted in stricter standards for reimbursement of hospital charges for certain medical procedures;

- Medicare, Medicaid and private health care insurer cutbacks could create downward price pressure on our products;

- numerous legislative proposals have been considered that would result in major reforms in the U.S. health care system that could have an adverse effect on our business;

- there has been a consolidation among health care facilities and purchasers of medical devices in the United States who prefer to limit the number of suppliers from whom they purchase medical products, and these entities may decide to stop purchasing our products or demand discounts on our prices;

- we are party to contracts with group purchasing organizations that require us to discount our prices for certain of our products and limit our ability to raise prices for certain of our products, particularly surgical instruments;

- there is economic pressure to contain health care costs in international markets;

- there are proposed and existing laws, regulations and industry policies in domestic and international markets regulating the sales and marketing practices and the pricing and profitability of companies in the health care industry; and

- there have been initiatives by third-party payors to challenge the prices charged for medical products that could affect our ability to sell products on a competitive basis.

Both the pressures to reduce prices for our products in response to these trends and the decrease in the size of the market as a result of these trends could adversely affect our levels of revenues and profitability of sales.

REGULATORY OVERSIGHT OF THE MEDICAL DEVICE INDUSTRY MIGHT AFFECT THE MANNER IN WHICH WE MAY SELL MEDICAL DEVICES

There are laws and regulations that regulate the means by which companies in the health care industry may market their products to health care professionals and may compete by discounting the prices of their products. Although we exercise care in structuring our sales and marketing practices and customer discount arrangements to comply with those laws and regulations, we cannot assure you that:

- government officials charged with responsibility for enforcing those laws will not assert that our sales and marketing practices or customer discount arrangements are in violation of those laws or regulations; or

- government regulators or courts will interpret those laws or regulations in a manner consistent with our interpretation.

In January 2004, ADVAMED, the principal U.S. trade association for the medical device industry, put in place a model "code of conduct" that sets forth standards by which its members should abide in the promotion of their products. We have in place policies and procedures for compliance that we believe are at least as stringent as those set forth in the ADVAMED Code, and we provide routine training to our sales and marketing personnel on our policies regarding sales and marketing practices. Nevertheless, we believe that the sales and marketing practices of our industry will be subject to increased scrutiny from government agencies.

OUR PRIVATE LABEL BUSINESS DEPENDS SIGNIFICANTLY ON KEY RELATIONSHIPS WITH THIRD PARTIES, WHICH WE MAY BE UNABLE TO ESTABLISH AND MAINTAIN.

Our private label business depends in part on our entering into and maintaining collaborative or alliance agreements with third parties concerning product marketing, as well as research and development programs. Our most important alliance is our agreement with the Wyeth BioPharma division of Wyeth for the development of collagen matrices to be used in conjunction with Wyeth BioPharma's recombinant bone protein, a protein that stimulates the growth of

bone in humans. Termination of any of our alliances would require us to develop other means to distribute the affected products and could adversely affect our expectations for the growth of private label products.

WE MAY HAVE SIGNIFICANT PRODUCT LIABILITY EXPOSURE AND OUR INSURANCE MAY NOT COVER ALL POTENTIAL CLAIMS.

We are exposed to product liability and other claims in the event that our technologies or products are alleged to have caused harm. We may not be able to obtain insurance for the potential liability on acceptable terms with adequate coverage or at reasonable costs. Any potential product liability claims could exceed the amount of our insurance coverage or may be excluded from coverage under the terms of the policy. Our insurance may not be renewed at a cost and level of coverage comparable to that then in effect.

WE ARE SUBJECT TO OTHER REGULATORY REQUIREMENTS RELATING TO OCCUPATIONAL HEALTH AND SAFETY AND THE USE OF HAZARDOUS SUBSTANCES WHICH MAY IMPOSE SIGNIFICANT COMPLIANCE COSTS ON US.

We are subject to regulation under federal and state laws regarding occupational health and safety, laboratory practices and the use, handling and disposal of toxic or hazardous substances. Our research, development and manufacturing processes involve the controlled use of certain hazardous materials. Although we believe that our safety procedures for handling and disposing of those materials comply with the standards prescribed by the applicable laws and regulations, the risk of accidental contamination or injury from these materials cannot be eliminated. In the event of such an accident, we could be held liable for any damages that result and any related liability could exceed the limits or fall outside the coverage of our insurance and could exceed our resources. We may not be able to maintain insurance on acceptable terms or at all. We may incur significant costs to comply with environmental laws and regulations in the future. We may also be subject to other present and possible future local, state, federal and foreign regulations.

THE LOSS OF KEY PERSONNEL COULD HARM OUR BUSINESS.

We believe our success depends on the contributions of a number of our key personnel, including Stuart M. Essig, our President and Chief Executive Officer. If we lose the services of key personnel, those losses could materially harm our business. We maintain key person life insurance on Mr. Essig.

ITEM 2. PROPERTIES

Our principal executive offices are located in Plainsboro, New Jersey. Principal manufacturing and research facilities are located in Plainsboro, New Jersey, Cincinnati, Ohio, San Diego, California, Anasco, Puerto Rico, Andover, England, Biot, France, Lyon, France, Mielkendorf, Germany and Tuttlingen, Germany. Our primary distribution centers are located in Sparkes, Nevada, Hawthorne, New York, Andover, England, Biot, France, Vilvoorde, Belgium and Lyon, France. In addition, we lease several smaller facilities to support additional administrative, assembly, and distribution operations. We lease all of our facilities other than our facilities in Andover, England, Biot, France and Tuttlingen, Germany, which we own.

All of our manufacturing and distribution facilities are registered with the FDA. Our facilities are subject to FDA inspection to assure compliance with Quality System Regulations. We believe that our manufacturing facilities are in substantial compliance with Quality System Regulations, suitable for their intended purposes and have capacities adequate for current and projected needs for existing products. Some capacity of the plants is being converted, with any needed modification, to meet the current and projected requirements of existing and future products.

ITEM 3. LEGAL PROCEEDINGS

In July 1996, we filed a patent infringement lawsuit in the United States District Court for the Southern District of California (the "Trial Court") 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 willfully and deliberately to induce, defendants Scripps Research Institute and Dr. Cheresh to infringe certain of our patents. These patents are part of a group of patents granted to The Burnham Institute and licensed by us that are based on the interaction between a family of cell surface proteins called integrins and the arginine-glycine-aspartic acid ("RGD") peptide sequence found in many extracellular matrix proteins. The

defendants filed a countersuit asking for an award of defendants' reasonable attorney fees.

In March 2000, a jury returned a unanimous verdict in our favor and awarded us $15.0 million in damages, finding that Merck KGaA had willfully infringed and induced the infringement of our patents. The Trial Court dismissed Scripps and Dr. Cheresh from the case.

In October 2000, the Trial Court entered judgment in our favor and against Merck KGaA in the case. In entering the judgment, the Trial Court also granted to us pre-judgment interest of approximately $1.4 million, bringing the total award to approximately $16.4 million, plus post-judgment interest. Merck KGaA filed various post-trial motions requesting a judgment as a matter of law notwithstanding the verdict or a new trial, in each case regarding infringement, invalidity and damages. In September 2001, the Trial Court entered orders in favor of us and against Merck KGaA on the final post-judgment motions in the case, and denied Merck KGaA's motions for judgment as a matter of law and for a new trial.

Merck KGaA and we each appealed various decisions of the Trial Court to the United States Court of Appeals for the Federal Circuit (the "Circuit Court"). In June 2003, the Circuit Court affirmed the Trial Court's finding that Merck KGaA had infringed our patents. The Circuit Court also held that the basis of the jury's calculation of damages was not clear from the trial record, and remanded the case to the Trial Court for further factual development and a new calculation of damages consistent with the Circuit Court's decision. Merck KgaA filed a writ for certiorari with the United States Supreme Court seeking review of the Circuit Court's decision, and the Supreme Court granted the writ in January 2005. Oral arguments are scheduled for April 2005, and we expect the Supreme Court to render a decision before the end of the current term.

In September 2004, the Trial Court ordered Merck KgaA to pay us $6.4 million in damages following the Circuit Court's order. Further enforcement of the Trial Court's order has been stayed pending the decision of the Supreme Court.

We have not recorded any gain in connection with this matter, pending final resolution and completion of the appeals process.

In addition to the Merck KGaA matter, we are subject to various claims, lawsuits and proceedings in the ordinary course of our business, including claims by current or former employees and distributors and with respect to our products. In the opinion of management, such claims are either adequately covered by insurance or otherwise indemnified, or are not expected, individually or in the aggregate, to result in a material adverse effect on our financial condition. However, it is possible that our results of operations, financial position and cash flows in a particular period could be materially affected by these contingencies.

Three of our French subsidiaries that were acquired from the neurosciences division of NMT Medical, Inc. received a tax reassessment notice from the French tax authorities seeking in excess of 1.7 million euros in back taxes, interest and penalties. Following objection from NMT Medical, the amount claimed by the authorities was reduced to 930,367 euros, and negotiations and other procedures are under way, which may lead to a further reduction of the amount owed. NMT Medical, the former owner of these entities, has agreed to indemnify us against direct damages and liability arising from misrepresentations in connection with these tax claims. In addition, NMT Medical, Inc. has agreed to provide the French tax authorities with payment of the tax liabilities on behalf of each of these subsidiaries.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

ADDITIONAL INFORMATION:

The following information is furnished in this Part I pursuant to Instruction 3 to Item 401(b) of Regulation S-K.

EXECUTIVE OFFICERS OF THE COMPANY

Our executive officers are elected annually and serve at the discretion of the Board of Directors. The only family relationship between any of our executive officers and directors is that Mr. Holtz is the nephew of Richard E. Caruso, Ph.D., the Chairman of the Board of Directors. The following information indicates the position and age of our executive officers as of the date of this report and their previous business experience.

| NAME | AGE | POSITION |
| --- | --- | --- |
| Stuart M. Essig .................... | 43 | President, Chief Executive Officer and Director |
| Gerard S. Carlozzi................. | 49 | Executive Vice President, Chief Operating Officer |
| John B. Henneman, III.............. | 43 | Executive Vice President, Chief Administrative Officer and Secretary |
| David B. Holtz..................... | 38 | Senior Vice President, Finance and Treasurer |
| Deborah A. Leonetti ............... | 49 | Senior Vice President, Marketing |
| Donald R. Nociolo ................. | 42 | Senior Vice President, Operations |
| Judith E. O'Grady.................. | 54 | Senior Vice President, Regulatory, Quality Assurance and Clinical Affairs |
| Robert D. Paltridge ............... | 47 | Senior Vice President, Global Sales |

Stuart M. Essig has served as President and Chief Executive Officer and a director of Integra since December 1997. Before joining Integra, Mr. Essig supervised the medical technology practice at Goldman, Sachs & Co. as a managing director. Mr. Essig had ten years of broad health care experience at Goldman Sachs serving as a senior merger and acquisitions advisor to a broad range of domestic and international medical technology, pharmaceutical and biotechnology clients. Mr. Essig received an A.B. degree from the Woodrow Wilson School of Public and International Affairs at Princeton University and an MBA and a Ph.D. degree in Financial Economics from the University of Chicago, Graduate School of Business. Mr. Essig also serves on the Board of Directors of St. Jude Medical Corporation and ADVAMED, the Advanced Medical Technology Association.

Gerard S. Carlozzi is Integra's Executive Vice President and Chief Operating Officer, and is responsible for the company's marketing, sales, manufacturing, distribution and research and development functions. Mr. Carlozzi joined Integra in September 2003, after serving as a consultant to the Company from March 2003 to September 2003. Prior to joining Integra, Mr. Carlozzi had spent over 25 years in the medical device industry. From 1999 to 2003, he was President, Chief Executive Officer and a director of Bionx Implants, a company focused on the development of novel biomaterial devices for various surgical specialties. Prior to 1999, he held various management positions with Synthes USA, Acufex microsurgical and Infusaid Corporation. Mr. Carlozzi also serves on the Board of Directors of Cascade Medical Corporation, a privately held company. He received a BS degree in engineering and an MBA from Northeastern University.

John B. Henneman, III is Integra's Executive Vice President, Chief Administrative Officer and Secretary, and is responsible for the law department, regulatory affairs, corporate quality systems, clinical affairs, business development, human resources, information management and investor relations. Mr. Henneman was our General Counsel from September 1998 until September 2000 and our Senior Vice President, Chief Administrative Officer and Secretary from September 2000 until February 2003. Prior to joining Integra in August 1998, Mr. Henneman served Neuromedical Systems, Inc., a public company developer and manufacturer of in vitro diagnostic equipment, in various capacities for more than four years. Mr. Henneman received his A.B. from Princeton University and his J.D. from the University of Michigan Law School.

David B. Holtz joined Integra as Controller in 1993, served as Vice President, Finance and Treasurer from March 1997 to January 2001, and was promoted to Senior Vice President, Finance and Treasurer in February 2001. From August 2002 through October 2003, Mr. Holtz was given responsibility for managing Integra's

European operations to support the transition of our acquisitions in Europe. His current responsibilities include managing all financial reporting and accounting functions. Before joining Integra, Mr. Holtz was an associate with Coopers & Lybrand, L.L.P. in Philadelphia and Cono Leasing Corporation, a private leasing company. He received a BS degree in Business Administration from Susquehanna University and has been certified as a public accountant.

Deborah A. Leonetti joined Integra in May of 1997 as Director of Marketing, was promoted to Vice President, Global Marketing in April 1999 and to Senior Vice President, Marketing in May 2004. Her responsibilities include worldwide strategic marketing for all Integra products. From September 1989 through May 1997, Ms. Leonetti worked for Cabot Medical, which was later acquired by Circon Corporation, and held positions in sales, sales training, and marketing. Prior to her experience at Cabot-Circon, Ms. Leonetti completed fifteen years of clinical practice as a registered nurse at St. Christopher's Hospital for Children in Philadelphia. She received her nursing degree from St. Joseph's Hospital School of Nursing and La Salle University.

Donald R. Nociolo joined Integra as Director of Manufacturing in 1994, and was promoted to Vice President, Operations in March 1997 and to Senior Vice President of Operations in May 2000. He is responsible for managing Integra's worldwide manufacturing and distribution operations. Mr. Nociolo has over sixteen years experience working in engineering and manufacturing management in the medical device industry. Six of those years were spent working at ETHICON, Inc., a division of Johnson & Johnson. Mr. Nociolo received a BS degree in Industrial Engineering from Rutgers University and an MBA in Industrial Management from Fairleigh Dickinson University.

Judith E. O'Grady has served as Senior Vice President of Regulatory Affairs, Quality Assurance and Clinical Affairs, since 1985. Ms. O'Grady has worked in the areas of medical devices and collagen technology for over 20 years. Prior to joining Integra, Ms. O'Grady worked for Colla-Tec, Inc., a Marion Merrell Dow Company. During her career she has held positions with Surgikos, a Johnson & Johnson Company, and was on the faculty of Boston University College of Nursing and Medical School. Ms. O'Grady led the team that obtained the FDA approval for INTEGRA(R) Dermal Regeneration Template, the first regenerative product approved by the FDA, and has led teams responsible for more than 500 FDA and international submissions. She received her BS degree from Marquette University and MSN in Nursing from Boston University.

Robert D. Paltridge joined Integra as National Sales Director in February 1995 and was appointed Vice President, North American Sales in September 1997. He was promoted to Vice President, Global Sales in October 2002 and Senior Vice President, Global Sales in January 2003. His responsibilities include managing the worldwide sales activities of Integra's three sales organizations and third-party distributors. Mr. Paltridge has 21 years of sales and sales management experience in the medical device industry. Before joining Integra, he was National Sales Manager at Strato Medical, a division of Pfizer, Inc. He received a BS degree in Business Administration from Rutgers University.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

MARKET INFORMATION, HOLDERS AND DIVIDENDS

Our Common Stock trades on The NASDAQ National Market under the symbol IART. The following table lists the high and low sales prices for our Common Stock for each quarter for the last two years:

| | HIGH | LOW |
|---|---|---|
| 2004 | | |
| Fourth Quarter | $ 37.36 | $ 29.41 |
| Third Quarter | $ 35.79 | $ 27.14 |
| Second Quarter | $ 36.00 | $ 29.76 |
| First Quarter | $ 33.86 | $ 28.74 |
| 2003 | | |
| Fourth Quarter | $ 34.99 | $ |

| | | |
|---|---|---|
| | | 27.23 |
| Third Quarter | $ 30.65 | $ 23.39 |
| Second Quarter | $ 29.94 | $ 21.75 |
| First Quarter | $ 23.72 | $ 15.66 |

For purposes of calculating the aggregate market value of the shares of our voting stock held by non-affiliates, as shown on the cover page of this report, we have assumed that all outstanding shares not held by our directors and executive officers and stockholders owning 10% or more of outstanding shares were held by non-affiliates. However, this should not be deemed to constitute an admission that any such persons are, in fact, affiliates of ours. Further information concerning ownership of our voting stock by executive officers, directors and principal stockholders will be included in our definitive proxy statement for our upcoming Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission.

We have not paid any cash dividends on our common stock since our formation. Any future determinations to pay cash dividends on the common stock will be at the discretion of our Board of Directors and will depend upon our results of operations and financial condition and other factors deemed relevant by the Board of Directors.

The number of stockholders of record as of March 11, 2005 was approximately 480, which includes stockholders whose shares were held in nominee name.

ISSUER PURCHASES OF EQUITY SECURITIES

We did not purchase any shares of our common stock during the quarter ended December 31, 2004.

In March 2004, our Board of Directors authorized us to repurchase up to 1.5 million shares of our common stock for an aggregate purchase price not to exceed $40 million. We were authorized to repurchase shares under this program through December 31, 2004 either in the open market or in privately negotiated transactions. We purchased 500,000 shares for $14.2 million under this program

ITEM 6. SELECTED FINANCIAL DATA

The information set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included elsewhere in this report. We have acquired numerous businesses and product lines during the previous five years. As a result of these acquisitions, the consolidated financial results and balance sheet data for certain of the periods presented below may not be directly comparable.

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2004 | 2003 | 2002 | 2001 | 2000 |
| | (in thousands, except per share data) | | | | |
| Operating Results: | | | | | |
| Total revenues (1) .......................... | $ 229,825 | $ 185,599 | $ 117,822 | $ 93,442 | $ 71,649 |
| Total operating costs and expenses (2) ..... | 205,046 | 145,952 | 98,635 | 79,156 | 83,370 |
| Operating income (loss) .................... | 24,779 | 39,647 | 19,187 | 14,286 | (11,721) |
| Interest income (expense), net ............. | 555 | 471 | 3,535 | 1,393 | (473) |
| Gain on disposition of product line ........ | -- | -- | -- | -- | 1,146 |
| Other income (expense), net (1) ............ | 2,674 | 3,071 | 3 | (392) | 201 |
| Income (loss) before income taxes .......... | 28,008 | 43,189 | 22,725 | (15,287) | (10,847) |
| Income tax expense (benefit) (3) ........... | 10,811 | 16,328 | (12,552) | (10,876) | 108 |
| Net income (loss) before cumulative effect of accounting change ............. | 17,197 | 26,861 | 35,277 | 26,163 | (10,955) |
| Cumulative effect of accounting change(5) .. | -- | -- | -- | -- | (470) |
| Net income (loss) | | | | | |

..........................
$ 17,197 $ 26,861 $
35,277 $ 26,163 $
(11,425) =========
========= =========
========= =========
Diluted net income (loss)
per share (6) .... $ 0.55
$ 0.86 $ 1.14 $ 0.92 $
(0.97) Weighted average
shares outstanding
........ 31,102 33,104
30,720 27,196 17,553

December 31, 2004 2003 2002 2001 2000 --------
- --------- --------- --------- ---------- (in
thousands) Financial Position: Cash, cash
equivalents, and marketable securities (4,7)
... $ 195,982 $ 206,743 $ 132,311 $ 131,036 $
15,138 Total assets
...............................................
456,713 412,526 274,668 227,588 86,514 Long-
term debt (7)
.........................................
118,900 119,257 -- -- 4,758 Accumulated
deficit
........................................ (265)
(17,462) (44,323) (79,600) (105,729)
Stockholders' equity
.......................................
307,823 268,530 247,597 204,056 53,781

(1) In 2003, we recorded $11.0 million of other revenue related to the acceleration of the recognition of unused minimum purchase payments and deferred license fee revenue from ETHICON following the termination of the supply distribution and collaboration agreement in December 2003. We also recorded a $2.0 million gain in other income associated with a related termination payment received from ETHICON.

(2) We recorded the following significant items in operating expenses: $23.9 million and $13.5 million in stock-based compensation charges incurred in connection with the extensions of the employment agreement of our President and Chief Executive Officer in 2004 and 2000, respectively; $0.4 million and $2.3 million of acquired in-process research and development charges recorded in connection with acquisitions in 2003 and 2002, respectively; $1.1 million of expenses related to the closing of our San Diego research center and a $2.0 million donation to the Integra Foundation in 2003.

(3) In 2002 and 2001, respectively, we recognized a $20.4 million and $11.5 million deferred income tax benefit primarily related to the reduction of a portion of the valuation allowance recorded against our deferred tax assets.

(4) In August 2001, we issued 4,747,500 shares of common stock at $25.50 per share in a follow-on public

offering. The net proceeds generated by the offering, after expenses, were $113.4 million. We subsequently used a portion of these proceeds to repay outstanding indebtedness totaling $9.3 million, for which we recorded a $256,000 loss on the early retirement of debt.

(5) As the result of the adoption of SEC Staff Accounting Bulletin No. 101 "Revenue Recognition" (SAB 101), we recorded a $470,000 cumulative effect of an accounting change to defer a portion of a nonrefundable, up-front fee received and recorded in other revenue in 1998. The cumulative effect of this accounting change was measured as of January 1, 2000. As a result of this accounting change, other revenue in 2003, 2002, 2001 and 2000 includes $112,000 of amortization of the amount deferred as of January 1, 2000.

(6) Diluted net income per share for 2003 was restated for the adoption of EITF Issue 04-08 "The Effect of Contingently Convertible Instruments on Diluted Earnings per Share". Issue 04-08 requires issuers of contingent convertible securities to account for these securities on an "if-converted" basis pursuant to Statement of Financial Accounting Standards No. 128 "Earnings Per Share" in computing diluted earnings per share whether or not the issuer's stock is above the contingent conversion price. The provisions of Issue 04-08 are effective for all periods ending after December 15, 2004 and have been applied on a retroactive basis. Previously disclosed 2003 diluted net income per share was reduced by $0.02 to $0.86.

(7) In 2003, we issued $120.0 million of 2.5% contingent convertible subordinated notes due 2008. The net proceeds generated by the notes, after expenses, were $115.9 million. The notes are convertible into approximately 3.5 million shares.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read together with the selected consolidated financial data and our financial statements and the related notes appearing elsewhere in this report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including but not limited to those under the heading "Factors That May Affect Our Future Performance."

Regulation G, "Conditions for Use of Non-GAAP Financial Measures," and other provisions of the Securities Exchange Act of 1934, as amended, define and prescribe the conditions for the use of certain non-GAAP financial information. In Management's Discussion and Analysis of Financial Condition and Results of Operations, we provide information regarding growth in product revenues excluding recently acquired product lines, which is a non-GAAP financial measure. A reconciliation of this non-GAAP financial measure to the most comparable GAAP measure is provided in this annual report.

This non-GAAP financial measure should not be relied upon to the exclusion of GAAP financial measures. Management believes that this non-GAAP financial measure constitutes important supplemental information to investors which reflects an additional way of viewing aspects of our operations that, when viewed with our GAAP results and the accompanying reconciliations, provides a more complete understanding of factors and trends affecting our ongoing business and operations. Management strongly encourages investors to review our financial statements and publicly-filed reports in their entirely and to not rely on any single financial measure. Because non-GAAP financial measures are not standardized, it may not be possible to compare these financial measures with other companies' non-GAAP financial measures having the same or similar names.

## GENERAL

Integra develops, manufactures and markets medical devices for use in neuro-trauma, neurosurgery, reconstructive surgery and general surgery. Our business is organized into product groups and distribution channels. Our product groups include implants and other devices for use in surgical procedures, monitoring systems for the measurement of various parameters in tissue (such as pressure, temperature and oxygen), hand-held and ultrasonic surgical instruments, and private label products that we manufacture for other medical device companies.

Our distribution channels include three sales organizations in the United States: one that we employ to call on neurosurgeons known as our Integra

NeuroSciences(TM) sales organization, another employed to call on reconstructive surgeons and a third group that utilizes a network of third-party distributors. Internationally, we combine resources across different sales channels in some cases with direct sales organizations in France, Germany, the United Kingdom and the Benelux region. Outside of these areas, we operate through a number of distributors that sell our products in over 90 countries. We invest substantial resources and management effort to develop our sales organizations, and we believe that we compete very effectively in this aspect of our business. We distribute private label products through strategic alliances.

We manufacture most of the implant, monitoring and private label products that we sell in various plants located in the United States, Puerto Rico, France, the United Kingdom and Germany. We also manufacture the ultrasonic surgical instruments and source most of our hand-held surgical instruments through specialized third-party vendors.

We believe that we have a particular advantage in the development, manufacture and sale of specialty tissue repair products derived from bovine collagen. We develop and build these products in our manufacturing facility in Plainsboro, New Jersey. Taken together, these products accounted for approximately 31%, 27% and 32% of product revenues in the years ended December 31, 2004, 2003 and 2002, respectively.

We manage these multiple product groups and distribution channels on a centralized basis. Accordingly, we report our financial results under a single operating segment - the development, manufacturing and distribution of medical devices.

Our objective is to build a customer-focused and profitable medical device company by developing or acquiring innovative medical devices and other products to sell through our sales channels. Our strategy therefore entails substantial growth in product revenues both through internal means - through launching new and innovative products and selling existing products more intensively - and by acquiring existing businesses or already successful product lines.

We aim to achieve this growth in revenues while maintaining strong financial results. While we pay attention to any meaningful trend in our financial results, we pay particular attention to measurements that tend to support the view that our profitability can grow for a period of years. These measurements include revenue growth, derived through acquisitions and products developed internally, gross margins on products revenues, which we hope to increase to more than 65% over a period of several years, operating margins, which we hope to continually expand on as we leverage our existing infrastructure, and earnings per fully diluted share of common stock.

ACQUISITIONS

Our strategy for growing our business includes the acquisition of complementary product lines and companies. Our recent acquisitions of businesses, assets and product lines may make our financial results for the year ended December 31, 2004 not directly comparable to those of the corresponding prior year periods. Since the beginning of 2002, we have acquired the following businesses, assets and product lines:

In May 2004, we acquired the MAYFIELD(R) Cranial Stabilization and Positioning Systems and the BUDDE(R) Halo Retractor System business from Schaerer Mayfield USA, Inc. (formerly Ohio Medical Instrument Company) for $20.0 million in cash paid at closing, a $0.3 million working capital adjustment and $0.3 million of acquisition related expenses. The MAYFIELD and BUDDE lines include skull clamps, headrests, reusable and disposable skull pins, blades, retractor systems and spinal implants. MAYFIELD systems are the market leader in the United States and have been used by neurosurgeons for over thirty years. The products are sold in the United States through our Integra NeuroSciences(TM) direct sales organization and in international markets through distributors.

In May 2004, we acquired all of the capital stock of Berchtold Medizin-Elektronik GmbH, now named Integra ME GmbH, from Berchtold Holding GmbH for $5.0 million in cash. Integra ME manufactures and markets the ELEKTROTOM(R) line of electrosurgery generators and the SONOTOM(R) ultrasonic surgical aspirator, as well as a broad line of related handpieces, instruments and disposables used in many surgical procedures, including neurosurgery. Integra ME markets and sells its products to hospitals and physicians primarily through a network of distributors in markets outside the United States.

In January 2004, we acquired two small instruments businesses: the R&B instrument business from R&B Surgical Solutions, LLC for approximately $2.0 million in cash and the Sparta disposable critical care devices and surgical instruments business from Fleetwood Medical, Inc. for approximately $1.6 million in cash. The R&B instrument line is a complete line of high-quality handheld surgical instruments used in neuro- and spinal surgery. We market these products through our JARIT sales organization. The Sparta product line includes products used in plastic and reconstructive, ear, nose and throat (ENT), neuro, ophthalmic and general surgery. We sell the Sparta products through a direct marketing organization and an existing distributor network.

In December 2003, we acquired the assets of Reconstructive Technologies, Inc.

for $400,000 in cash and an agreement to make future payments based on product sales. Reconstructive Technologies is the developer of the Automated Cyclic Expansion System (ACE System(TM)), a tissue expansion device. As the ACE system is not yet

approved, we recorded an in-process research and development charge in connection with this acquisition. Once approved, we plan to market the system through our reconstructive sales organization.

In November 2003, we acquired all of the outstanding capital stock of Spinal Specialties, Inc. from I-Flow Corporation for $6.4 million in cash, including expenditures associated with the acquisition and a working capital adjustment. Spinal Specialties assembles and sells custom kits and products for chronic pain management, including the OsteoJect(TM) Bone Cement Delivery System and the ACCU-DISC(TM) Pressure Monitoring System. Spinal Specialties markets its products to anesthesiologists and interventional radiologists through an in-house telemarketing team and a network of distributors. We report sales of Spinal Specialties products as instrument revenues.

In August 2003, we acquired the assets of Tissue Technologies, Inc., the manufacturer and distributor of the UltraSoft(TM) line of facial implants for soft tissue augmentation of the facial area, for $0.6 million in cash and up to an additional $1.5 million based on future sales of the acquired products. We market the UltraSoft(TM) products directly to cosmetic and reconstructive surgeons through our reconstructive surgery sales organization

In March 2003, we acquired all of the outstanding capital stock of J. Jamner Surgical Instruments, Inc. (doing business as JARIT(R) Surgical Instruments) for $45.6 million in cash. JARIT sells its products to more than 5,200 hospitals and surgery centers worldwide. JARIT generates its domestic product sales primarily through sales to hospitals that are members of group purchasing organizations. Group purchasing organizations use the combined leverage of their member hospitals to obtain better prices for medical products for the participating hospitals and other health care providers than might otherwise be available to these institutions individually. The acquisition of JARIT broadened our customer base and surgical instrument product offering and facilitated the procurement of our Ruggles(TM) and Padgett instrument products directly from the instrument manufacturers.

In December 2002, we acquired the epilepsy monitoring and neurosurgical shunt business of the Radionics division of Tyco Healthcare Group for $3.7 million in cash. We moved the manufacturing of the acquired lines to our facility in Biot, France and are selling the acquired products through our Integra NeuroSciences(TM) sales force.

In October 2002, we acquired Padgett Instruments, Inc., a marketer of instruments used in reconstructive and plastic surgery, for $9.6 million in cash. Our acquisition of Padgett Instruments broadened our existing surgical customer base and allowed us to expand into new market segments. We consolidated Padgett's operations into our then existing distribution center located in Cranbury, New Jersey in March 2003.

In August 2002, we acquired certain assets, including the NeuroSensor(R) monitor and rights to certain intellectual property, from Novus Monitoring Limited of the United Kingdom and entered into a related development agreement pursuant to which Novus agreed to provide, at its own cost, certain development activities related to the acquired products and technology. We paid Novus $3.5 million in cash at closing and a $1.4 million milestone payment related to the development of a next-generation, advanced neuromonitoring system in September 2004. We are required to pay up to an additional $2.5 million based upon revenues from Novus' products. We expect the Novus products to complement our existing line of brain parameter monitoring products. We expect to introduce the NeuroSensor(R) Cerebral Blood Flow Monitoring System in the first half of 2005. The NeuroSensor(R) Cerebral Blood Flow Monitoring System measures both intracranial pressure and cerebral blood flow using a single combined probe and an electronic monitor for data display.

In August 2002, we acquired the neurosciences division of NMT Medical, Inc. for $5.7 million in cash. Through this acquisition, we added a range of leading differential pressure valves, including the Orbis-Sigma(R), Integra Hakim(R) and horizontal-vertical lumbar valves, and external ventricular drainage products to our neurosurgical product line. The acquired operations included a facility located in Biot, France that manufactures, packages and distributes shunting, catheter and drainage products.

In July 2002, we acquired the assets of Signature Technologies, Inc., a specialty manufacturer of titanium and stainless steel implants for the neurosurgical and spinal markets, and certain other intellectual property assets. The purchase price consisted of $2.9 million in cash, $0.5 million of deferred consideration and royalties on future sales of products to be developed. Our acquisition of Signature Technologies gave us the capability of developing and manufacturing metal implants for our strategic partners and for

our direct sale organizations. Through June 2004, Signature Technologies manufactured cranial fixation systems for sale primarily under a single contract manufacturing agreement. In December 2004, we consolidated the Signature manufacturing operation into our Cincinnati, Ohio facility.

In November 2004, we agreed to acquire all of the outstanding capital stock of Newdeal Technologies for 38.5 million euros in cash, subject to certain adjustments. The acquisition closed on January 3, 2005. Based in Lyon, France, Newdeal is a leading developer and marketer of specialty implants and instruments specifically designed for foot and ankle surgery. The company sells its products through a direct sales force in France, Belgium and the Netherlands and through distributors in more than 30 countries, including the United States and Canada.

RESULTS OF OPERATIONS

Net income in 2004 was $17.2 million, or $0.55 per diluted share, as compared to net income of $26.9 million, or $0.86 per diluted share, in 2003 and net income of $35.3 million, or $1.14 per diluted share, in 2002. Included in these amounts are certain revenues, charges or gains resulting from facts and circumstances that, based on our recent history and future expectations, may not recur with similar materiality or impact on continuing operations. We believe that the identification of all revenues, charges and gains that meet these criteria promotes comparability of reported financial results. The following revenues, charges and gains were included in net income and net income per diluted share:

In 2004

- - We recorded a $1.4 million charge in connection with the milestone payment related to the completion of certain development activities related to the NeuroSenor(R) Cerebral Blood Flow Monitoring System and a $0.5 million licensing fee paid for the development of a data acquisition system to support the integration of our advanced monitoring products.

- - We recorded a $23.9 million share-based compensation charge associated with the renewal of our President and Chief Executive Officer's employment agreement.

- - We recorded a $1.3 million tax charge incurred in connection with the reorganization of certain European operations.

- - We recognized $1.4 million of other income related to an unrealized gain on a foreign currency collar, which was used to reduce our exposure to fluctuations in the exchange rate between the euro and the US dollar as a result of our commitment to acquire Newdeal Technologies for 38.5 million euros. The Newdeal Technologies acquisition was completed in January 2005.

In 2003

- - We recorded $11.0 million of other revenue related to the acceleration of the recognition of unused minimum purchase payments and unamortized license fee revenue from ETHICON following the termination of the Supply, Distribution and Collaboration agreement in December 2003.

- - We incurred $1.1 million of expenses related to the closing of our San Diego research center, consolidation of the research activities into our other facilities and the discontinuation of certain research programs.

- - We recorded an acquired in-process research and development charge of $400,000 in connection with an acquisition.

- - We made a $2.0 million donation to the Integra Foundation, which is included in general and administrative expenses.

- - We received a $2.0 million payment from ETHICON from the termination of our agreement with them, which is included in other income.

In 2002

- - We recorded a $20.4 million deferred income tax benefit primarily from the reduction of the valuation allowance recorded against our deferred tax assets associated with net operating loss carryforwards.

- - We recorded acquired in-process research and development charges of $2.3 million in connection with acquisitions.

TOTAL REVENUES AND GROSS MARGIN ON PRODUCT REVENUES

(in thousands, except per share data)

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Monitoring products | $ 48,217 | $ 44,229 | $ 37,184 |
| Implant products | 78,418 | 53,301 | 38,326 |
| Instruments | 77,667 | 47,168 | 16,802 |
| Private label products | 24,188 | 21,997 | 20,313 |

| | | | |
|---|---|---|---|
| Total product revenues ................................. | 228,490 | 166,695 | 112,625 |
| Other revenue .......................................... | 1,335 | 18,904 | 5,197 |
| Total revenues.......................................... | 229,825 | 185,599 | 117,822 |
| Cost of product revenues ............................... | 87,299 | 70,597 | 45,772 |
| Gross margin on product revenues ....................... | 141,191 | 96,098 | 66,853 |
| Gross margin as a percentage of product revenues ....... | 62% | 58% | 59% |

In 2004, total revenues increased 24% over 2003 to $229.8 million, led by a $61.8 million, or 37%, increase in product revenues to $228.5 million. Domestic product revenues increased $48.1 million in 2004 to $180.9 million, or 79% of total product revenues, as compared to 80% of product revenues in 2003 and 2002. Sales of instruments and implant products, which reported a 65% and 47% increase, respectively, in sales over 2003, led our growth in product revenues in 2004.

In 2003, total revenues increased 58% over 2002 to $185.6 million, led by a 48% increase in product revenues to $166.7 million. Domestic product revenues increased $42.4 million in 2003 to $132.8 million. Sales of instruments and implant products, which reported a 181% and 39% increase, respectively, in sales over 2002, led our growth in product revenues in 2003.

Reported product revenues for 2004 and 2003 included the following amounts in revenues from acquired product lines:

| | 2004 Revenues | 2003 Revenues | % change |
|---|---|---|---|
| | (in thousands) | | |
| Total Product Revenues | | | |
| Products acquired during 2004 ... | $ 13,632 | $ -- | N/A |
| Products acquired during 2003 ... | 39,898 | 24,476 | 63% |
| All other product revenues ...... | 174,960 | 142,219 | 23% |
| Total product revenues .......... | 228,490 | 166,695 | 37% |

Product revenues excluding 2004 and 2003 acquisitions grew at 23% for the year ended December 31, 2004 as compared to 2003. Increased sales of our DuraGen(R) Dural Graft Matrix and INTEGRA(R) Dermal Regeneration Template product families as well as an increase in our Absorbable Collagen Sponge product sold to Wyeth BioPharma accounted for a significant portion of this growth. Our revenue growth

in 2003 over 2002, excluding acquisitions, was driven by our DuraGen(R) Dural Graft Matrix, NeuraGen(TM) Nerve Guide, intracranial monitoring and drainage systems, and neurosurgical systems products. All of the products acquired in 2004 and 2003 were added to the instrument product group.

In 2004, we launched several new products under the DuraGen(R) Dural Graft Matrix and INTEGRA(R) Dermal Regeneration Template product families. However, we expect growing competition in the area of absorbable implant technology products, which could affect growth in our product lines. We continue to broaden our product offerings using our proprietary absorbable implant technology by developing products that meet the additional needs of surgeons within the markets we serve. Our acquisition in January 2005 of the Newdeal foot and angle implant product lines gives us additional opportunities to expand the use of our absorbable implant products into additional areas within the surgical reconstructive market.

We have generated our product revenue growth through acquisitions, new product launches and increased direct sales and marketing efforts both domestically and in Europe. We expect that our future growth will derive from our expanded domestic sales force, the continued implementation of our direct sales strategy in Europe and from internally developed and acquired products. We also intend to continue to acquire businesses that complement our existing businesses and products.

Gross margin as a percentage of product revenues was 62% in 2004, 58% in 2003 and 59% in 2002. Cost of product revenues included $270,000, $1,261,000 and $447,000 in fair value inventory purchase accounting adjustments recorded in connection with acquisitions in 2004, 2003 and 2002, respectively. Product gross margins improved in 2004 as a result of increased sales of higher margin products, including the effect of selling our INTEGRA(R) Dermal Regeneration products directly, as well as the contribution of the MAYFIELD product line we acquired in 2004. During 2003, the gross margin was negatively affected by fair value inventory purchase accounting adjustments and from the acquisition of lower margin products. The impact of foreign exchange rates on the cost of products that we manufacture or purchase in Europe negatively affected gross margins in 2004 and 2003. We expect our future gross

margins to continue to benefit as our higher margin products continue to grow faster than other products and as we continue to increase sales of our products in foreign currencies.

We currently do not hedge our exposure to operating foreign currency risk. In 2004 and 2003, the cost of products we manufacture or purchase in Europe exceeded our foreign currency-denominated revenues. We expect this imbalance to continue into 2005. A further weakening of the dollar against the euro and British pound could negatively affect future gross margins.

Other revenue has historically consisted of research and development funding from strategic partners and government grants, and license, distribution, and other event-related revenues from strategic partners and other third parties. In 2003, our other revenue included $16.3 million of revenues derived from an agreement with ETHICON that was terminated in December 2003. We do not expect to generate significant revenues in the future from these types of arrangements.

OTHER OPERATING EXPENSES

The following is a summary of other operating expenses as a percent of total revenues:

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Research and development ................................ | 6% | 7% | 10% |
| Selling, general and administrative .................... | 43% | 32% | 34% |

Research and development costs have continued to decline as percentage of total revenue as we continue to restructure our research and development activities. The percentage declines are also the result of significant increases in hand-held instrument sales, which by their nature require less research and development expenditures compared to our other product lines. Our 2004 research and development expenses increased $1.3 million to $14.1 million and included a $1.4 million milestone payment related to the completion of certain development activities for an advanced neuromonitoring system and a $0.5 million licensing fee paid for the development of a data acquisition system to support the integration of our advanced monitoring products. In 2003 we incurred $950,000 of expenses related to the consolidation of our San Diego research center with our other facilities. We also reported in-process research and development charges of $400,000 and $2.3 million in 2003 and 2002, respectively. In 2005, we expect our research and development expenses as a percentage of total revenues to remain consistent with 2004 as we increase expenditures on research and clinical activities directed towards expanding the indications for use of our absorbable implant technology products, including a multi-center clinical trial suitable to support an application to the FDA for approval of the DuraGen Plus(TM) Adhesion Barrier Matrix product in the United States.

Selling, general and administrative expenses increased significantly in 2004 and included a stock-based compensation charge of $23.9 million related to the renewal of our President and Chief Executive Officer's employment agreement. This stock-based compensation charge represented 10% of total revenues. We reported significant increases in sales and marketing expenditures as we continue to build our direct sales and marketing organizations around all three direct selling platforms. Sales and marketing increases included additional personnel costs, additional trade show activities as well as costs related to acquired product lines. We made significant investments in our infrastructure with the implementation of a new enterprise business system and the relocation and expansion of our distribution capabilities through a third-party service provider. We also incurred a significant increase in professional fees associated with compliance with new internal controls compliance and reporting. In 2003, increases in spending included sales support for JARIT instrument sales and the expansion of the reconstructive sales force in anticipation of the termination of the ETHICON agreement. We also hired more experienced marketing professionals and spent more on advertising. In addition, in 2003 we donated $2.0 million to the Integra Foundation and incurred additional costs to consolidate several facilities. In 2005, we expect our selling, general and administrative costs as a percentage of revenue will return to the 2003 and 2002 range.

Amortization expense increased to $4.3 million in 2004 because of amortization on intangible assets acquired through our business acquisitions. Including the expected impact of intangible assets acquired in the acquisition of Newdeal in

January 2005, we expect annual amortization expense to be approximately $6.1 million in 2005, $6.0 million in 2006, $5.7 million in 2007, $5.4 million in 2008 and $4.7 million in 2009.

NON-OPERATING INCOME AND EXPENSES

In March and April 2003, we received approximately $115.9 million of net proceeds from the sale of $120.0 million of our 2 1/2% contingent convertible subordinated notes due in March 2008. In 2004 and 2003, we recorded interest

expense of $3.5 million and $2.7 million, respectively, in connection with these notes, which was offset by $4.0 million and $3.2 million, respectively of interest income on our invested cash and marketable debt securities.

We will pay additional interest ("Contingent Interest") on our convertible notes if, at thirty days prior to maturity, our common stock price is greater than $37.56 per share. We recorded a $365,000 liability related to the estimated fair value of the Contingent Interest obligation at the time the notes were issued. The fair value of this Contingent Interest obligation is marked to its fair value at each balance sheet date, with changes in the fair value recorded to interest expense. At December 31, 2004 and 2003, the estimated fair value of the Contingent Interest obligation was $710,000 and $460,000, respectively.

In August 2003, we entered into an interest rate swap agreement with a $50.0 million notional amount to hedge the risk of changes in fair value attributable to interest rate risk with respect to a portion of our fixed rate convertible notes. We receive a 2 1/2% fixed rate from the counterparty, payable on a semi-annual basis, and pay to the counterparty a floating rate based on 3-month LIBOR minus 35 basis points, payable on a quarterly basis. The interest rate swap agreement terminates in March 2008, subject to early termination upon the occurrence of certain events, including redemption or conversion of the convertible notes.

The interest rate swap agreement qualifies as a fair value hedge under SFAS No. 133, as amended "Accounting for Derivative Instruments and Hedging Activities." The net amount to be paid or received under the interest rate swap agreement is recorded as a component of interest expense. Interest expense for the years ended December 31, 2004 and 2003, respectively, reflects a $686,000 and $330,000 reduction associated with the interest rate swap.

The net fair value of the interest rate swap at inception was $767,000. In 2004 and 2003, the net fair value of the interest rate swap increased $287,000 to $1.4 million and $305,000 to $1.1 million, respectively. In connection with this fair value hedge, we recorded in 2004 and 2003 a $430,000 and $433,000, respectively, net decrease in the carrying value of our contingent convertible notes. The $143,000 and $128,000 net difference between changes in the fair value of the interest rate swap and the contingent convertible notes represents the ineffective portion of the hedging relationship, and these amounts are recorded in other income (expense), net.

Our net other income/expense declined in 2004 by $400,000 to $2.7 million as a result of an increase in foreign currency transaction gains, including a $1.4 million unrealized gain associated with the foreign currency collar in 2004, offset by the decline of $2.0 million from the termination payment received from ETHICON in 2003.

INCOME TAXES

Since 1999, we have generated positive taxable income on a cumulative basis. In light of this trend, our projections for future taxable earnings and the expected timing of the reversal of deductible temporary differences, in 2002, we reduced the remaining valuation allowance recorded against our net operating loss carryforwards by $23.4 million, which reflected our estimate of additional tax benefits that we expected to realize in the future. A valuation allowance of $5.4 million is recorded against the remaining $31.5 million of net deferred tax assets recorded at December 31, 2004. This valuation allowance relates to deferred tax assets for certain expenses which will be deductible for tax purposes in very limited circumstances and for which we believe it is unlikely that we will recognize the associated tax benefit. We do not anticipate additional income tax benefits through future reductions in the valuation allowance. However, if we determine that we would be able to realize more or less than the recorded amount of net deferred tax assets, we will record an adjustment to the deferred tax asset valuation allowance in the period such a determination is made.

In 2004, our effective income tax rate was 38.6% of income before income taxes compared to 37.8% in 2003. Our 2004 rate includes a $1.3 million tax charge related to the transfer of certain intangible assets. We recorded a net income tax benefit in 2002 related to the reduction of deferred tax asset valuation allowances previously recorded.

The net decrease in our tax asset valuation allowance was $2.3 million and $26.7 million in 2003 and 2002, respectively.

At December 31, 2004, we had net operating loss carryforwards of approximately $46.8 million and $0.6 million for federal and state income tax purposes,

respectively, to offset future taxable income. The federal and state net operating loss carryforwards expire through 2018 and 2005, respectively.

At December 31, 2004, several of our subsidiaries had unused net operating loss carryforwards and tax credit carryforwards arising from periods prior to our ownership which expire through 2005. The Internal Revenue Code limits the timing and manner in which we may use any acquired net operating losses or tax credits.

The American Jobs Creation Act of 2004 (the "Act") was signed into law in October 2004 and has several provisions that may impact our income taxes in the future, including the repeal of the extraterritorial income exclusion and a deduction related to qualified production activities taxable income. The Financial Accounting Standards Board ("FASB") proposed that the qualified production activities deduction is a special deduction and will have no impact on deferred taxes existing at the enactment date. Rather, the impact of this deduction will be reported in the period in which the deduction is claimed on our tax return. We are currently evaluating the impact of the FASB guidance related to qualified production activities on our effective tax rate in future periods.

INTERNATIONAL PRODUCT REVENUES AND OPERATIONS

Product revenues by major geographic area are summarized below:

| | United States | Europe | Asia Pacific | Other Foreign | Consolidated |
|---|---|---|---|---|---|
| | (in thousands) | | | | |
| 2004 | $180,887 | $ 30,941 | $ 8,535 | $ 8,127 | $228,490 |
| 2003 | 132,805 | 21,433 | 5,828 | 6,629 | 166,695 |
| 2002 | 90,422 | 14,737 | 4,062 | 3,404 | 112,625 |

In 2004, revenues from customers outside the United States totaled $47.6 million, or 21% of consolidated product revenues, of which approximately 65% were to European customers. Revenues from customers outside the United States included $33.6 million of revenues generated in foreign currencies.

In 2003, product revenues from customers outside the United States totaled $33.9 million, or 20% of consolidated product revenues, of which approximately 63% were to European customers. Revenues from customers outside the United States included $21.3 million of revenues generated in foreign currencies.

In 2002, product revenues from customers outside the United States totaled $22.2 million, or 20% of consolidated product revenues, of which approximately 66% were to European customers. Revenues from customers outside the United States included $13.4 million of revenues generated in foreign currencies.

Because we have operations based in Europe and we generate revenues and incur operating expenses in euros and British pounds, we will experience currency exchange risk with respect to those foreign currency denominated revenues or expenses.

In 2004, the cost of products we manufactured in our European facilities or purchased in foreign currencies exceeded our foreign currency-denominated revenues. We expect this imbalance to continue into 2005. We currently do not hedge our exposure to operating foreign currency risk. Accordingly, a further weakening of the dollar against the euro and British pound could negatively affect future gross margins and operating margins. We will continue to assess the potential effects that changes in foreign currency exchange rates could have on our business. If we believe this potential impact presents a significant risk to our business, we may enter into derivative financial instruments to mitigate this risk.

Additionally, we generate significant revenues outside the United States, a portion of which are U.S. dollar-denominated transactions conducted with customers who generate revenue in currencies other than the U.S. dollar. As a result, currency fluctuations between the U.S. dollar and the currencies in which those customers do business may have an impact on the demand for our products in foreign countries.

Our sales to foreign markets may be affected by local economic conditions, regulatory or political considerations, the effectiveness of our sales

representatives and distributors, local competition and changes in local medical practice.

Relationships with customers and effective terms of sale frequently vary by country, often with longer-term receivables than are typical in the United States.

LIQUIDITY AND CAPITAL RESOURCES

CASH AND MARKETABLE SECURITIES

At December 31, 2004, we had cash, cash equivalents and marketable securities totaling $196 million. Investments consist almost entirely of highly liquid, interest bearing debt securities.

CASH FLOWS

We generated positive operating cash flows of $39.0 million, $34.8 million and $32.0 million in 2004, 2003 and 2002, respectively. Operating cash flows continued to improve primarily as a result of higher pre-tax income adjusted for the add back of non-cash items and the benefits from the continued utilization of our net operating loss carryforwards and tax deductions generated by employee stock option exercises. Included in the 2004 operating cash flow was a $20.2 million use of cash related to changes in working capital items. A significant increase in accounts receivable and inventory was primarily due to the overall growth in the business and delays in customer collections related to business systems transitions. We expect our days on hand in accounts receivable and inventory to return to historic trend levels during 2005. Based on our current unused net operating loss carryforward position and various other future potential tax deductions, we expect our operating cash flows to continue to benefit from actual cash tax payments being lower than our effective book income tax rate for at least the next two years.

In 2004, we used $14.2 million to repurchase 500,000 shares of our common stock, which was partially offset by $6.1 million in cash flows generated from the issuance of common stock under employee benefit plans. Other principal uses of funds in 2004 were $29.3 million for acquisitions and $8.5 million in purchases in property and equipment. The $4.7 million increase in purchases of property and equipment in 2004 was primarily related to our procurement and implementation of our new enterprise business software. We had positive cash flows of $50.6 million from the net sales and maturities of marketable debt securities.

In 2003, we generated $14.2 million from the issuance of common stock under employee benefit plans and $115.9 million of net proceeds from the sale of $120.0 million of our contingent convertible subordinated notes. We had uses of funds of $50.4 million for acquisitions, $72.9 million for the net purchases of marketable debt securities, $35.4 million for the repurchase of approximately 1.5 million shares our common stock and $3.8 million for capital expenditures. The significant repurchase of our common stock in 2003 was made simultaneously with the issuance of our convertible notes.

In 2002, our principal sources of funds were $32.0 million of operating cash flow and $3.3 million from the issuance of common stock under employee benefit plans. In 2002, our principal uses of funds were $25.0 million for acquisitions, the repayment of a $3.6 million note and $2.3 million for capital expenditures.

WORKING CAPITAL

At December 31, 2004 and 2003, working capital was $192.0 million and $171.0 million, respectively. The increase in working capital in 2004 was primarily due to increases in inventory to support our growth in product revenues, higher accounts receivable balances related to increased sales and delays in customer collections. Both items were also affected by our transition to our new enterprise business system in the second half of the year. We expect our days on hand in accounts receivable and inventory to return to historic trend levels during 2005. The December 31, 2004 amount includes the funds subsequently used on January 3, 2005 to purchase Newdeal Technologies, as discussed below.

CONVERTIBLE DEBT AND RELATED HEDGING ACTIVITIES

In 2003, we generated $115.9 million of net proceeds from the sale of $120.0 million of our contingent convertible subordinated notes due in March 2008. We pay interest on the convertible notes at an annual rate of 2 1/2% each September 15th and March 15th. We will also pay contingent interest on the notes if, at thirty days prior to maturity, our common stock price is greater than $37.56. The contingent interest will be payable for each of the last three years the notes remain outstanding in an amount equal to the greater of (1) 0.50% of the face amount of the notes and (2) the amount of regular cash dividends paid during each such year on the number of shares of common stock into which each note is convertible. Holders of the notes may convert the notes into shares of our common stock under certain circumstances, including when the market price of our common stock on the previous trading day is more than $37.56 per share, based on an initial conversion price of $34.15 per share.

The notes are general, unsecured obligations of Integra and will be subordinate

to any future senior indebtedness. We cannot redeem the notes prior to their maturity, and the notes' holders may compel us to repurchase the notes upon a change of control. There are no financial covenants associated with the convertible notes.

In August 2003, we entered into an interest rate swap agreement with a $50 million notional amount to hedge the risk of changes in fair value attributable to interest rate risk with respect to a portion of the notes. We receive a 2 1/2% fixed rate from the counterparty, payable on a semi-annual basis, and pay to the counterparty a floating rate based on 3-month LIBOR minus 35 basis points, payable on a quarterly basis. The interest rate swap agreement terminates in March 2008, subject to early termination upon the occurrence of certain events, including redemption or conversion of the contingent convertible notes. Our effective interest rate on the hedged portion of the notes was 1.6% as of December 31, 2004.

SHARE REPURCHASE PLANS

During 2004, 2003 and 2002, we repurchased approximately 500,000, 1.5 million and 100,000 shares, respectively, of our common stock under authorized share repurchase programs.

DIVIDEND POLICY

We have not paid any cash dividends on our common stock since our formation. Any future determinations to pay cash dividends on our common stock will be at the discretion of our Board of Directors and will depend upon our financial condition, results of operations, cash flows and other factors deemed relevant by the Board of Directors.

REQUIREMENTS AND CAPITAL RESOURCES

We believe that our cash and marketable securities are sufficient to finance our operations and capital expenditures in the near term. In January 2005, we used $50.9 million in cash to complete the acquisition of Newdeal Technologies. We also expect to invest approximately $3.5 million in 2005 associated with the continued worldwide implementation of our new enterprise business software.

Given the significant level of liquid assets and our objective to grow by acquisition and alliances, our financial position could change significantly if we were to complete a business acquisition by utilizing a significant portion of our liquid assets.

Currently, we do not have any existing borrowing capacity or other credit facilities in place to raise significant amounts of capital if such a need arises.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

As of December 31, 2004, we were obligated to pay the following amounts under various agreements:

| | Total | Less than 1 year | 1-3 Years | 3-5 Years | More than 5 years |
|---|---|---|---|---|---|
| | (in millions) | | | | |
| Long Term Debt ................ | $120.0 | $ -- | $ -- | $120.0 | $ -- |
| Interest on Long Term Debt .... | 10.5 | 3.0 | 6.0 | 1.5 | -- |
| Operating Leases ............. | 8.6 | 2.6 | 3.3 | 0.9 | 1.8 |
| Purchase Obligations .......... | 6.3 | 6.3 | -- | -- | -- |
| Pension Contributions ......... | 0.2 | 0.2 | -- | -- | -- |
| Other Long Term Liabilities ... | 0.4 | -- | 0.1 | 0.1 | 0.2 |
| Total ......................... | $146.0 | $ 12.1 | $ 9.4 | $122.5 | $ 2.0 |

In addition, under other agreements we are required to make payments based on

sales levels of certain products or if specific development milestones are achieved.

The above table does not include contingent interest that we may be obligated to pay on our contingent convertible subordinated notes due in March 2008. See "--Non-Operating Income and Expenses."

In November 2004, we agreed to acquire all of the outstanding capital stock of Newdeal Technologies for 38.5 million euros in cash, subject to certain adjustments. The acquisition closed on January 3, 2005. The above table does not include the amount we paid at the closing of this transaction on January 3, 2005 and does not include the obligation to pay up to 1.25 million euros plus a working capital adjustment that we may be obligated to pay under the Newdeal acquisition agreement on January 3, 2006 as a post-closing payment.

## USE OF ESTIMATES AND CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities, and the reported amounts of revenues and expenses. Significant estimates affecting amounts reported or disclosed in the consolidated financial statements include allowances for doubtful accounts receivable and sales returns, net realizable value of inventories, estimates of future cash flows associated with acquired in-process research and development charges, fair market value of derivative instruments, amortization periods for acquired intangible assets, and loss contingencies. These estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the current circumstances. Actual results could differ from these estimates.

We believe the following accounting policies, which form the basis for developing these estimates, are those that are most critical to the presentation of our financial statements and require the most difficult, subjective and complex judgments:

### ALLOWANCES FOR DOUBTFUL ACCOUNTS AND SALES RETURNS

We evaluate the collectibility of accounts receivable based on a combination of factors. In circumstances where a specific customer is unable to meet its financial obligations to us, we record an allowance against amounts due to reduce the net recognized receivable to the amount that we reasonably expect to collect. For all other customers, we record allowances for doubtful accounts based on the length of time the receivables are past due, the current business environment and our historical experience. If the financial condition of customers or the length of time that receivables are past due were to change, we may change the recorded amount of allowances for doubtful accounts in the future. We record a provision for estimated sales returns and allowances on product revenues in the same period as the related revenues are recorded. We base these estimates on historical sales returns and other known factors. Actual returns could be different from our estimates and the related provisions for sales returns and allowances, resulting in future changes to the sales returns and allowances provision.

### INVENTORIES

Inventories, consisting of purchased materials, direct labor and manufacturing overhead, are stated at the lower of cost, the value determined by the first-in, first-out method, or market. At each balance sheet date, we evaluate ending inventories for excess quantities, obsolescence or shelf life expiration. Our evaluation includes an analysis of historical sales levels by product and projections of future demand. To the extent that we determine there are excess, obsolete or expired inventory quantities, we record valuation reserves against all or a portion of the value of the related products. If future demand or market conditions are different than our projections, a change in recorded inventory valuation reserves may be required and would be reflected in cost of revenues in the period the revision is made.

### DERIVATIVES

We report all derivatives at their estimated fair value and record changes in fair value in current earnings or defer these changes until a related hedged item is recognized in earnings, depending on the nature and effectiveness of the hedging relationship. The designation of a derivative as a hedge is made on the date the derivative contract is executed. On an ongoing basis, we assess whether each derivative continues to be highly effective in offsetting changes in the fair value or cash flows of hedged items. If and when a derivative is no longer expected to be highly effective, we discontinue hedge accounting. All hedge ineffectiveness is included in current period earnings in other income (expense), net.

We document all relationships between hedged items and derivatives. Our overall risk management strategy describes the circumstances under which we may undertake hedge transactions and enter into derivatives. The objective of our current risk management strategy is to hedge the risk of changes in fair value attributable to interest rate risk with respect to a portion of our fixed rate debt.

The determination of fair value of derivatives is based on valuation models that use observable market quotes or projected cash flows and our view of the

creditworthiness of the derivative counterparty. If a derivative is no longer

deemed to qualify as an effective hedge, changes in the fair value of that derivative could significantly affect our non-operating income or expense.

## ACQUIRED IN-PROCESS RESEARCH AND DEVELOPMENT CHARGES

In-process research and development charges are recorded in connection with acquisitions and represent the value assigned to acquired assets which have not yet reached technological feasibility and for which there is no alternative use. Fair value is generally assigned to these assets based on the net present value of the projected cash flows expected to be generated by those assets. Significant assumptions underlying these cash flows include our assessment of the timing and our ability to successfully complete the in-process research and development project, projected cash flows associated with the successful completion of the project, and interest rates used to discount these cash flows to their present value.

## AMORTIZATION PERIODS

We provide for amortization using the straight-line method over the estimated useful lives of acquired intangible assets. We base the determination of these useful lives on the period over which we expect the related assets to contribute to our cash flows or a shorter period such that recognition of the amortization better corresponds with the distribution of expected revenues. If our assessment of the useful lives of intangible assets changes, we may change future amortization expense.

## LOSS CONTINGENCIES

We are subject to claims and lawsuits in the ordinary course of our business, including claims by employees or former employees, with respect to our products and involving commercial disputes. Our financial statements do not reflect any material amounts related to possible unfavorable outcomes of claims and lawsuits to which we are currently a party because we currently believe that such claims and lawsuits are either adequately covered by insurance or otherwise indemnified, or are not expected, individually or in the aggregate, to result in a material adverse effect on our financial condition. However, it is possible that our results of operations, financial position and cash flows in a particular period could be materially affected by these contingencies if we change our assessment of the likely outcome of these matters.

## OTHER MATTERS

## RECENTLY ISSUED ACCOUNTING STANDARDS

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement No. 123 (revised 2004), "Share-Based Payment," which is a revision of Statement No. 123, "Accounting for Stock-Based Compensation." Statement 123(R) replaces APB Opinion No. 25, "Accounting for Stock Issued to Employees," and amends Statement No. 95, "Statement of Cash Flows." Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair value. Pro forma footnote disclosure will no longer be an alternative to financial statement recognition.

Statement 123(R) must be adopted no later than July 1, 2005. We expect to adopt Statement 123(R) on July 1, 2005. Statement 123(R) permits companies to adopt its requirements using either the "modified prospective" method or the "modified retrospective" method. Management is currently evaluating the potential impact of Statement 123(R) on our consolidated financial position and results of operations and the alternative adoption methods.

In November 2004, the FASB issued Statement No. 151, "Inventory Costs-an amendment of ARB No. 43, Chapter 4" (Statement 151), which is effective beginning January 1, 2006. Statement 151 requires that abnormal amounts of idle facility expense, freight, handling costs and wasted material be recognized as current period charges. Statement 151 also requires that the allocation of fixed production overhead be based on the normal capacity of the production facilities. We are currently assessing the potential effect that Statement 151 could have on the our financial position or results of operations.

In October 2004, the FASB Emerging Issue Task Force (EITF) reached a consensus on Issue 04-08 "The Effect of Contingently Convertible Instruments on Diluted Earnings per Share" that requires issuers of contingent convertible securities to account for these securities on an "if-converted" basis pursuant to Statement of Financial Accounting Standards No. 128 "Earnings Per Share", in computing their diluted earnings per share whether or not the issuer's stock is above the

contingent conversion price. The provisions of Issue 04-08 are effective for all periods ending

after December 15, 2004 and we have applied them on a retroactive basis. We have restated all earnings per share amounts to reflect the impact of Issue 04-08. We reduced previously disclosed 2003 diluted net income per share by $0.02 to $0.86. We present restated quarterly diluted net income per share for 2004 and 2003 in Note 15 to our consolidated financial statements.

In March 2004, the EITF reached a consensus on Issue 03-01, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments". Issue 03-01 provides guidance regarding recognition and measurement of unrealized losses on available-for-sale debt and equity securities accounted for under Statement of Financial Accounting Standard No. 115, "Accounting for Certain Investments in Debt and Equity Securities". The application of certain paragraphs covering the measurement provisions of Issue 03-01 have been deferred pending the issuance of a final FASB Staff Position providing implementation guidance on Issue 03-01. The disclosures are effective in annual financial statements for fiscal years ending after December 15, 2003. Management is currently assessing the impact that the recognition and measurement provisions of Issue 03-01 could have on our financial statements.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various market risks, including changes in foreign currency exchange rates and interest rates that could adversely impact our results of operations and financial condition. To manage the volatility relating to these typical business exposures, we may enter into various derivative transactions when appropriate. We do not hold or issue derivative instruments for trading or other speculative purposes.

### FOREIGN CURRENCY EXCHANGE RATE RISK

Because we have operations based in Europe and we generate revenues and incur operating expenses in euros and British pounds, we will experience currency exchange risk with respect to those foreign currency denominated revenues or expenses. In 2004, the total cost of products we manufacture in or purchase in foreign currencies and other operating expenses that we incur in foreign currencies exceeded our total foreign currency-denominated revenues. We expect this imbalance to continue into 2005. A further weakening of the dollar against the euro and British pound could negatively affect future gross margins and operating margins.

In November 2004, we entered into a collar contract for 38.5 million euros expiring in January 2005 to reduce our exposure to fluctuations in the exchange rate between the euro and the US dollar as a result of our commitment to acquire Newdeal in January 2005 for 38.5 million euros (see Note 16 to the financial statements). The collar contract did not qualify as a hedge under SFAS No. 133. Accordingly, the collar contract is recorded at fair value and changes in fair value are recorded in other income (expense), net. In 2004, we recorded a $1.4 million gain related to the change in the fair value of the collar contract.

Other than this foreign currency collar, we do not use derivative financial instruments to manage operating foreign currency risk. As the volume of our business transacted in foreign currencies increases, we will continue to assess the potential effects that changes in foreign currency exchange rates could have on our business. If we believe this potential impact presents a significant risk to our business, we may enter into additional derivative financial instruments to mitigate this risk.

### INTEREST RATE RISK - MARKETABLE DEBT SECURITIES

We are exposed to the risk of interest rate fluctuations on the fair value and interest income earned on our cash and cash equivalents and investments in available-for-sale marketable debt securities. A hypothetical 100 basis point movement in interest rates applicable to our cash and cash equivalents and investments in marketable debt securities outstanding at December 31, 2004 would increase or decrease interest income by approximately $2.0 million on an annual basis. We are not subject to material foreign currency exchange risk with respect to these investments.

### INTEREST RATE RISK - LONG TERM DEBT AND RELATED HEDGING INSTRUMENTS

We are exposed to the risk of interest rate fluctuations on the net interest received or paid under the terms of an interest rate swap. At December 31, 2004, we had outstanding a $50.0 million notional amount interest rate swap used to hedge the risk of changes in fair value attributable to interest rate risk with respect to a portion of our $120.0 million principal amount fixed rate 2 1/2% contingent convertible subordinated notes due March 2008. We receive a 2 1/2% fixed rate from the counterparty, payable on a semi-annual basis, and pay to the

counterparty a floating rate based on 3-month LIBOR minus 35 basis points, payable on a quarterly basis. The floating rate resets each quarter. The interest rate swap agreement terminates on March 15, 2008, subject to early termination upon the occurrence of

certain events, including redemption or conversion of our contingent convertible notes. Our effective interest rate payable on the floating rate portion of the swap was 1.6% as of December 31, 2004.

Our interest rate swap agreement qualifies as a fair value hedge under SFAS No. 133, as amended, "Accounting for Derivative Instruments and Hedging Activities." At December 31, 2004, the net fair value of the interest rate swap approximated $1.4 million and is included in other liabilities. The net fair value of the interest rate swap represents the estimated receipts or payments that would be made to terminate the agreement. A hypothetical 100 basis point movement in interest rates applicable to the interest rate swap would increase or decrease interest expense by approximately $500,000 on an annual basis.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Financial statements and the financial statement schedules specified by this Item, together with the reports thereon of PricewaterhouseCoopers LLP, are presented following Item 15 of this report.

Information on quarterly results of operations is set forth in our financial statements under Notes to Consolidated Financial Statements, Note 15 - Selected Quarterly Information - unaudited.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow for timely decisions regarding required disclosure. Disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Management has designed our disclosure controls and procedures to provide reasonable assurance of achieving the desired control objectives.

As required by Exchange Act Rule 13a-15(b), we have carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the quarter covered by this report. Based on the foregoing, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control - Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2004. Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2004 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also

can be circumvented by collusion or improper management override.

Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

## CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

In August 2004, we implemented in our main business units a new enterprise business system, which included the following modules: order management, procurement and payables, general ledger (including receivables, inventory and fixed assets), manufacturing and human resources. As of August 15, 2004, all of our business units subject to this implementation began using the new system. The implementation has involved changes in systems that included internal control over financial reporting, and accordingly, these changes have required changes to our system of internal control over financial reporting. We have reviewed each system as it is being implemented and the internal control over financial reporting affected by the implementation of the new systems and made appropriate changes to affected internal control over financial reporting as we implemented the new systems.

## ITEM 9B. OTHER INFORMATION

Not applicable.

# PART III

## INCORPORATED BY REFERENCE

The information called for by Item 10. Directors and Executive Officers of the Registrant (other than the information concerning executive officers set forth after Item 4 of Part I herein), Item 11. Executive Compensation, Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, Item 13. Certain Relationships and Related Transactions and Item 14 Principal Accountant Fees and Services is incorporated herein by reference to the Company's definitive proxy statement for its Annual Meeting of Stockholders scheduled to be held on May 17, 2005, which definitive proxy statement is expected to be filed with the Commission not later than 120 days after the end of the fiscal year to which this report relates.

# PART IV

## ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Documents filed as a part of this report.

1. Financial Statements.

The following financial statements and financial statement schedules are filed as a part of this report.


Report of Independent Registered Public Accounting Firm ................. F-1
Consolidated Statements of Operations for the years ended December 31, 2004, 2003 and 2002 ...................................... F-3
Consolidated Balance Sheets as of December 31, 2004 and 2003 ............ F-4
Consolidated Statements of Cash Flows for the years ended December 31, 2004, 2003 and 2002 ...................................... F-5
Consolidated Statements of Changes in Stockholders' Equity For the years ended December 31, 2004, 2003 and 2002 ................. F-6
Notes to Consolidated Financial Statements ............................. F-7


2. Financial Statement Schedules.

Financial Statement Schedule

All other schedules not listed above have been omitted, because they are not applicable or are not required, or because the required information is included in the consolidated financial statements or notes thereto.

3. Exhibits required to be filed by Item 601 of Regulation S-K.

Exhibit in Incorporated Filing -------- ----------- 3.1(a) Amended and Restated Certificate of Incorporation of the Company (2) (Exh. 3.1) 3.1(b) Certificate of Amendment to Amended and Restated Certificate of Incorporation dated May 22, 1998 (3) (Exh. 3.1(b)) 3.1(c) Certificate of Amendment to Amended and Restated Certificate of Incorporation dated May 17, 1999 (1) 3.2 Amended and Restated By-laws of the Company (23) (Exh. 3.1) 4.1 Indenture, dated as of March 31, 2003, between the Company and Wells Fargo Bank Minnesota, National Association (17) (Exh. 4.1) 4.2 Registration Rights Agreement, dated as of March 31, 2003, between the Company and Credit Suisse First Boston, LLC, Banc of America Securities LLC and U.S. Bancorp Piper Jaffray Inc. (18) (Exh. 4.3) 10.1 Lease between Plainsboro Associates and American Biomaterials Corporation dated as of April 16, 1985, as assigned to Colla-Tec, Inc.

on October 24, 1989 and as amended through November 1, 1992 (2) (Exh. 10.30) 10.2 Equipment Lease Agreement between Medicus Corporation and the Company, dated as of June 1, 2000 (9) (Exh. 10.1) 10.3 Form of Indemnification Agreement between the Company and [ ] dated August 16, 1995, including a schedule identifying the individuals that are a party to such Indemnification Agreements (4) (Exh. 10.37) 10.4 1993 Incentive Stock Option and Non-Qualified Stock Option Plan* (2) (Exh. 10.32) 10.5(a) 1996 Incentive Stock Option and Non-Qualified Stock Option Plan* (5) (Exh. 4.3) 10.5(b) Amendment to 1996 Incentive Stock Option and Non-Qualified Stock Option Plan* (7) (Exh. 10.4) 10.6 1998 Stock Option Plan* (6) (Exh. 4.1) 10.7 1999 Stock Option Plan* (8) (Exh. 10.13) 10.8 Employee Stock Purchase Plan* (21) (App. B) 10.9 Deferred Compensation Plan* (8) (Exh. 10.15) 10.10 2000 Equity Incentive Plan* (11) (Exh. 10.17) 10.11 2001 Equity Incentive Plan* (12) (Exh. 4) 10.12 2003 Equity Incentive Plan* (16) (App. A) 10.13 Second Amended and Restated Employment Agreement dated

July 27, 2004 between the Company and Stuart M. Essig* (22) (Exh. 10.1)

10.14 Indemnity letter agreement dated December 27, 1997 from the Company to Stuart M. Essig* (7) (Exh. 10.5)

10.15(a) Registration Rights Provisions for Stuart Essig* (7) (Exh. 10.1, Exh. B)

10.15(b) Registration Rights Provisions for Stuart Essig* (10) (Exh. 10.2)

10.15(c) Registration Rights Provisions for Stuart Essig* (22) (Exh. 10.1, Exh. B)

10.16 Amended and Restated Employment Agreement between John B. Henneman, III and the Company dated October 31, 2003* (19) (Exh. 10.2)

| | | |
|---|---|---|
| 10.17 | Employment Agreement between Gerard Carlozzi and the Company dated September 25, 2003* (19) | (Exh. 10.1) |
| 10.18 | Employment Agreement between Judith O'Grady and the Company dated February 20, 2003* (14) | (Exh. 10.17) |
| 10.19 | Employment Agreement between David B. Holtz and the Company dated September 10, 2002* (13) | (Exh. 10.38) |
| 10.20 | Employment Agreement between Donald R. Nociolo and the Company dated February 20, 2003* (20) | (Exh. 10.20) |
| 10.21 | Retention Agreement between Robert Paltridge and the Company dated February 20, 2003* (17) | (Exh. 10.1) |
| 10.22 | Severance Agreement between Deborah Leonetti and the Company dated February 20, 2003* (1) | |
| 10.23(a) | Lease Contract dated June 30, 1994 between the Puerto Rico Industrial Development Company and Heyer-Schulte NeuroCare, Inc. (8) | (Exh. 10.32) |
| 10.23(b) | Construction and Lease Contract dated June 30, 1994 between the Puerto Rico Industrial Development Company and Integra NeuroSciences P.R., Inc. (1) | |
| 10.24(a) | Industrial Real Estate Triple Net Sublease dated July 1, 2001 between Sorrento Montana, L.P. and Camino NeuroCare, Inc. (1) | |
| 10.24(b) | First Amendment to Sublease dated as of July 1, 2003 by and between Sorrento Montana, L.P. and Camino NeuroCare, Inc. (1) | |
| 10.24(c) | Second Amendment to Sublease dated as of June 1, 2004 by and between Sorrento Montana, L.P. and Camino NeuroCare, Inc. (1) | |
| 10.24(d) | Third Amendment to Sublease dated as of June 15, 2004 by and between Sorrento Montana, L.P. and Integra LifeSciences Corporation (1) | |
| 10.25 | Stock Purchase Agreement, dated as of March 17,2003, among Integra LifeSciences Corporation and Howard Jamner and other individual stockholders of J. Jamner Surgical Instruments, Inc. (15) | (Exh. 2.1) |
| 10.26 | Restricted Units Agreement dated December 27, 1997 between the Company and Stuart M. Essig* (7) | (Exh. 10.3) |
| 10.27 | Stock Option Grant and Agreement dated December 22, 2000 between the Company and Stuart M. Essig* (10) | (Exh. 4.1) |
| 10.28 | Stock Option Grant and Agreement dated December 22, 2000 between the Company and Stuart M. Essig* (10) | (Exh. 4.2) |
| 10.29 | Restricted Units Agreement dated December 22, 2000 Between the Company and Stuart M. Essig* (10) | (Exh. 4.3) |
| 10.30 | Stock Option Grant and Agreement dated July 27, 2004 between the Company and Stuart M. Essig* (1) | |
| 10.31 | Contract Stock/Restricted Units Agreement dated July 27, 2004 between the Company and Stuart M. Essig* (1) | |
| 10.32 | Form of Stock Option Grant and Agreement between the Company and Stuart M. Essig* (1) | |
| 10.33 | Share Purchase Agreement dated November 10, 2004 between Integra LifeSciences Corporation and Eric Fourcault, Theo Knevels, Jean-Christophe Giet and Bertrand Gauneau (1) | |
| 10.34 | Form of Notice of Grant of Stock Option and Stock Option Agreement* (1) | |

| | |
|---|---|
| 10.35 | Form of Non-Qualified Stock Option Agreement (Non-Directors)* (1) |
| 10.36 | Form of Incentive Stock Option Agreement* (1) |
| 10.37 | Form of Non-Qualified Stock Option Agreement (Directors)* (1) |

10.38 Compensation of Directors of the Company* (1)

21 Subsidiaries of the Company (1)

23 Consent of PricewaterhouseCoopers LLP (1)

31.1 Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (1)

31.2 Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (1)

32.1 Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (1)

32.2 Certification of Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (1)

* Indicates a management contract or compensatory plan or arrangement.

(1) Filed herewith.

(2) Incorporated by reference to the indicated exhibit to the Company's Registration Statement on Form 10/A (File No. 0-26224) which became effective on August 8, 1995.

(3) Incorporated by reference to the indicated exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 1998.

(4) Incorporated by reference to the indicated exhibit to the Company's Registration Statement on Form S-1 (File No. 33-98698) which became effective on January 24, 1996.

(5) Incorporated by reference to the indicated exhibit to the Company's Registration Statement on Form S-8 (File No. 333-06577) filed on June 21, 1996.

(6) Incorporated by reference to the indicated exhibit to the Company's Registration Statement on Form S-8 (File No. 333-58235) filed on June 30, 1998.

(7) Incorporated by reference to the indicated exhibit to the Company's Report on Form 8-K filed on February 3, 1998.

(8) Incorporated by reference to the indicated exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 1999.

(9) Incorporated by reference to the indicated exhibit to the Company's Report on Form 10-Q for the quarter ended June 30, 2000.

(10) Incorporated by reference to the indicated exhibit to the Company's Report on Form 8-K filed on January 8, 2001.

(11) Incorporated by reference to the indicated exhibit to the Company's Annual Report on Form 10-K for the year ended December 31, 2000 as filed on April 2, 2001.

(12) Incorporated by reference to the indicated exhibit to the Company's Registration Statement on Form S-8 (File No. 333-73512) filed on November 16, 2001.

(13) Incorporated by reference to the indicated exhibit to the Company's Report on Form 10-Q for the quarter ended September 30, 2002.

(14) Incorporated by reference to the indicated exhibit to the Company's Report on Form 10-K for the year ended December 31, 2002.

(15) Incorporated by reference to the indicated exhibit to the Company's

Report on Form 8-K filed on March 25, 2003.

(16) Incorporated by reference to the indicated exhibit to the Company's Definitive Proxy Statement on Form 14A filed on April 17, 2003.

(17) Incorporated by reference to the indicated exhibit to the Company's Report on Form 10-Q for the quarter ended March 31, 2003.

(18) Incorporated by reference to the indicated exhibit to the Company's Registration Statement on Form S-3 filed on June 30, 2003 (File No. 333-106625).

(19) Incorporated by reference to the indicated exhibit to the Company's Report on Form 10-Q for the quarter ended September 30, 2003.

(20) Incorporated by reference to the indicated exhibit to the Company's Report on Form 10-K for the year ended December 31, 2003.

(21) Incorporated by reference to the indicated exhibit to the Company's Definitive Proxy Statement on Form 14A filed on April 12, 2004.

(22) Incorporated by reference to the indicated exhibit to the Company's Report on Form 10-Q for the quarter ended September 30, 2004.

(23) Incorporated by reference to the indicated exhibit to the Company's Report on Form 8-K filed on February 24, 2005.

SIGNATURES

Pursuant to the requirements of Section 13 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: March 16, 2005    By: /s/ Stuart M. Essig
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Stuart M. Essig
President and Chief Executive 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 in the capacities indicated.

Signature
Title Date
----------
- -------
------ /s/
Stuart M.
Essig
President,
Chief
March 16,
2005 - ---
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Executive
Officer
and Stuart
M. Essig
Director
(Principal
Executive
Officer)
/s/ David
B. Holtz
Senior
Vice
President,
March 16,
2005 - ---
----------
----------
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Finance
and
Treasurer
David B.
Holtz
(Principal
Financial
and
Accounting
Officer)
/s/
Richard E.
Caruso
Chairman
of the
Board
March 16,
2005 - ---
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Richard E.
Caruso,
Ph.D. /s/
Keith

Bradley
Director
March 16,
2005 - ---
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Keith
Bradley,
Ph.D. /s/
David Auth
Director
March 16,
2005 - ---
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David Auth
/s/ Neal
Moszkowski
Director
March 16,
2005 - ---
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Neal
Moszkowski
/s/ James
M.
Sullivan
Director
March 16,
2005 - ---
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James M.
Sullivan
/s/ Anne
M. VanLent
Director
March 16,
2005 - ---
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Anne M.
VanLent

# REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Integra LifeSciences Holdings Corporation and Subsidiaries

We have completed an integrated audit of Integra LifeSciences Holdings Corporation's 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2004 and audits of its 2003 and 2002 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedule

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) "Exhibits and Financial Statement Schedules" present fairly, in all material respects, the financial position of Integra LifeSciences Holdings Corporation and its Subsidiaries (the Company) at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements 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. An audit of financial statements 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, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control Over Financial Reporting appearing in Item 9A "Controls and Procedures", that the Company maintained effective internal control over financial reporting as of December 31, 2004 based on criteria established in Internal Control -- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control -- Integrated Framework issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting 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 effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Florham Park, New Jersey
March 15, 2005

INTEGRA LIFESCIENCES HOLDINGS CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

In thousands, except per share amounts

| Years Ended December 31, | 2004 | 2003 | 2002 |
|---|---|---|---|
| Total revenues | $229,825 | $185,599 | $117,822 |
| COSTS AND EXPENSES | | | |
| Cost of product revenue | 87,299 | 70,597 | 45,772 |
| Research and development | 14,121 | 12,814 | 11,517 |
| Selling, general and administrative | 99,360 | 59,461 | 39,702 |
| Amortization | 4,266 | 3,080 | 1,644 |
| Total costs and expenses | 205,046 | 145,952 | 98,635 |
| Operating income | 24,779 | 39,647 | 19,187 |
| Interest income | 4,030 | 3,195 | 3,575 |
| Interest expense | (3,475) | (2,724) | (40) |
| Other income (expense), net | 2,674 | 3,071 | 3 |
| Income before income taxes | 28,008 | 43,189 | 22,725 |
| Income tax expense (benefit) | 10,811 | 16,328 | (12,552) |
| Net income | $ 17,197 | $ 26,861 | $ 35,277 |
| Basic net income per share | $ 0.57 | $ 0.92 | $ 1.21 |
| Diluted net income per share | $ 0.55 | $ 0.86 | $ 1.14 |
| Weighted average common shares outstanding: | | | |
| Basic | 30,064 | 29,071 | 29,021 |
| Diluted | 31,102 | 33,104 | 30,720 |

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

INTEGRA LIFESCIENCES HOLDINGS CORPORATION
CONSOLIDATED BALANCE SHEETS

| In thousands, except per share amounts | December 31, 2004 | 2003 |
|---|---|---|
| **ASSETS** | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 69,855 | $ 26,054 |
| Short-term investments | 30,955 | 82,492 |
| Trade accounts receivable, net of allowances of $2,749 and $2,025 | 46,765 | 28,936 |
| Inventories | 55,947 | 41,046 |
| Prepaid expenses and other current assets | 12,716 | 13,093 |
| Total current assets | 216,238 | 191,621 |
| Noncurrent investments | 95,172 | 98,197 |
| Property, plant, and equipment, net | 25,461 | 20,072 |
| Deferred income taxes, net | 15,787 | 17,641 |
| Goodwill | 39,237 | 26,683 |
| Intangible assets, net | 59,817 | 52,435 |
| Other assets | 5,001 | 5,877 |
| Total assets | $ 456,713 | $ 412,526 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current Liabilities: | | |
| Accounts payable, trade | $ 10,160 | $ 7,947 |
| Income taxes payable | 1,022 | 774 |
| Accrued compensation | 4,212 | 3,726 |
| Accrued expenses and other current liabilities | 8,840 | 8,171 |
| Total current liabilities | 24,234 | 20,618 |
| Long term debt | 118,900 | 119,257 |
| Deferred revenue | 310 | 418 |
| Other liabilities | 5,446 | 3,703 |
| Total liabilities | 148,890 | 143,996 |
| Commitments and contingencies | | |
| Stockholders' Equity: | | |
| Common stock; $.01 par value; 60,000 authorized shares; 29,202 and 28,611 issued | 292 | 286 |
| Additional paid-in capital | 320,602 | 286,716 |
| Treasury stock, at cost; 718 and 218 shares | (19,474) | (5,236) |
| Other | -- | (5) |
| Accumulated other comprehensive income (loss): | | |
| Unrealized gain (loss) on available-for-sale securities, net of tax | (818) | 63 |
| Foreign currency translation adjustment | 9,266 | 5,400 |
| Minimum pension liability adjustment, net of tax | (1,780) | (1,232) |
| Accumulated deficit | (265) | (17,462) |
| Total stockholders' equity | 307,823 | 268,530 |
| Total liabilities and stockholders' equity | $ 456,713 | $ 412,526 |

The accompanying notes are an integral part of these consolidated financial

statements

INTEGRA LIFESCIENCES HOLDINGS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

| In thousands | Years Ended December 31, 2004 | 2003 | 2002 |
|---|---|---|---|
| OPERATING ACTIVITIES: | | | |
| Net income | $ 17,197 | $ 26,861 | $ 35,277 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 9,087 | 7,030 | 5,020 |
| In process research and development charge | -- | 400 | 2,328 |
| Deferred tax provision (benefit) | 6,101 | 12,357 | (13,401) |
| Amortization of discount and premium on investments | 2,505 | 2,013 | 2,142 |
| Stock-based compensation | 23,572 | 26 | 31 |
| Other, net | 696 | 776 | 157 |
| Changes in assets and liabilities, net of business acquisitions: | | | |
| Accounts receivable | (13,287) | (4,819) | (2,109) |
| Inventories | (9,738) | (1,829) | 1,153 |
| Prepaid expenses and other current assets | (1,949) | (505) | (1,131) |
| Non-current assets | (169) | 480 | 185 |
| Accounts payable, accrued expenses and other liabilities | 6,029 | 2,537 | (90) |
| Customer advances and deposits | (959) | (6,431) | 2,565 |
| Deferred revenue | (110) | (4,070) | (142) |
| Net cash provided by operating activities | $ 38,975 | $ 34,826 | $ 31,985 |
| INVESTING ACTIVITIES: | | | |
| Proceeds from the sales/maturities of investments | 241,440 | 287,558 | 35,402 |
| Purchases of available for sale investments | (190,888) | (360,470) | (57,713) |
| Purchases of property and equipment | (8,508) | (3,843) | (2,254) |
| Payment of product license fee | -- | (1,500) | -- |
| Cash used in business acquisitions, net of cash acquired | (29,302) | (50,405) | (25,015) |
| Net cash provided by (used in) investing activities | $ 12,742 | $(128,660) | $ (49,580) |
| FINANCING ACTIVITIES: | | | |
| Repayment of note payable and bank loans | -- | -- | (3,600) |
| Proceeds from exercised stock options and warrants | 6,123 | 14,152 | 3,323 |
| Purchases of treasury stock | (14,238) | (35,402) | (1,761) |
| Proceeds from issuance of convertible notes, net | -- | 115,923 | -- |
| Net cash provided by (used in) financing activities | $ (8,115) | $ 94,673 | $ (2,038) |
| Effect of exchange rate changes on cash and cash equivalents | 199 | 232 | 98 |
| Net increase (decrease) in cash and cash equivalents | $ 43,801 | 1,071 | (19,535) |
| Cash and cash equivalents at beginning of period | 26,054 | 24,983 | 44,518 |
| Cash and cash equivalents at end of period | $ 69,855 | $ 26,054 | $ 24,983 |
| Cash paid during the year for interest | $ 2,331 | $ 1,476 | $ 20 |
| Cash paid during the year for income taxes | 1,789 | 1,309 | 1,435 |

Supplemental non-cash disclosure: Property

and equipment purchases included in liabilities
.......... $ 969 2,000 --

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

INTEGRA LIFESCIENCES HOLDINGS CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

In thousands Accumulated Additional Other Preferred Common Treasury Paid-In Comprehensive Accumulated Total Stock Stock Stock Capital Other Income (Loss) Deficit Equity --------- ------- -------- -------- -- ------ ------------ ---------- ---------- Balance, December 31, 2001 ............ 1 261 (51) 284,021 (37) (539) (79,600) $ 204,056 ========= ======= ======== ========= ====== ============= =========== ========= Net income ........................... 35,277 35,277 Unrealized losses on investments, net of tax ........................ 624 624 Foreign currency translation .......... 2,394 2,394 Minimum pension liability adjustment, net of tax ........................ (1,011) (1,011) -------- Total comprehensive income ..... $ 37,284 ======== Conversion of 54 shares of Series C Preferred Stock into 600 shares of common stock .................... (1) 6 (5) -- Issuance of 475 shares of common stock through employee benefit plans ............................. 5 3,288 3,293 Stock-based compensation .............. 9 22 31 Tax benefit related to stock option exercises .......................... 4,694 4,694 Repurchase 100 shares of common stock .............................. (1,761) (1,761) Balance, December 31, 2002 ............ $ -- $ 272 $ (1,812) $ 292,007 $ (15) $ 1,468 $ (44,323) $247,597 ========= ========= ========= ========== ========= ============= ========== ======== Net income............................ 26,861 26,861 Realized gains on investments.......... (210) (210) Unrealized losses on investments, net of tax ........................ (588) (588) Foreign currency translation........... 3,673 3,673 Minimum pension liability adjustment, net of tax ...................... (112) (112) --------- Total comprehensive income...... $ 29,624 ========= Issuance of 1,788 shares of common stock through employee benefit plans.............................. 4 31,978 (17,880) 14,102 Warrants exercised for cash............ 50 50 Conversion of 1,000 Restricted Units into 1,000 shares of common stock .. 10 (10) -- Stock-based compensation .............. 16 10 26 Tax benefit related to stock option exercises.......................... 12,533 12,533 Repurchase 1,503 shares of common

stock............................... (35,402) (35,402) Balance, December 31, 2003 ............ $ -- $ 286 $ (5,236) $ 286,716 $ (5) $ 4,231 $ (17,462) $268,530 ========= ========= ========= ========== ========= ============= =========== ======== Net income............................. 17,197 17,197 Realized gains on investments.......... 88 88 Unrealized losses on investments, net of tax ......................... (969) (969) Foreign currency translation........... 3,833 3,833 Minimum pension liability adjustment, net of tax ....................... (548) (548) -------- Total comprehensive income...... $ 19,601 ======== Issuance of 592 shares of common stock through employee benefit plans............................... 6 6,492 6,498 Issuance of contract stock unit award for 750 shares of common stock ..... 23,535 23.535 Other stock-based compensation ........ 30 5 35 Tax benefit related to stock option exercises.......................... 3,829 3,829 Repurchase 500 shares of common stock.. (14,238) (14,238) Balance, December 31, 2004............$ -- $ 292 $(19,474) $ 320,602 $ -- $ 6,635 $ (265) $307,790 ========= ========= ========= ========== ========= ============= =========== ========

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

## 1. BUSINESS

Integra LifeSciences Holdings Corporation (the "Company") develops, manufactures, and markets medical devices for use in neuro-trauma, neurosurgery, reconstructive surgery, and general surgery. The Company's product lines include innovative tissue repair products that incorporate the Company's proprietary absorbable implant technology, such as the DuraGen(R) Dural Graft Matrix, the DuraGen Plus(TM) Dural Regeneration Matrix, the NeuraGen(TM) Nerve Guide and NeuraWrap(TM) Nerve Protector, the INTEGRA(R) Dermal Regeneration Template, and the INTEGRA(TM) Bilayer Matrix and INTEGRA(TM) Matrix Wound Dressing. In addition, we offer a full range of medical devices to include monitoring and drainage systems, surgical instruments and fixation systems.

The Company sells its products directly through various sales forces and through a variety of other distribution channels.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All intercompany accounts and transactions are eliminated in consolidation.

### REVISION

In 2004, we determined that our investments in auction rate securities should be classified as short term investments. Auction rate securities are reset to current interest rates periodically, but no later than every 90 days. These securities were previously recorded in cash and cash equivalents due to the liquidity provided by their short-term pricing reset features and the Company's ability to liquidate them in monthly auctions. Prior period balance sheet and cash flow information has been revised to conform to the current year presentation. Short term investments at December 31, 2004 and 2003, include $0 and $52.9 million, respectively, of auction rate securities. Cash flows from investing activities decreased by $34.3 million and $18.6 million in 2003 and 2002, respectively, and in 2004 included $52.9 million in cash provided by the sale of these securities. There was no impact on the Company's net income or cash flows from operations or financing activities as a result of this revision. The Company does not have any debt covenants that are affected by reported cash balances.

Certain other prior year amounts have been reclassified to conform to the current year presentation.

### CASH AND CASH EQUIVALENTS

The Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

FINANCIAL INSTRUMENTS

Investments in marketable debt and equity securities are classified and accounted for as available-for-sale securities and are carried at fair value, which is based on quoted market prices. Unrealized gains and losses are reported as a component of accumulated other comprehensive income (loss). Realized gains and losses are determined on the specific identification cost basis and reported in other income (expense), net. Investment balances as of December 31, 2004 and 2003 were as follows:

| | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
|---|---|---|---|---|
| | (in thousands) | | | |
| 2004 | | | | |
| Marketable Securities, current | | | | |
| Corporate Debt Securities with continuous unrealized losses less than 1 year .......... | $ 16,273 | $ 0 | $ (122) | $ 16,151 |
| Corporate Debt Securities with continuous unrealized losses greater than 1 year ....... | 7,919 | 0 | (66) | 7,853 |
| U.S. Government Debt Securities with continuous unrealized losses less than 1 year .......... | 6,999 | 0 | (48) | 6,951 |
| Total marketable securities, current ........... | $ 31,191 | $ 0 | $ (236) | $ 30,955 |
| Marketable Securities, non-current | | | | |
| Corporate Debt Securities with continuous unrealized losses less than 1 year .......... | $ 29,510 | $ 0 | $ (374) | $ 29,136 |
| Corporate Debt Securities with continuous unrealized losses greater than 1 year ....... | 15,198 | 0 | (167) | 15,031 |
| Corporate Debt Securities with unrealized gains .... | 4,069 | 30 | 0 | 4,099 |
| U.S. Government Debt Securities with continuous unrealized losses less than 1 year .......... | 45,456 | 0 | (557) | 44,899 |
| Other Securities with continuous unrealized losses less than 1 year | | | | |

.......... 2,045 0
(38) 2,007 ------- -
------ ------- -----
-- Total marketable
securities, non-
current ........ $
96,278 $ 30 $(1,136)
$ 95,172 2003: - ---
-- Marketable
securities, current
.....................
$82,471 $ 22 $ (1) $
82,492 Marketable
securities, non-
current
.................
98,152 156 (111)
98,197 ------- -----
-- -------- --------
$ 180,623 $ 178 $
(112) $180,689

The primary reason for the unrealized losses on the Company's marketable debt securities is the recent increase in interest rates since the Company acquired these investments. Management does not believe that the unrealized losses on these marketable securities are other than temporary because of its intent and ability to hold these investments for a sufficiently long period of time such that recovery of these unrealized losses is expected as the investments get closer to their maturity. The maturity dates or interest rate reset periods for marketable debt securities classified as current are less than one year. The maturity dates for marketable debt securities classified as non-current are less than 45 months and less than 60 months as of December 31, 2004 and 2003, respectively.

The fair value of the Company's $120.0 million principal amount 2 1/2% contingent convertible subordinated notes outstanding at December 31, 2004 and 2003 was $115.5 million and $116.7 million, respectively.

The carrying values of all other financial instruments were not materially different from their estimated fair values.

TRADE ACCOUNTS RECEIVABLE, ALLOWANCES FOR DOUBTFUL ACCOUNTS RECEIVABLE AND SALES RETURNS

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The Company grants credit to customers in the normal course of business, but generally does not require collateral or any other security to support its receivables.

The Company evaluates the collectibility of accounts receivable based on a combination

of factors. In circumstances where a specific customer is unable to meet its financial obligations to us, a provision to the allowances for doubtful accounts is recorded against amounts due to reduce the net recognized receivable to the amount that is reasonably expected to be collected. For all other customers, a provision to the allowances for doubtful accounts is recorded based on the length of time the receivables are past due, the current business environment and our historical experience. Provisions to the allowances for doubtful accounts are recorded to selling, general and administrative expenses. Account balances are charged off against the allowance when we feel it is probable the receivable will not be recovered.

The Company records a provision for estimated returns and allowances on product sales in the same period as the related revenues are recorded. These estimates are based on historical sales returns and other known factors. The provisions are recorded as a reduction to revenues.

INVENTORIES

Inventories, consisting of purchased materials, direct labor and manufacturing overhead, are stated at the lower of cost, the value determined by the first-in, first-out method, or market. Inventories consisted of the following:

| | December 31, 2004 | 2003 |
|---|---|---|
| | (in thousands) | |
| Finished goods .......................... | $ 36,490 | $ 26,239 |
| Work in process .......................... | 7,496 | 5,069 |
| Raw materials ........................... | 11,961 | 9,738 |
| | $ 55,947 | $ 41,046 |

At each balance sheet date, the Company evaluates ending inventories for excess quantities, obsolescence or shelf-life expiration. This evaluation includes analyses of historical sales levels by product and projections of future demand. To the extent that management determines there are excess, obsolete or expired inventory quantities, valuation reserves are recorded against all or a portion of the value of the related products.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost. The Company provides for depreciation using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the lesser of the lease term or the useful life. The cost of major additions and improvements is capitalized, while maintenance and repair costs that do not improve or extend the lives of the respective assets are charged to operations as incurred.

Property, plant and equipment balances and corresponding lives were as follows:

| | December 31, 2004 | 2003 | Lives |
|---|---|---|---|
| | (in thousands) | | |
| Land ...................................... | $ 941 | $ 892 | |
| Buildings and leasehold improvements ...... | 12,886 | 12,082 | 2 - 40 years |
| Machinery and equipment .................. | 19,369 | 19,498 | 3 - 15 years |
| Furniture ,fixtures and information systems | 11,569 | 3,277 | 5 - 7 years |
| Construction in progress ................. | 3,252 | 2,316 | |
| | 48,017 | 38,065 | |
| Less: Accumulated depreciation ............ | (22,556) | (17,993) | |
| | $ 25,461 | $ 20,072 | |

Depreciation expense associated with property, plant and equipment was $4.8 million, $3.9 million, and $3.4 million, in 2004, 2003, and 2002 respectively.

GOODWILL AND OTHER INTANGIBLE ASSETS

The excess of the cost over the fair value of net assets of acquired businesses is recorded as goodwill. Goodwill is not subject to amortization, but is reviewed for impairment at the reporting unit level annually, or more frequently if impairment indicators arise. The Company's assessment of the recoverability of goodwill is based upon a comparison of the carrying value of goodwill with its estimated fair value. The Company conducted its annual impairment review for goodwill as of June 30, 2004 and determined that its goodwill was not impaired.

Changes in the carrying amount of goodwill in 2004 and 2003 were as follows:

| | 2004 | 2003 |
|---|---|---|
| | (in thousands) | |
| Goodwill, net of accumulated amortization beginning of year ... | $26,683 | $22,073 |
| Acquisitions ... | 11,596 | 3,321 |
| Foreign currency translation ... | 958 | 1,318 |
| Goodwill, end of year ... | $39,237 | $26,683 |

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

| | Weighted Average Life | December 31, 2004 Cost | December 31, 2004 Accumulated Amortization | December 31, 2003 Cost | December 31, 2003 Accumulated Amortization |
|---|---|---|---|---|---|
| | | (in thousands) | | | |
| Completed technology ... | 14 years | $17,108 | $ (4,505) | $ 15,062 | $ (3,337) |
| Customer relationships ... | 20 years | 17,417 | (3,214) | 16,755 | (2,053) |
| Trademarks / brand names ... | 36 years | 28,689 | (1,862) | 25,235 | (1,017) |
| Noncompetetion agreements ... | 5 years | 6,352 | (1,198) | 765 | (265) |
| All other ... | 11 years | 2,233 | (1,203) | 2,144 | (854) |
| | | $71,799 | $(11,982) | $ 59,961 | $ (7,526) |
| Accumulated amortization ... | | (11,982) | | (7,526) | |
| | | $59,817 | | $ 52,435 | |

The Company does not have any indefinite life intangible assets.

Including the expected impact of intangible assets acquired in the acquisition of Newdeal Technologies SA in January 2005 (see Note 16), annual amortization expense is expected to approximate $6.1 million in 2005, $6.0 million in 2006, $5.7 million in 2007, $5.4 million in 2008, and $4.7 million in 2009.

Identifiable intangible assets are initially recorded at fair market value at the time of acquisition generally using an income or cost approach.

## LONG-LIVED ASSETS

Long-lived assets held and used by the Company, including property, plant and equipment and intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For purposes of evaluating the recoverability of long-lived assets to be held and used, a recoverability test is performed using projected undiscounted net cash flows applicable to the long-lived assets. If an impairment exists, the amount of such impairment is calculated based on the estimated fair value of the asset. Impairments to long-lived assets to be disposed of are recorded based upon the fair value of the applicable assets.

## INTEGRA FOUNDATION

The Company may periodically, at the discretion of its Board of Directors, make a contribution to the Integra Foundation, Inc. The Integra Foundation was incorporated in 2002 exclusively for charitable, educational, and scientific purposes and qualifies under IRC 501(c)(3) as an exempt private foundation. Under its charter, the Integra

Foundation engages in activities that promote health, the diagnosis and treatment of disease, and the development of medical science through grants, contributions and other appropriate means. The Integra Foundation is a separate legal entity and is not a subsidiary of the Company. Therefore, its results are not included in these consolidated financial statements. The Company contributed $2.0 million to the Integra Foundation in 2003, which was recorded in selling, general, and administrative expense.

DERIVATIVES

The Company reports all derivatives at their estimated fair value and records changes in fair value in current earnings or defers these changes until a related hedged item is recognized in earnings, depending on the nature and effectiveness of the hedging relationship. The designation of a derivative as a hedge is made on the date the derivative contract is executed. On an ongoing basis, the Company assesses whether each derivative continues to be highly effective in offsetting changes in the fair value or cash flows of hedged items. If and when a derivative is no longer expected to be highly effective, the Company discontinues hedge accounting. All hedge ineffectiveness is included in current period earnings in other income (expense), net.

The Company documents all relationships between hedged items and derivatives. The Company's overall risk management strategy describes the circumstances under which it may undertake hedge transactions and enter into derivatives. The objective of the Company's current risk management strategy is to hedge the risk of changes in fair value attributable to interest rate risk with respect to a portion of fixed rate debt.

The determination of fair value of derivatives is based on valuation models that use observable market quotes or projected cash flows and the Company's view of the creditworthiness of the derivative counterparty.

FOREIGN CURRENCY

All assets and liabilities of foreign subsidiaries are translated at the rate of exchange at year-end, while elements of the income statement are translated at the average exchange rates in effect during the year. The net effect of these translation adjustments is shown as a component of accumulated other comprehensive income (loss). These currency translation adjustments are not currently adjusted for income taxes as they relate to permanent investments in non-U.S. subsidiaries. Foreign currency transaction gains and losses are reported in other income (expense), net.

INCOME TAXES

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period when the change is enacted.

REVENUE RECOGNITION

Total revenues include product sales and product royalties and other operating revenues, such as fees received under research, licensing, and distribution arrangements, research grants, and technology-related royalties. Total revenues for 2004, 2003 and 2002 consisted of the following:

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Product sales and product royalties ............ | $ 228,490 | $ 166,695 | $ 112,625 |
| Other operating revenues ...................... | 1,335 | 18,904 | 5,197 |
| Total revenues ................................ | $ 229,825 | $ 185,599 | $ 117,822 |

Product sales are recognized when delivery has occurred and title has passed to the customer, there is a fixed or determinable sales price, and collectability of that sales price is reasonably assured. Product royalties are recognized as the royalty

products are sold by our customers and the amount earned by Integra is fixed and determinable.

Other operating revenues include fees received under research, licensing, and distribution arrangements, technology-related royalties, and research grants. Non-refundable fees received under research, licensing and distribution arrangements or for the licensing of technology are recognized as revenue when received if the Company has no continuing obligations to the other party. For those arrangements where the Company has continuing performance obligations, revenue is recognized using the lesser of the amount of non-refundable cash received or the result achieved using the proportional performance method of accounting based upon the estimated cost to complete these obligations. Research grant revenue is recognized when the related expenses are incurred.

SHIPPING AND HANDLING FEES AND COSTS

Amounts billed to customers for shipping and handling are included in product revenues. The related shipping and freight charges incurred by the Company are included in cost of product revenues. Distribution and handling costs of $3.8 million, $2.6 million, and $1.5 million are recorded in selling, general and administrative expense during 2004, 2003, and 2002, respectively.

PRODUCT WARRANTIES

Certain of the Company's medical devices, including monitoring systems and neurosurgical systems, are reusable and are designed to operate over long periods of time. These products are sold with warranties generally extending for up to two years from date of purchase. The Company accrues estimated product warranty costs at the time of sale based on historical experience. Any additional amounts are recorded when such costs are probable and can be reasonably estimated.

Accrued warranty expense consisted of the following:

| | December 31, 2004 | 2003 |
|---|---|---|
| | (in thousands) | |
| Beginning balance .................. | $ 403 | $ 216 |
| Liability acquired through acquisition | 255 | 95 |
| Charged to expense ................. | 258 | 243 |
| Deductions ......................... | (168) | (151) |
| Ending balance ..................... | $ 748 | $ 403 |

RESEARCH AND DEVELOPMENT

Research and development costs, including salaries, depreciation, consultant and other external fees, and facility costs directly attributable to research and development activities, are expensed in the period in which they are incurred.

In-process research and development charges recorded in connection with acquisitions represent the value assigned to acquired assets to be used in research and development activities and for which there is no alternative use. Value is generally assigned to these assets based on the net present value of the projected cash flows expected to be generated by those assets.

In 2004, the Company recorded to research and development expense a $1.4 million charge for a milestone payment related to the completion of certain development activities for an advanced neuromonitoring system and a $500,000 charge for a licensing fee paid for the development of a data acquisition system to support the integration of our advanced monitoring products. The Company recorded $400,000 and $2.3 million of in-process research and development in connection with acquisitions during 2003 and 2002, respectively.

STOCK BASED COMPENSATION

Employee stock based compensation is recognized using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" and Financial Accounting Standards Board Interpretation No.

"Accounting for Certain Transactions Involving Stock Compensation -an interpretation of APB Opinion No. 25".

Had the compensation cost for the Company's stock option plans been determined based on the fair value at the grant consistent with the provisions of Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation", the Company's net income and basic and diluted net income per share would have been as follows:

| (in thousands, except per share amounts) | 2004 | 2003 | 2002 |
|---|---|---|---|
| Net income: As reported .................................... | $ 17,197 | $ 26,861 | $ 35,277 |
| Add back: Total stock-based employee compensation expense determined under the intrinsic value-based method for all awards, net of related tax effects ........... | 15,372 | -- | -- |
| Less: Total stock-based employee compensation expense determined under the fair value-based method for all awards, net of related tax effects ................ | (21,799) | (5,537) | (4,774) |
| Pro forma ........................................ | $ 10,770 | $ 21,324 | $ 30,503 |
| Net income per share: Basic As reported .................................... | $ 0.57 | $ 0.92 | $ 1.21 |
| Pro forma ........................................ | $ 0.36 | $ 0.73 | $ 1.04 |
| Diluted As reported .................................... | $ 0.55 | $ 0.86 | $ 1.14 |
| Pro forma ........................................ | $ 0.35 | $ 0.70 | $ 1.02 |

As options vest over a varying number of years and awards are generally made each year, the pro forma impacts shown above may not be representative of future pro forma expense amounts. The pro forma additional compensation expense related to all options granted prior to October 1, 2004 was calculated based on the fair value of each option grant using the Black-Scholes model, while the pro forma additional compensation expense related to all options granted on or after October 1, 2004 was calculated based on the fair value of each option grant using the binomial distribution model. The following weighted-average assumptions:

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Dividend yield ....................... | 0% | 0% | 0% |
| Expected volatility .................. | 48% | 61% | 65% |
| Risk free interest rate ............. | 3.2% | 2.9% | 3.0% |
| Expected life of option from grant date ......................... | 4.7 years | 4.5 years | 4.5 years |

The effect of the change in estimate related to the use of the bionomial distribution model has been accounted for on a prospective basis. The Company will value all future stock option grants using the binomial distribution model. Management believes that the binomial distribution model is better than the Black-Scholes model because the binomial distribution model is a more flexible model that considers the impact of non-transferability, vesting and forfeiture provisions in the valuation of employee stock options.

In December 2004, the Financial Accounting Standards Board issued Statement No. 123 (revised 2004), "Share-Based Payment," which is a revision of Statement No.

123, "Accounting for Stock-Based Compensation." Statement 123(R) replaces APB Opinion No. 25, "Accounting for Stock Issued to Employees," and amends Statement No. 95, "Statement of Cash Flows." Statement 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair value. Pro forma footnote disclosure will no longer be an alternative to financial statement recognition.

Statement 123(R) must be adopted no later than July 1, 2005. The Company expects to adopt Statement 123(R) on July 1, 2005. Statement 123(R) permits companies to adopt

its requirements using either the "modified prospective" method or the "modified retrospective" method. Management is currently evaluating the potential impact of Statement 123(R) on the Company's consolidated financial position and results of operations and the alternative adoption methods.

CONCENTRATION OF CREDIT RISK

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of cash and cash equivalents, which are held at major financial institutions, investment-grade marketable debt securities and trade receivables. The Company's products are sold on an uncollateralized basis and on credit terms based upon a credit risk assessment of each customer.

USE OF ESTIMATES

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

RECENTLY ISSUED AND ADOPTED ACCOUNTING STANDARDS

In November 2004, the Financial Accounting Standards Board (FASB) issued Statement No. 151, "Inventory Costs-an amendment of ARB No. 43, Chapter 4" (Statement 151), which is effective beginning January 1, 2006. Statement 151 requires that abnormal amounts of idle facility expense, freight, handling costs and wasted material be recognized as current period charges. Statement 151 also requires that the allocation of fixed production overhead be based on the normal capacity of the production facilities. The effect of Statement 151 on the Company's financial position or results of operations has not yet been determined.

In October 2004, the FASB Emerging Issue Task Force (EITF) reached a consensus on Issue 04-08 "The Effect of Contingently Convertible Instruments on Diluted Earnings per Share" that requires issuers of contingent convertible securities to account for these securities on an "if-converted" basis pursuant to Statement of Financial Accounting Standards No. 128 "Earnings Per Share", in computing their diluted earnings per share whether or not the issuer's stock is above the contingent conversion price. The provisions of Issue 04-08 are effective for all periods ending after December 15, 2004 and have been applied on a retroactive basis. All earnings per share amounts have been restated to reflect the impact of Issue 04-08. Previously disclosed 2003 diluted net income per share was reduced by $0.02 to $0.86. Restated quarterly diluted net income per share for 2004 and 2003 is presented in Note 15.

In March 2004, the EITF reached a consensus on Issue 03-01, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments". Issue 03-01 provides guidance regarding recognition and measurement of unrealized losses on available-for-sale debt and equity securities accounted for under Statement of Financial Accounting Standard No. 115, "Accounting for Certain Investments in Debt and Equity Securities". The application of certain paragraphs covering the measurement provisions of Issue 03-01 have been deferred pending the issuance of a final FASB Staff Position providing implementation guidance on Issue 03-01. The disclosures are effective in annual financial statements for fiscal years ending after December 15, 2003. Management is currently assessing the impact that the recognition and measurement provisions of Issue 03-01 could have on the Company's financial statements.

In March 2004, the EITF reached a consensus on Issue 03-6, "Participating Securities and the Two-Class Method Under FASB Statement No. 128". Issue 03-6 expanded the

notion of participation rights in calculating earnings per share from previous practice. Issue 03-6 defines participation rights based solely on whether the holder would be entitled to receive any dividends declared during the period, even if the company would not declare any dividends during the period due to economic or practical concerns or legal or contractual limitations on the company's ability to pay dividends. The adoption of Issue 03-06 in 2004 did not change the previously reported basic or diluted earnings per share for any period during the three years ended December 31, 2004. Previously disclosed pro forma basic and diluted net income per share for 2002, adjusted to reflect compensation cost for the Company's stock option plans as if it had been determined based on the fair value at the grant consistent with the provisions of Statement 123, was reduced as follows:

- 2002 pro forma basic net income per share was reduced by $0.01 to $1.04

- 2002 pro forma diluted net income per share was reduced by $0.01 to $1.02

3. ACQUISITIONS

BUSINESS COMBINATIONS

In May 2004, the Company acquired the MAYFIELD(R) Cranial Stabilization and Positioning Systems and the BUDDE(R) Halo Retractor System business from Schaerer Mayfield USA, Inc. (formerly Ohio Medical Instrument Company) for $20.0 million in cash paid at closing, a $0.3 million working capital adjustment, and $0.3 million of acquisition related expenses. The MAYFIELD and BUDDE lines include skull clamps, headrests, reusable and disposable skull pins, blades, retractor systems, and spinal implants. MAYFIELD systems are the market leader in the United States and have been used by neurosurgeons for over thirty years. The products are sold in the United States through the Integra NeuroSciences direct sales organization and in international markets through distributors.

The acquired business includes a facility located in Cincinnati, Ohio that manufactures, packages and distributes MAYFIELD and BUDDE stabilization products, as well as a broad line of related instruments and disposables used in many neurosurgical and spinal procedures. In addition, as part of the acquisition, Integra entered into a long-term license with SM USA, Inc., a wholly owned subsidiary of Schaerer Mayfield USA, Inc., for the use of the MAYFIELD name in connection with the acquired business.

In connection with this acquisition, the Company recorded $8.4 million of goodwill and $8.1 million of intangible assets, consisting of a non-compete agreement, trade name, and technology, which are being amortized on a straight-line basis over lives ranging from 5 to 30 years.

In May 2004, the Company acquired all of the capital stock of Berchtold Medizin-Elektronik GmbH, now named Integra ME, from Berchtold Holding GmbH for $5.0 million in cash. Integra ME manufactures and markets the ELEKTROTOM(R) line of electrosurgery generators and the SONOTOM(R) ultrasonic surgical aspirator, as well as a broad line of related handpieces, instruments and disposables used in many surgical procedures, including neurosurgery. Integra ME markets and sells its products to hospitals and physicians primarily through a network of distributors.

The acquired business includes a facility located in Tuttlingen, Germany that manufactures, packages and distributes the ELEKTROTOM and SONOTOM products. This acquisition provided Integra with additional devices for the European and international markets and an existing infrastructure through which it can sell certain of its other products directly into Germany.

In connection with this acquisition, the Company recorded $1.7 million of goodwill and $1.3 million of intangible assets, consisting primarily of trade name, technology, and customer relationships, which are being amortized on a straight-line basis over lives ranging from 3 to 10 years.

In January 2004, the Company acquired the R&B instrument business from R&B Surgical Solutions, LLC for $2.0 million in cash. The R&B instrument line is a complete line of high-quality handheld surgical instruments used in neuro- and spinal surgery. The Company markets these products through its JARIT sales organization. In connection with this acquisition, the Company recorded $1.5 million of intangible assets and goodwill. The acquired intangible assets are being amortized on a straight-line basis

over lives ranging from 5 to 20 years. If the Company had consummated this acquisition as of the beginning of 2003, its operating results would not have been materially different from those presented herein.

In January 2004, the Company acquired the Sparta disposable critical care devices and surgical instruments business from Fleetwood Medical, Inc. for $1.6 million in cash. The Sparta product line includes products used in plastic and reconstructive, ear, nose and throat (ENT), neuro, ophthalmic and general surgery. The Company sells the Sparta products through a direct marketing organization and an existing distributor network. In connection with this acquisition, the Company recorded $1.6 million of intangible assets and goodwill. The acquired intangible assets are being amortized on a straight-line basis over 5 years. If the Company had consummated this acquisition as of the beginning of 2003, its operating results would not have been materially different from those presented herein.

In November 2003, the Company acquired all of the outstanding capital stock of Spinal Specialties, Inc. for $6.4 million in cash, including expenditures associated with the acquisition and a working capital adjustment. In connection with this acquisition, the Company recorded $5.4 million of goodwill and intangible assets. The acquired intangible assets consisted primarily of trade name, technology and customer relationships and are being amortized on a straight-line basis over lives ranging from 3 to 15 years. Spinal Specialties markets its products primarily to anesthesiologists and interventional radiologists through an in-house telemarketing team and a network of distributors. Spinal Specialties' products include the OsteoJect(TM) Bone Cement Delivery System and the ACCU-DISC(TM) Pressure Monitoring System.

In August 2003, the Company acquired substantially all of the assets of Tissue Technologies, Inc., the manufacturer and distributor of the UltraSoft(TM) line of implants for soft tissue augmentation of the facial area. The Company paid $0.6 million in cash and is obligated to pay the seller up to an additional $1.5 million in contingent consideration based upon a multiple of the Company's sales of the UltraSoft product in the third year following the acquisition. Any future contingent consideration paid to the seller is expected be recorded as additional goodwill.

In March 2003, the Company acquired all of the outstanding capital stock of J. Jamner Surgical Instruments, Inc. (doing business as JARIT(R) Surgical Instruments) ("JARIT") for $43.5 million in cash, including expenditures associated with the acquisition and net of $2.1 million of cash acquired. JARIT markets a wide variety of high quality, reusable surgical instruments to virtually all surgical disciplines. The acquisition of JARIT has broadened Integra's existing customer base and surgical instrument product offering and has provided Integra with operating costs savings from the procurement of Integra's Ruggles(TM) and Padgett(TM) instruments products directly from the instrument manufacturers.

In connection with this acquisition, the Company recorded $29.1 million of intangible assets, consisting primarily of trade name and customer relationships, which are being amortized on a straight-line basis over lives ranging from 5 to 40 years.

In December 2002, the Company acquired the neurosurgical shunt and epilepsy monitoring business of the Radionics division of Tyco Healthcare Group for $3.7 million in cash, including expenditures associated with the acquisition. This acquisition broadened Integra's neurosurgical product line offering and customer base and increased capacity utilization at the Company's Biot facility.

In October 2002, the Company acquired all of the outstanding capital stock of Padgett Instruments, Inc., an established marketer of instruments used in reconstructive and plastic surgery, for $9.6 million in cash, including expenditures associated with the acquisition. For more than 40 years, Padgett has been providing high quality instruments to meet the needs of the plastic and reconstructive surgeon and, as a result, has become one of the most recognized names in the plastic and reconstructive surgery market. Approximately $5.4 million of the purchase price was allocated to the trademarks and trade name of the acquired business, which are being amortized on a straight-line basis over 40 years.

In August 2002, the Company acquired all of the capital stock of the neurosciences division of NMT Medical, Inc. for $5.7 million in cash, including expenditures associated with the acquisition. Through this acquisition, the Company added a range

of leading differential pressure valves and external ventricular drainage products to its neurosurgical product line. The acquired operations included a manufacturing facility located in Biot, France. The $4.2 million fair value assigned to the land, building and equipment in Biot was determined based on a third party appraisal.

In July 2002, the Company acquired the assets of Signature Technologies, Inc., a specialty manufacturer of titanium and stainless steel implants for the neurosurgical and spinal markets, and certain other intellectual property assets. The Company acquired Signature Technologies to gain the capability of developing and manufacturing metal implants for strategic partners and for direct sale by Integra. The purchase price consisted of $2.9 million in cash (including expenditures associated with the acquisition), $0.5 million of deferred consideration that was paid in 2003, and royalties on future sales of products to be developed.

In connection with this acquisition, the Company recorded a $1.2 million in-process research and development charge of for the value associated with a project for the development of an enhanced cranial fixation system using patented technology for improved identification and delivery of certain components of the system. The value of the in-process research and development charge was estimated with the assistance of a third party appraiser using probability weighted cash flow projections with factors for successful development ranging from 10% to 35% and a 15% discount rate.

The results of operations of the acquired businesses have been included in the consolidated financial statements since their respective dates of acquisition.

The following table summarizes the fair value of the assets acquired and liabilities assumed as a result of 2004 and 2003 acquisitions:

(All amounts in thousands)

| 2004 Acquisitions | MAYFIELD/ BUDDE | Integra ME | R&B/Sparta |
|---|---|---|---|
| Current assets ........................ | $ 3,489 | $ 3,151 | $ 817 |
| Property, plant and equipment ........ | 1,400 | 78 | 10 |
| Intangible assets .................... | 8,030 | 1,320 | 1,639 |
| Goodwill ............................. | 8,397 | 1,775 | 1,478 |
| Total assets acquired ............ | 21,316 | 6,324 | 3,944 |
| Current liabilities .................. | 768 | 837 | 340 |
| Deferred tax liabilities ............. | -- | 240 | -- |
| Other non-current liabilities ........ | -- | 265 | -- |
| Total liabilities assumed ......... | 768 | 1,342 | 340 |
| Net assets acquired .................. | $20,548 | $ 4,982 | $ 3,604 |

| 2003 Acquisitions | Spinal Specialties | Jarit Instruments | Tissue Technologies |
|---|---|---|---|
| Current assets ........................ | $ 1,944 | $ 17,498 | $ 81 |
| Property, plant and equipment ........ | 307 | 1,285 | 88 |
| Intangible assets .................... | 2,300 | 29,091 | 281 |
| Goodwill ............................. | | | |

3,070 -- 251 Other non-
current assets .............
-- 104 -- ------------- ----
------- ----------- Total
assets acquired
............. 7,621 47,978
701 Current liabilities
.................. 358 2,357
76 Deferred tax liabilities
............. 836 -- -- ----
--------- ----------- ------
----- Total liabilities
assumed ......... 1,194
2,357 76 Net assets acquired
.................. $ 6,427 $
45,621 $ 625

The goodwill acquired in the MAYFIELD/BUDDE, R&B, Sparta, Tissue Technologies and Radionics acquisitions is expected to be deductible for tax purposes. The acquired intangible assets are being amortized on a straight-line basis over lives ranging from 2 to 40 years.

The following unaudited pro forma financial information summarizes the results of

operations for the periods indicated as if the acquisitions consummated in 2004 and 2003 had been completed as of the beginning of each period. The pro forma results are based upon certain assumptions and estimates and they give effect to actual operating results prior to the acquisitions and adjustments to reflect increased depreciation expense, increased intangible asset amortization, and increased income taxes at a rate consistent with Integra's effective rate in each year. No effect has been given to cost reductions or operating synergies. As a result, these pro forma results do not necessarily represent results that would have occurred if the acquisition had taken place on the basis assumed above, nor are they indicative of the results of future combined operations.

| | 2004 | 2003 |
|---|---|---|
| | (in thousands) | |
| Total revenue ........................................ | $236,031 | $212,372 |
| Net income ............................................ | 17,872 | 27,937 |
| Basic net income per share ........................... | $ 0.59 | $ 0.96 |
| Diluted net income per share ......................... | $ 0.57 | $ 0.89 |

ASSET ACQUISITIONS

In December 2003, the Company acquired the assets of Reconstructive Technologies, Inc.("RTI") for $400,000 in cash and agreed to make certain future performance-based payments for the RTI assets. Any future contingent consideration paid to the seller is expected to be recorded as a technology-based intangible asset. RTI is the developer of the Automated Cyclic Expansion System (ACE System(TM)), a tissue expansion device. Because the ACE System was not approved by the FDA for sale and the Company did not acquire any assets other than technology and intellectual property underlying the ACE System, the Company recorded the entire acquisition price as an in-process research and development charge in the fourth quarter of 2003. This transaction was accounted for as an asset purchase because the acquired assets did not constitute a business under Statement 141.

In September 2002, the Company acquired certain assets, including the NeuroSensor(TM) monitoring system and rights to certain intellectual property, from Novus Monitoring Limited of the United Kingdom for $3.7 million in cash (including expenditures associated with the acquisition), a $1.4 million milestone payment related to the development of a next-generation, advanced neuromonitoring system that was paid in September 2004, and up to an additional $2.5 million payable based upon revenues from Novus' products. As part of the consideration paid, Novus agreed to perform certain product development efforts on Integra's and those efforts were completed in 2004.

The assets acquired from Novus were accounted for as an asset purchase because the acquired assets did not constitute a business under Statement 141. The initial $3.7 million purchase price was allocated as follows (in thousands):

| | |
|---|---|
| Prepaid research and development expense ......... | $ 771 |
| Other assets ...................................... | 151 |
| Intangible assets ................................. | 1,663 |
| In-process research and development ............. | 1,151 |

The acquired intangibles assets consisted primarily of technology-related intangible assets, which are being amortized on a straight-line basis over lives ranging from 3 to 15 years. The prepaid research and development expense represents the estimated fair value of future services to be provided by Novus under the development agreement. The $1.2 million in-process research and development charge represents the value associated with the development of a next generation neuromonitoring system. The value of the in-process research and development was estimated with the assistance of a third party appraiser using probability weighted cash flow projections with factors for successful development ranging from 15% to 20% and a 15% discount rate.

The $1.4 million product development milestone was recorded as research and development expense in 2004, as the underlying product technology was not approved by the FDA for sale.

## 4. DEBT

In March and April 2003, the Company completed a $120.0 million private placement of contingent convertible subordinated notes due 2008.

The notes bear interest at 2.5 percent per annum, payable semiannually. The Company will pay additional interest ("Contingent Interest") if, at thirty days prior to maturity, Integra's common stock price is greater than $37.56 per share. The Contingent Interest will be payable for each of the last three years the notes remain outstanding in an amount equal to the greater of i) 0.50% of the face amount of the notes and ii) the amount of regular cash dividends paid during each such year on the number of shares of common stock into which each note is convertible. The Company recorded a $365,000 liability related to the estimated fair value of the Contingent Interest obligation at the time the notes were issued. The fair value of the Contingent Interest obligation is marked to its fair value at each balance sheet date, with changes in the fair value recorded to interest expense. At December 31, 2004 and 2003, the estimated fair value of the Contingent Interest obligation was $710,000 and $460,000, respectively.

Debt issuance costs totaled $4.1 million and are being amortized using the straight-line method over the five-year term of the notes.

Holders may convert their notes into shares of Integra common stock at an initial conversion price of $34.15 per share, upon the occurrence of certain conditions, including when the market price of Integra's common stock on the previous trading day is more than 110% of the conversion price.

The notes are general, unsecured obligations of the Company and will be subordinate to any future senior indebtedness of the Company. The Company cannot redeem the notes prior to their maturity. Holders of the notes may require the Company to repurchase the notes upon a change in control.

Concurrent with the issuance of the notes, the Company used $35.3 million of the proceeds to purchase 1.5 million shares of its common stock.

## 5. DERIVATIVE INSTRUMENTS

In August 2003, the Company entered into an interest rate swap agreement with a $50 million notional amount to hedge the risk of changes in fair value attributable to interest rate risk with respect to a portion of its fixed rate contingent convertible subordinated notes. The Company receives a 2 1/2% fixed rate from the counterparty, payable on a semi-annual basis, and pays to the counterparty a floating rate based on 3-month LIBOR minus 35 basis points, payable on a quarterly basis. The floating rate resets each quarter. The interest rate swap agreement terminates on March 15, 2008, subject to early termination upon the occurrence of certain events, including redemption or conversion of the contingent convertible notes.

The interest rate swap agreement qualifies as a fair value hedge under SFAS No. 133, as amended, "Accounting for Derivative Instruments and Hedging Activities".

Accordingly, the interest rate swap is recorded at fair value and changes in fair value are recorded in other income (expense), net. The net amount to be paid or received under the interest rate swap agreement is recorded as a component of interest expense. Interest expense for the years ended December 31, 2004 and 2003, respectively, reflects a $686,000 and a $330,000 reduction associated with the interest rate swap. Our effective interest rate on the hedged portion of the notes was 1.6% as of December 31, 2004.

The net fair value of the interest rate swap at inception was $767,000. In 2004 and 2003, respectively, the net fair value of the interest rate swap increased $287,000 to $1.4 million and $305,000 to $1.1 million. In connection with this fair value hedge, the Company recorded in 2004 and 2003, respectively, a $430,000 and $433,000 net decrease in the carrying value of its contingent convertible notes. The $143,000 and $128,000 net difference between changes in the fair value of the interest rate swap and the contingent convertible notes represents the ineffective portion of the hedging relationship, and these amounts are recorded in other income (expense), net.

At December 31, 2004 and 2003, the Company had $2.9 million and $2.2 million of cash pledged as collateral in connection with the interest rate swap agreement.

In November 2004, the Company entered into a collar contract for euro 38.5 million expiring in January 2005 to reduce its exposure to fluctuations in the exchange rate between the euro and the US dollar as a result of its commitment to acquire Newdeal in January 2005 for euro 38.5 million (see Note 16). The collar contract did not qualify as a hedge under SFAS No. 133. Accordingly, the collar contract is recorded at fair value and changes in fair value are recorded in other income (expense), net. In 2004, the Company recorded a $1.4 million gain related to the change in the fair value of the collar contract.

## 6. COMMON AND PREFERRED STOCK

### PREFERRED STOCK TRANSACTIONS

The Company is authorized to issue up to 15,000,000 shares of preferred stock in one or more series, of which 2,000,000 shares have been designated as Series A, 120,000 shares have been designated as Series B, and 54,000 shares have been designated as Series C.

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 (SPEP) for $5.4 million, net of issuance costs. The Series C Preferred ranked on a parity with the Company's then existing Series B Convertible Preferred Stock, was senior to the Company's common stock and all other preferred stock of the Company, and had a 10% cumulative annual dividend yield payable only upon liquidation. The Series C Preferred was converted into 600,000 shares of common stock in April 2002. The warrants issued with the Series C Preferred were exercised in December 2001 for proceeds of $2.7 million.

SPEP is entitled to certain registration rights for shares of common stock obtained through conversion of its preferred stock or the exercise of the related warrants.

### COMMON STOCK TRANSACTIONS

In 2004 and 2003, respectively, the Company repurchased 500,000 and 1.5 million shares of its common stock for $14.2 million and $35.4 million.

## 7. STOCK PURCHASE AND AWARD PLANS

### EMPLOYEE STOCK PURCHASE PLAN

The Company received stockholder approval for its Employee Stock Purchase Plan (ESPP) in May 1998. The purpose of the ESPP is to provide eligible employees of the Company with the opportunity to acquire shares of common stock at periodic intervals by means of accumulated payroll deductions. Under the ESPP, a total of 500,000 shares of common stock were originally reserved for issuance. In May 2004, stockholders of the Company approved an amendment to the ESPP that increased the number of shares available for issuance under the Plan by 1.0 million to 1.5 million shares. These shares will be made available either from the Company's authorized but unissued shares of common stock or from shares of common stock reacquired by the Company as treasury shares. At December 31, 2004, 1.1 million shares remain available for purchase under the amended ESPP.

### STOCK OPTION PLANS

As of December 31, 2004 the Company had stock options outstanding under seven plans, the 1993 Incentive Stock Option and Non-Qualified Stock Option Plan (the 1993 Plan), the 1996 Incentive Stock Option and Non-Qualified Stock Option Plan (the 1996 Plan), the 1998 Stock Option Plan (the 1998 Plan), the 1999 Stock Option Plan (the 1999 Plan), the 2000 Equity Incentive Plan (the 2000 Plan), the 2001 Equity Incentive Plan (the 2001 Plan), and the 2003 Equity Incentive Plan (the 2003 Plan, and collectively, the Plans). No new options may be granted under the 1993 Plan.

The Company has reserved 750,000 shares of common stock for issuance under both the 1993 Plan and 1996 Plan, 1,000,000 shares under the 1998 Plan, 2,000,000 shares under each of the 1999 Plan, the 2000 Plan and the 2001 Plan, and 2,500,000 shares under the

2003 Plan. The 1993 Plan, 1996 Plan, 1998 Plan, and the 1999 Plan permit the Company to grant both incentive and non-qualified stock options to designated directors, officers, employees and associates of the Company. The 2000 Plan, 2001 Plan, and 2003 Plan permit the Company to grant incentive and non-qualified stock options, stock appreciation rights, restricted stock, performance stock, or dividend equivalent rights to designated directors, officers, employees and associates of the Company. Options issued under the Plans become exercisable over specified periods, generally within four years from the date of grant, and generally expire six years from the grant date.

Option activity for all the Plans was as follows:

| | 2004 | | 2003 | | 2002 | |
|---|---|---|---|---|---|---|
| | Options | Wtd. Avg. Ex. Price | Options | Wtd. Avg. Ex. Price | Options | Wtd. Avg. Ex. Price |
| (shares in thousands) | | | | | | |
| Options outstanding at January 1, ........... | 2,884 | $16.19 | 4,295 | $12.15 | 4,261 | $10.79 |
| Granted ................. | 1,473 | $31.81 | 430 | $24.81 | 618 | $17.73 |
| Exercised ............... | (547) | $ 9.80 | (1,726) | $ 7.70 | (425) | $ 6.15 |
| Cancelled ............... | (127) | $21.97 | (115) | $17.40 | (159) | $13.39 |
| Options outstanding at December 31, ......... | 3,683 | $23.42 | 2,884 | $16.19 | 4,295 | $12.15 |
| Options exercisable at December 31, .......... | 1,641 | $17.61 | 1,495 | $13.65 | 2,380 | $ 8.75 |

At December 31, 2004, there were 1,330,072 shares available for grant under the Plans.

The following table summarizes information about stock options outstanding as of December 31, 2004:

Options Outstanding
Options Exercisable
----------
----------

| Range Of Exercise Prices | As of Dec. 31, 2004 | Wtd. Avg. Exercise Price | Wtd. Avg. Remaining Contractual Life | As of Dec. 31 2004 | Wtd. Avg. Exercise Price |
|---|---|---|---|---|---|
| (shares in thousands) | | | | | |
| $ 3.50 - $13.63 | 838 | $ 10.05 | 2.9 years | 712 | $ 9.87 |
| $13.75 - $26.34 | 918 | $ 20.26 | 3.6 years | 544 | $ 20.52 |
| $26.45 - $28.78 | 897 | $ 27.95 | 4.3 years | 306 | $ 27.10 |
| $28.80 - $34.49 | 761 | $ 32.39 | 6.7 years | 80 | $ 30.40 |
| $34.62 - $35.52 | 269 | $ 35.43 | 5.9 years | -- | $ 0.00 |
| | 3,683 | $ 23.42 | 4.4 years | 1,641 | $ 17.61 |

The weighted average fair market value of options granted in 2004, 2003 and 2002 was $13.48, $13.01, and $9.57 per share, respectively.

CONTRACT STOCK AND RESTRICTED UNITS AWARDS

In July 2004, the Company's President and Chief Executive Officer (Executive) renewed his employment agreement with the Company through December 31, 2009. In connection with the renewal of the agreement, the Executive received a grant of fair market value options to acquire up to 250,000 shares of Integra common stock and a fully vested contract stock unit award providing for the payment of 750,000 shares of Integra common stock which shall generally be delivered to the

Executive following his termination of employment or retirement but not before December 31, 2009, or later under certain circumstances, or earlier if he is terminated without cause, if he leaves his position for good reason or upon a change of control or certain tax related events. The options and contract stock award were granted under the 2003 Plan. In connection with the fully vested contract stock award, the Company recorded a share-based compensation charge of $23.9 million, including payroll taxes, in 2004 for the compensation expense related to the fully-vested contract stock unit grant. The Executive has demand registration rights under the Restricted Units issued.

In December 2000, the Company issued 1,250,000 restricted units (Restricted Units) under the 2000 Plan as a fully vested equity based bonus to the Executive in connection with the extension of his employment agreement. Each Restricted Unit represents the right to receive one share of the Company's common stock. The Executive has demand registration rights under the Restricted Units issued.

The Executive received 1,000,000 Restricted Units in December 1997, each of which entitles him to receive one share of the Company's common stock. The Restricted Units issued in December 1997 were not issued under any of the Plans. In November 2003, the 1997 restricted units were converted into 1,000,000 shares of the Company's common stock.

No other stock-based awards are outstanding under any of the Plans.

## 8. RETIREMENT BENEFIT PLANS

### DEFINED BENEFIT PLAN

The Company maintains defined benefit pension plans that cover employees in its manufacturing plants located in Andover, United Kingdom (the "UK Plan") and Tuttlingen, Germany (the "Germany Plan"). The plans cover certain current and former employees. The UK Plan is no longer open to new participants. The Company uses a December 31 measurement date for both of its pension plans.

Net periodic benefit costs for these defined benefit pension plans included the following amounts:

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| | (in thousands) | | |
| Service cost ..................................... | $ 179 | $ 88 | $ 122 |
| Interest cost .................................... | 522 | 397 | 355 |
| Expected return on plan assets .................. | (434) | (330) | (331) |
| Recognized net actuarial loss .................... | 203 | 116 | 85 |
| Net periodic benefit cost ..................... | $ 470 | $ 271 | $ 231 |

The following weighted average assumptions were used to develop net periodic benefit cost and the actuarial present value of projected benefit obligations:

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Discount rate .................................... | 5.2% | 5.4% | 5.5% |
| Expected return on plan assets .................. | 5.8% | 6.2% | 6.5% |
| Rate of compensation increase .................. | 3.3% | 3.3% | 3.8% |

The expected return on plan assets represents the average rate of return expected to be earned on plan assets over the period the benefits included in the benefit obligation are to be paid. In developing the expected rate of return, the Company considers long-term compound annualized returns of historical market data as well as actual returns on the plan assets and applies adjustments that reflect more recent capital market experience. Using this reference information, the long-term return expectations for each asset category is developed, according to the allocation among those investment categories.

The following sets forth the change in benefit obligations and change in plan assets at December 31, 2003 and 2002 and the accrued benefit cost:

| | December 31, 2004 | 2003 |
|---|---|---|
| | (in thousands) | |
| CHANGE IN PROJECTED BENEFIT OBLIGATION | | |
| Projected benefit obligation, beginning of year ................ | $ 8,832 | $ 6,803 |
| Service cost .................................................. | 179 | 88 |
| Interest cost ................................................. | 522 | 397 |
| Participant contributions ..................................... | 42 | 36 |
| Benefits paid ................................................. | | |

(183) (151) Actuarial (gain) loss
........................................ 656 857
Acquisitions
..................................................
474 -- Effect of foreign currency exchange rates
...................... 845 802 ------- -------
Projected benefit obligation, end of year
...................... $11,367 $ 8,832

| CHANGE IN PLAN ASSETS | | |
|---|---|---|
| Plan assets at fair value, beginning of year .................. | $ 6,646 | $ 5,068 |
| Actual return on plan assets .................................. | 816 | 881 |
| Employer contributions ........................................ | 238 | 211 |
| Participant contributions ..................................... | 37 | 36 |
| Benefits paid ................................................. | (183) | (151) |
| Other ......................................................... | 46 | -- |
| Acquisitions .................................................. | 162 | |
| Effect of foreign currency exchange rates ..................... | 617 | 601 |
| Plan assets at fair value, end of year ........................ | $ 8,379 | $ 6,646 |
| | | |
| RECONCILIATION OF FUNDED STATUS | | |
| Funded status, projected benefit obligation in excess of plan assets ........................................... | $(2,988) | $(2,186) |
| Unrecognized net actuarial loss ................................. | 2,759 | 2,416 |
| Adjustment to recognize minimum liability ....................... | (2,543) | (1,804) |
| Accrued benefit cost ............................................ | $(2,772) | $(1,574) |

The accrued benefit liability recorded at December 31, 2004 and 2003 is included in other liabilities.

The combined accumulated benefit obligation for the defined benefit plans was $11.2 million and $8.2 million as of December 31, 2004 and 2003, respectively. The accumulated benefit obligation for each plan exceeded that plan's assets for all periods presented.

The weighted-average allocation of plan assets by asset category is as follows:

| | December 31, 2004 | 2003 |
|---|---|---|
| Equity securities ..... | 52% | 54% |
| Corporate bonds ....... | 19% | 19% |
| Government bonds ...... | 22% | 22% |
| Insurance contracts ... | 2% | 0% |
| Cash .................. | 5% | 5% |
| | 100% | 100% |

The investment strategy for the Company's defined benefit plans is both to meet the liabilities of the plans as they fall due and to maximize the return on invested assets within appropriate risk tolerances. In 2002, the UK Plan began shifting its portfolio from primarily equity securities to a portfolio more weighted towards corporate bonds. The assets of the Germany Plan consist entirely of insurance contracts.

The Company anticipates contributing approximately $250,000 to its defined benefit plans in 2005. The Company expects to pay the following estimated future benefit payments in the years indicated:

| | |
|---|---|
| 2005 .......... | $ 218,000 |
| 2006 .......... | 248,000 |
| 2007 .......... | 264,000 |
| 2008 .......... | 293,000 |
| 2009 .......... | 337,000 |
| 2010-2014 ..... | 2,384,000 |

DEFINED CONTRIBUTION PLAN

The Company also has various defined contribution savings plans that cover substantially all employees in the United States, the United Kingdom, and Puerto Rico. The Company matches a certain percentage of each employee's contributions as per the provisions of the plans. Total contributions by the Company to the plans were $622,000, $483,000 and $575,000 in 2004, 2003 and 2002, respectively.

## 9. LEASES

The Company leases administrative, manufacturing, research and distribution facilities and various manufacturing, office and transportation equipment through operating lease agreements.

In November 1992, a corporation whose shareholders are trusts, whose beneficiaries include family members of the Company's Chairman, acquired from independent third parties a 50% interest in the general partnership from which the Company leases its manufacturing facility in Plainsboro, New Jersey. The lease provides for a rent escalation of 8.5% in 2007 and expires in October 2012.

In June 2000, the Company signed a ten-year agreement to lease certain production equipment from a corporation whose sole stockholder is a general partnership, for which the Company's Chairman is a partner and the President. Under the terms of the lease agreement, the Company paid $90,000 to the related party lessor in 2004, 2003 and 2002.

Future minimum lease payments under operating leases at December 31, 2004 were as follows:

| | Related Parties | Third Parties | Total |
|---|---|---|---|
| | (in thousands) | | |
| 2005 | $ 321 | $ 2,317 | $ 2,638 |
| 2006 | 321 | 1,719 | 2,040 |
| 2007 | 324 | 936 | 1,260 |
| 2008 | 341 | 119 | 460 |
| 2009 | 341 | 119 | 460 |
| Thereafter | 755 | 991 | 1,746 |
| Total minimum lease payments | $ 2,403 | $ 6,201 | $ 8,604 |

Total rental expense in 2004, 2003, and 2002 was $2.3 million, $2.9 million, and $2.0 million, respectively, and included $321,000, $321,000, and $321,000, in related party expense, respectively.

## 10. INCOME TAXES

The income tax expense (benefit) consisted of the following:

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| | (in thousands) | | |
| Current: | | | |
| Federal | $ 1,899 | $ 972 | $ -- |
| State | 1,670 | 2,470 | 1,276 |
| Foreign | 1,141 | 529 | (427) |
| Total current | 4,710 | 3,971 | 849 |
| Deferred: | | | |
| Federal | $ 5,802 | $ 12,800 | $(13,671) |
| State | 53 | 83 | 373 |
| Foreign | 246 | (526) | (103) |
| Total deferred | 6,101 | | |

12,357 (13,401) Income
tax expense (benefit)
... $ 10,811 $ 16,328
$(12,552) ========
======== ========

The temporary differences that give rise to deferred tax assets are presented below:

| December 31 (in thousands) | 2004 | 2003 |
|---|---|---|
| Net operating loss and tax credit carryforwards | $ 13,405 | $ 22,695 |
| Inventory reserves and capitalization | 2,145 | 2,294 |
| Other | -- | 1,758 |
| Deferred compensation | 14,164 | 5,361 |
| Deferred income | 1,821 | 1,434 |
| Total deferred tax assets before valuation allowance | 31,535 | 33,542 |
| Valuation allowance | (5,360) | (5,360) |
| Depreciation and amortization | (5,327) | (6,421) |
| Other | (1,095) | (392) |
| Net deferred tax assets | $ 19,753 | $ 21,369 |

At December 31, 2004 and 2003, respectively, $4.0 million and $3.7 million of the net deferred tax asset is included in prepaid expenses and other current assets.

Since 1999, the Company has generated positive taxable income on a cumulative basis. In light of this trend, current projections for future taxable earnings, and the expected timing of the reversal of deductible temporary differences, in 2002, the Company reduced the remaining valuation allowance recorded against net operating loss carryforwards by $23.4 million, which reflected the Company's estimate of additional tax benefits that it expected to realize in the future. A valuation allowance of $5.4 million is recorded against the remaining $31.5 million of deferred tax assets recorded at December 31, 2004. This valuation allowance relates to deferred tax assets for certain expenses that will be deductible for tax purposes in very limited circumstances and for which the Company believes it is unlikely that it will recognize the associated tax benefit. The Company does not anticipate additional income tax benefits through future reductions in the valuation allowance. However, in the event that the Company determines that it would be able to realize more or less than the recorded amount of net deferred tax assets, an adjustment to the deferred tax asset valuation allowance would be recorded in the period such a determination is made.

In 2004, our effective income tax rate was 38.6% of income before income taxes compared to 37.8% in 2003. Our 2004 rate includes a $1.3 million tax charge related to the transfer of certain intangible assets. We recorded a net income tax benefit in 2002 related to the reduction of the deferred tax asset valuation allowance.

The net change in the Company's valuation allowance was $(2.3) million and $(26.7) million, in 2003 and 2002, respectively.

A reconciliation of the United States Federal statutory rate to the Company's effective tax rate for the years ended December 31, 2004, 2003, and 2002 is as follows:

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| Federal statutory rate | 35.0% | 35.0% | 35.0% |
| Increase (reduction) in income taxes resulting from: | | | |
| State income taxes, net of federal tax benefit | 4.0% | 3.9% | 3.7% |
| Foreign taxes booked at different rates | (4.2%) | (1.0%) | (2.5%) |
| Tax on asset transfer | 4.5% | -- | -- |
| Other | (0.7%) | (0.1%) | (1.5%) |
| Change in valuation allowance | -- | -- | (89.9%) |
| Effective tax rate | 38.6% | 37.8% | (55.2%) |

At December 31, 2004, the Company had net operating loss carryforwards of $46.8 million and $0.6 million for federal and state income tax purposes, respectively, to offset future taxable income. The federal and state net operating loss carryforwards expire through 2018 and 2005, respectively.

At December 31, 2004, several of the Company's subsidiaries had unused net operating loss carryforwards and tax credit carryforwards arising from periods prior to the Company's ownership which expire through 2005. The Internal Revenue Code limits the timing and manner in which we may use any acquired net operating losses or tax credits.

Income taxes are not provided on undistributed earnings of non-U.S. subsidiaries because such earnings are expected to be permanently reinvested. Undistributed earnings of foreign subsidiaries totaled $2.6 million at December 31, 2004.

The American Jobs Creation Act of 2004 (the "Act") was signed into law in October 2004 and has several provisions that may impact the Company's income taxes in the future, including the repeal of the extraterritorial income exclusion and a deduction related to qualified production activities taxable income. The Financial Accounting Standards Board ("FASB") proposed that the qualified production activities deduction is a special deduction and will have no impact on deferred taxes existing at the enactment date. Rather, the impact of this deduction will be reported in the period in which the deduction is claimed on the Company's tax return. Management is currently evaluating the impact of the FASB guidance related to qualified production activities on the Company's effective tax rate in future periods.

11. NET INCOME PER SHARE

Amounts used in the calculation of basic and diluted net income per share were as follows:

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| | (in thousands, except per share amounts) | | |
| Basic: | | | |
| Net income | $ 17,197 | $ 26,861 | $ 35,277 |
| Less: Dividends on Series C Preferred Stock | -- | -- | (159) |
| Net income allocable to dilutive participating Series C Preferred Stock | -- | -- | (96) |
| Net income applicable to common stock | $ 17,197 | $ 26,861 | $ 35,022 |
| Basic net income per share | $ 0.57 | $ 0.92 | $ 1.21 |
| Weighted average common shares outstanding - Basic | 30,064 | 29,071 | 29,021 |
| Diluted: | | | |
| Net income | $ 17,197 | $ 26,861 | $ 35,277 |
| Add back: Interest expense and other income/(expense) related to convertible notes payable, net of tax | -- | 1,608 | -- |
| Less: Dividends on Series C Preferred Stock | -- | -- | (159) |
| Net income allocable to dilutive participating Series C Preferred Stock | -- | -- | (96) |
| Net income applicable to common stock | $ 17,197 | $ 28,469 | $ 35,022 |
| Diluted net income per share | $ 0.55 | $ 0.86 | $ 1.14 |
| Weighted average common shares outstanding - Basic | 30,064 | 29,071 | 29,021 |
| Effect of dilutive securities: | | | |
| Stock options and warrants | 1,038 | 1,397 | 1,699 |
| Shares issuable upon conversion of notes payable | -- | 2,636 | -- |
| Weighted average common shares outstanding | 31,102 | 33,104 | 30,720 |

Shares of common stock issuable through exercise or conversion of the following dilutive securities were not included in the computation of diluted net income per share for each period because their effect would have been antidilutive:

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| | (in thousands) | | |
| Stock options | 155 | 424 | 1,104 |
| Shares issuable upon conversion of notes payable | 3,514 | -- | -- |
| Total | 3,669 | 424 | 1,104 |

A contract stock unit award that entitles the holder to 750,000 shares of common stock and Restricted Units that entitle the holder to 1,250,000 shares of common stock (see Note 7) are included in the weighted average shares outstanding calculation from their date of issuance because no further consideration is due related to the issuance of the underlying common shares.

12. DEVELOPMENT, DISTRIBUTION, AND LICENSE AGREEMENTS AND GOVERNMENT GRANTS

The Company has various development, distribution, and license agreements under which it receives payments. Significant agreements include the following:

From 1999 through 2003, ETHICON, Inc., a division of Johnson & Johnson, marketed and distributed the Company's INTEGRA(R) Dermal Regeneration Template under the terms of a ten year distribution agreement (the "ETHICON Agreement"). Upon signing the ETHICON Agreement, the Company received a nonrefundable payment from ETHICON of $5.3 million for the exclusive use of the Company for trademarks and regulatory filings related to the INTEGRA(R) Dermal Regeneration Template and certain other rights. This amount was initially recorded as deferred revenue and was recognized as revenue in accordance with the Company's revenue recognition policy for nonrefundable, up-front fees received. Additionally, the ETHICON Agreement required ETHICON to make nonrefundable payments to the Company each year based upon minimum purchases of INTEGRA(R) Dermal Regeneration Template. Upon early termination of the ETHICON Agreement in December 2003, ETHICON paid Integra $2.0 million, which the Company recorded as other income. The Company also recorded $11.0 million of other revenue in the fourth quarter of 2003 related to the acceleration of the recognition of unused minimum purchase payments and unamortized license fee revenue.

In 2003, and 2002, the Company received $2.8 million and $1.0 million, respectively, of event-related payments from ETHICON and $2.0 million of research funding. Both the event-related payments and the research funding were recorded in other operating revenue in accordance with the Company's revenue recognition policy.

The Company has an agreement with Wyeth for the development of collagen and other absorbable matrices to be used in conjunction with Wyeth's recombinant human bone morphogenetic protein-2 (rhBMP-2) in a variety of bone regeneration applications. The agreement with Wyeth requires Integra to supply Absorbable Collagen Sponges to Wyeth (including those that Wyeth sells to Medtronic Sofamor Danek with rhBMP-2 for use in Medtronic Sofamor Danek's InFUSE(TM) product) at specified prices. In addition, the Company receives a royalty equal to a percentage of Wyeth's sales of surgical kits combining rhBMP-2 and the Absorbable Collagen Sponges. The agreement terminates in 2007, but may be extended at the option of the parties. The agreement does not provide for milestones or other contingent payments, but Wyeth pays the Company to assist with regulatory affairs and research. The Company received $2.2 million and $1.2 million of research and development revenues under the agreement in 2003 and 2002, respectively.

## 13. COMMITMENTS AND CONTINGENCIES

As consideration for certain technology, manufacturing, distribution and selling rights and licenses granted to the Company, the Company has agreed to pay royalties on the sales of products that are commercialized relative to the granted rights and licenses. Royalty payments under these agreements by the Company were not significant for any of the periods presented.

Various lawsuits claims and proceedings are pending or have been settled by the Company. The most significant of those are described below.

In July 1996, the Company filed a patent infringement lawsuit in the United States District Court for the Southern District of California (the "Trial Court") 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 willfully and deliberately to induce, defendants Scripps Research Institute and Dr. 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 Integra that are based on the interaction between a family of cell surface proteins called integrins and the arginine-glycine-aspartic acid ("RGD") peptide sequence found in many extracellular matrix proteins. The defendants filed a countersuit asking for an award of defendants' reasonable attorney fees.

In March 2000, a jury returned a unanimous verdict in the Company's favor and awarded Integra $15.0 million in damages, finding that Merck KGaA had willfully infringed and induced the infringement of our patents. The Trial Court dismissed Scripps and Dr. Cheresh from the case.

In October 2000, the Trial Court entered judgment in Integra's favor and against Merck KGaA in the case. In entering the judgment, the Trial Court also granted to the Company pre-judgment interest of $1.4 million, bringing the total award to $16.4 million, plus post-judgment interest. Merck KGaA filed various post-trial motions requesting a judgment as a matter of law notwithstanding the verdict or a new trial, in each case regarding infringement, invalidity and damages. In September 2001, the Trial Court entered orders in favor of Integra and against Merck KGaA on the final post-judgment motions in the case, and denied Merck KGaA's motions for judgment as a matter of law and for a new trial.

Merck KGaA and Integra each appealed various decisions of the Trial Court to the United States Court of Appeals for the Federal Circuit (the "Circuit Court"). In June 2003, the Circuit Court affirmed the Trial Court's finding that Merck KGaA had infringed our patents. The Circuit Court also held that the basis of the jury's calculation of damages was not clear from the trial record, and remanded the case to the Trial Court for further factual development and a new calculation of damages consistent with the Circuit Court's decision. Merck KGaA filed a petition for a writ of certiorari with the United States Supreme Court (the "Supreme Court") seeking review of the Circuit Court's decision, and the Supreme Court granted the writ in January 2005. Oral argument is scheduled for April 2005, and we expect the Supreme Court to render a decision before the end of its current term.

In September 2004, the Trial Court ordered Merck KgaA to pay Integra $6.4 million in damages. following the Circuit Court's order. Further enforcement of the Trial Court's order has been stayed pending the decision of the Supreme Court.

The Company has not recorded any gain in connection with this matter, pending final resolution and completion of the appeals process.

In addition to the Merck KGaA matter, the Company is subject to various claims, lawsuits and proceedings in the ordinary course of its business, including claims by current or former employees, distributors and competitors and with respect to our products. In the opinion of management, such claims are either adequately covered by insurance or otherwise indemnified, or are not expected, individually or in the aggregate, to result in a material adverse effect on the Company's financial condition. However, it is possible that our results of operations, financial position and cash flows in a particular period could be materially affected by these contingencies.

Three of the Company's French subsidiaries that were acquired from the neurosciences division of NMT Medical, Inc. received a tax reassessment notice from the French tax authorities seeking in excess of 1.7 million euros in back taxes, interest and penalties. Following objection from NMT Medical, the amount claimed by the authorities was reduced to 930,367 euros, and negotiations and other procedures are under way, which may lead to a further reduction of the amount owed. NMT Medical, the former owner of these entities, has agreed to indemnify Integra against direct damages and liability arising from misrepresentations in connection with these tax claims. In addition, NMT Medical, Inc. has agreed to provide the French tax authorities with payment of the tax liabilities on behalf of each of these subsidiaries.

In December 2003, the Company recorded a $1.1 million charge in connection with closing of its San Diego research center, the termination of certain research programs conducted there, and the consolidation of the remaining research activities into its other facilities. The charge consisted of the following (in thousands):

| | |
|---|---|
| Facility lease termination fee .................. | $ 379 |
| Research program termination costs ............. | 216 |
| Property and equipment impairment ............... | 183 |
| Inventory write-off ............................ | 157 |
| Employee severance ............................. | 120 |
| Other .......................................... | 52 |
| Total | $1,107 |

The inventory write-off was recorded to cost of product revenues. All other amounts were recorded to research and development expense. All amounts were paid in 2003, except for the employee severance amounts, which were included in accrued expenses and other current liabilities at December 31, 2003 and subsequently paid in 2004.

14. SEGMENT AND GEOGRAPHIC INFORMATION

Integra management reviews financial results and manages the business on an aggregate basis. Therefore, financial results are reported in a single operating segment, the development, manufacture and marketing of medical devices for use in neuro-trauma, neurosurgery, reconstructive surgery and general surgery.

Product revenues consisted of the following:

| | 2004 | 2003 | 2002 |
|---|---|---|---|
| | (in thousands) | | |
| Monitoring products ............. | $ 48,217 | $ 44,229 | $ 37,184 |
| Implant products ................ | 78,418 | 53,301 | 38,326 |
| Instruments ..................... | 77,667 | 47,168 | 16,802 |
| Private label products .......... | 24,188 | 21,997 | 20,313 |
| Consolidated product revenues ... | $228,490 | $166,695 | $112,625 |

Certain of the Company's products, including the DuraGen(R) Dural Graft products, NeuraGen(TM) Nerve Guide, INTEGRA(R) Dermal Regeneration Template, INTEGRA(TM) Bi-Layer Matrix Wound Dressing, and BioMend(R) Absorbable Collagen Membrane, contain material derived from bovine tissue. Products that contain materials derived from animal sources, including food as well as pharmaceuticals and medical devices, are increasingly subject to scrutiny from the press and regulatory authorities. These products comprised 31%, 27% and 32% of product revenues in 2004, 2003 and 2002, respectively. Accordingly, widespread public

controversy concerning collagen products, new regulation, or a ban of the Company's products containing material derived from bovine tissue, could have a material adverse effect on the Company's current business or its ability to expand its business.

Product revenue and long-lived assets (excluding financial instruments and deferred tax assets) by major geographic area are summarized below:

| | United States | Europe | Asia Pacific | Other Foreign | Consolidated |
|---|---|---|---|---|---|
| | (in thousands) | | | | |
| Product revenue: | | | | | |
| 2004 .................... | $180,887 | $ 30,941 | $ 8,535 | $ 8,127 | $228,490 |
| 2003 .................... | 132,805 | 21,433 | 5,828 | 6,629 | 166,695 |
| 2002 .................... | 90,422 | 14,737 | 4,062 | 3,404 | 112,625 |
| Long-lived assets: | | | | | |
| December 31, 2004 ...... | $ 83,235 | $ 46,282 | $ -- | $ -- | $129,517 |
| December 31, 2003 ...... | 81,182 | 21,082 | -- | -- | 102,264 |
| December 31, 2002 ...... | 45,319 | 18,408 | -- | -- | 63,727 |

15. SELECTED QUARTERLY INFORMATION -- UNAUDITED

| | Fourth Quarter | Third Quarter | Second Quarter | First Quarter |
|---|---|---|---|---|
| | (in thousands, except per share data) | | | |
| 2004: | | | | |
| Total revenue .................... | $ 61,811 | $ 59,130 | $ 56,441 | $ 52,443 |
| Cost of product revenues ........ | 23,221 | 22,412 | 21,665 | 20,001 |
| Total other operating expenses .. | 24,959 | 48,898 | 23,176 | 20,714 |
| Operating income (loss) ......... | 13,631 | (12,180) | 11,600 | 11,728 |
| Interest income (expense), net .. | 95 | 243 | 160 | 57 |
| Other income (expense), net ..... | 2,250 | 306 | 135 | (17) |
| Income (loss) before income taxes ............... | 15,977 | (11,631) | | |

11,895 11,768
Income tax expense
(benefit) ....
6,137 (4,034)
4,377 4,331 Net
income (loss)
............... $
9,839 $ (7,597) $
7,518 $ 7,437
Basic net income
per share....... $
0.32 $ (0.25) $
0.25 $ 0.25
Diluted net income
per share .... $
0.30 $ (0.25) $
0.23 $ 0.23

The retroactive application of EITF Issue 04-08 reduced previously reported diluted earnings per share by $0.01 in both the first and second quarters of 2004.

In the third quarter of 2004, the Company recorded the following:

- a $1.4 million charge in connection with a milestone payment related to the completion of certain development activities related to an advanced neuromonitoring system;

- a $23.9 million share-based compensation charge associated with the renewal of the Company's President and Chief Executive Officer's employment agreement; and

- a $1.3 million tax charge incurred in connection with the reorganization of certain European operations.

In the fourth quarter of 2004, the Company recognized $1.4 million of other income related to an unrealized gain on a foreign currency collar, which was used to reduce the exposure to fluctuations in the exchange rate between the euro and the US dollar as a result of the Company's commitment to acquire Newdeal Technologies for 38.5 million euros. The Newdeal Technologies acquisition was completed in January 2005.

2003:

| | | | | |
|---|---|---|---|---|
| Total revenue .................. | $ 59,025 | $ 47,058 | $ 42,736 | $ 36,780 |
| Cost of product revenues ........ | 20,935 | 18,869 | 17,090 | 13,703 |
| Total other operating expenses .. | 25,095 | 17,266 | 17,357 | 15,637 |
| Operating income ............... | 12,995 | 10,923 | 8,289 | 7,440 |
| Interest income (expense), net .. | 81 | (188) | (198) | 776 |
| Other income (expense), net ..... | 1,962 | 309 | 451 | 349 |
| Income before income taxes ...... | 15,038 | 11,044 | 8,542 | 8,565 |
| Income tax expense ............. | 5,867 | 4,210 | 3,124 | 3,127 |
| Net income ..................... | $ 9,171 | $ 6,834 | $ 5,418 | $ 5,438 |
| Basic net income per share....... | $ 0.31 | $ 0.24 | $ 0.19 | $ 0.18 |
| Diluted net income per share .... | $ 0.28 | $ 0.22 | $ 0.18 | $ 0.18 |

In the fourth quarter of 2003, the Company recorded the following:

- $11.0 million of other revenue related to the acceleration of the recognition of unused minimum purchase payments and unamortized license fee revenue from ETHICON following the termination of the Supply, Distribution and Collaboration agreement in December 2003;

- a $2.0 million payment from ETHICON from the termination of the agreement with them, which is included in other income;

- $1.1 million of expenses related to the closing of the Company's San Diego research center, consolidation of the research activities into other facilities and the discontinuation of certain research programs;

- a $400,000 acquired in-process research and development charge in connection with an acquisition; and

- a $2.0 million donation to the Integra Foundation, which is included in selling, general and administrative expenses.

The retroactive application of EITF Issue 04-08 reduced previously reported diluted earnings per share by $0.01 and $0.02, respectively, in the second and third quarters of 2003.

16. SUBSEQUENT EVENT

In November 2004, the Company agreed to acquire all of the outstanding capital stock of Newdeal Technologies SA ("Newdeal") for euro 38.5 million in cash, subject to certain adjustments. The acquisition closed on January 3, 2005.

Based in Lyon, France, Newdeal is a leading developer and marketer of specialty implants and instruments specifically designed for foot and ankle surgery. Newdeal's products include a wide range of products for the forefoot, the mid-foot and the hind foot, including the Bold(R) Screw, Hallu-Fix(R) plate system and the HINTEGRA(R) total ankle prosthesis. The company sells its products through a direct sales force in France, Belgium and the Netherlands, and through distributors in more than 30 countries, including the United States and Canada. Newdeal's target physicians include orthopedic surgeons specializing in injuries of the foot, ankle and extremities, as well as podiatric surgeons. The Company expects to benefit from the synergy between Newdeal's reconstructive foot and ankle fixation products and Integra's regenerative products that are used in the treatment of chronic and traumatic wounds of the foot and ankle.

The determination of the fair value of the assets acquired and liabilities assumed as a result of this acquisition is in progress. Based on a preliminary valuation, the following summarizes the fair value of the assets acquired and liabilities assumed:

| (All amounts in thousands) | |
|---|---|
| Current assets ...................... | $12,616 |
| Property, plant and equipment ........ | 1,078 |
| Intangible assets ................... | 14,900 |

| | |
|---|---|
| Goodwill | 27,614 |
| Total assets acquired | 56,208 |
| Liabilities assumed | 4,341 |
| Net assets acquired | $51,867 |

The acquired intangible assets consist primarily of developed technology, trade name, and customer relationships and are expected to be amortized over lives ranging from 5 to 30 years.

INTEGRA LIFESCIENCES HOLDINGS CORPORATION
VALUATION AND QUALIFYING ACCOUNTS

SCHEDULE II

| Description | Balance at Beginning Of Period | Charged to Costs and Expenses | Charged to Other Accounts(1) | Deductions(2) | Balance at End of Period |
|---|---|---|---|---|---|
| (in thousands) | | | | | |
| Year ended December 31, 2004 | | | | | |
| Allowance for doubtful accounts and Sales Returns .............. | $ 2,025 | $ 802 | $ 249 | $ (327) | $ 2,749 |
| Inventory reserves .......................... | 6,204 | 1,210 | 1,056 | (870) | 7,600 |
| Deferred tax asset valuation allowance ...... | 5,360 | -- | -- | -- | 5,360 |
| Year ended December 31, 2003 | | | | | |
| Allowance for doubtful accounts and Sales Returns .............. | $ 1,387 | $ 541 | $ 497 | $ (400) | $ 2,025 |
| Inventory reserves .......................... | 9,573 | 3,193 | 894 | (7,456) | 6,204 |
| Deferred tax asset valuation allowance ...... | 7,692 | -- | (2,332) | -- | 5,360 |
| Year ended December 31, 2002 | | | | | |
| Allowance for doubtful accounts and Sales Returns .............. | $ 1,403 | 1,961 | 559 | (2,537) | $ 1,387 |
| Inventory reserves .......................... | 5,812 | 4,152 | 787 | (1,178) | 9,573 |
| Deferred tax asset valuation allowance ...... | 34,356 | (20,389) | (3,260) | (3,015) | 7,692 |

(1) All amounts shown were recorded to goodwill in connection with acquisitions except for the $2.3 million and $3.3 million reduction in the deferred tax asset valuation allowance in 2003 and 2002, respectively, which were written off against the gross deferred tax asset.

(2) The $3.0 million reduction of the deferred tax asset valuation allowance in 2002 was recorded to additional paid-in capital.

EXHIBIT 3.1

# CERTIFICATE OF AMENDMENT

# OF

# AMENDED AND RESTATED

# CERTIFICATE OF INCORPORATION

# OF

# INTEGRA LIFESCIENCES CORPORATION

INTEGRA LIFESCIENCES CORPORATION, a corporation organized and existing under and by virtue of the Delaware General Corporation Law (the "Corporation"), DOES HEREBY CERTIFY THAT:

FIRST: The Board of Directors of the Corporation has adopted a resolution proposing and declaring advisable and in the best interests of the Corporation the following amendment to Article FIRST of the Amended and Restated Certificate of Incorporation of the Corporation, to read in its entirety as follows (the "Charter Amendment"):

> "The name of this Corporation is Integra LifeSciences Holdings Corporation"

SECOND: The stockholders of the Corporation, at an annual meeting of stockholders called and held upon notice properly given in accordance with Section 222 of the Delaware General Corporation Law, have adopted and approved the Charter Amendment in accordance with the provisions of Section 212 of the Delaware General Corporation Law,

THIRD: The Charter Amendment has been duly adopted and approved in accordance with the provisions of Section 242 of the Delaware General Corporation Law.

IN WITNESS WHEREOF, said Integra LifeSciences Corporation has caused this Certificate of Amendment of Amended and Restated Certificate of Incorporation to be executed by a duly authorized officer of the Corporation this 17th day of May, 1999.

INTEGRA LIFESCIENCES CORPORATION

By: /s/ Stuart M. Essig
---------------------------
Stuart M. Essig
President and Chief Executive Officer

EXHIBIT 10.22

# SEVERANCE AGREEMENT

This severance agreement (this "Agreement") is made as of the 20th day of February, 2003 by and between Integra LifeSciences Holdings Corporation, a Delaware Corporation, and Deborah A. Leonetti ("Executive").

## Background

WHEREAS, this Agreement is intended to specify the financial arrangements that the Company will provide to Executive upon Executive's separation from employment with the Company in connection with or after a Change in Control, as defined.

NOW, THEREFORE, in consideration of the premises and the mutual agreements contained herein and intended to be legally bound hereby, the parties hereto agree as follows:

## Terms

1. Definitions. The following words and phrases shall have the meanings set forth below for the purposes of this Agreement (unless the context clearly indicates otherwise):

(a) "Base Salary" shall mean a minimum base salary of $180,000 per year ("Base Salary"), payable in periodic installments in accordance with Company's regular payroll practices in effect from time to time. Executive's Base Salary shall be subject to annual reviews, but may not be decreased without Executive's express written consent (unless the decrease is pursuant to a general compensation reduction applicable to all, or substantially all, executive officers of Company) and may increase pursuant to such reviews, in which case the increased Base Salary shall become the "Base Salary."

(b) "Board" shall mean the Board of Direcetors of Company, or any successor thereto.

(c) "Cause," as determined by the Board in good faith, shall mean Executive has --

(1) failed to perform her stated duties in all material respects, which failure continues for 15 days after her receipt of written notice of the failure;

(2) intentionally and materially breached any provision of this Agreement and not cured such breach (if curable) within 15 days of her receipt of written notice of the breach;

(3) demonstrated her personal dishonesty in connection with her employment by Company;

(4) engaged in willful misconduct in connection with her employment with the Company;

(5) engaged in a breach of fiduciary duty in connection with her employment with the Company; or

(6) willfully violated any material law, rule or regulation, or final cease-and-desist order (other than traffic violations or similar offenses) or engaged in other serious misconduct of such a nature that her continued employment may reasonably be expected to cause the Company substantial economic or reputational injury.

(d) A "Change in Control" of Company shall be deemed to have occurred:

(1) if the "beneficial ownership" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934) of securities representing more than fifty percent (50%) of the combined voting power of Company Voting Securities (as herein defined) is acquired by any individual, entity or group (a "Person"), other than Company, any trustee or other fiduciary holding securities under any employee benefit plan of Company or an affiliate thereof, or any corporation owned, directly or indirectly, by the stockholders of Company in substantially the same proportions as their ownership of stock of Company (for purposes of this Agreement, "Company Voting Securities" shall mean the then outstanding voting securities of Company entitled to vote generally in the election of directors); provided, however, that any acquisition from Company or any acquisition pursuant to a transaction which complies with clauses (i), (ii) and (iii) of paragraph (3) of this definition shall not be a Change in Control under this paragraph (1); or

(2) if individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by Company's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbant Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any

such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(3) upon consummation by Company of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of Company or the acquisition of assets or stock of any entity (a "Business Combination"), in each case, unless immediately following such Business Combination: (i) Company Voting Securities outstanding immediately prior to such Business Combination (or if such Company Voting Securities were converted pursuant to such Business Combination, the shares into which such Company Voting Securities were converted) (x) represent, directly or indirectly, more than 50% of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors of the corporation resulting from such Business Combination (the "Surviving Corporation"), or, if applicable, a corporation which as a result of such transaction owns Company or all or substantially all of Company's assets either directly or through one or more subsidiaries (the "Parent Corporation") and (y) are held in substantially the same proportions after such Business Combination as they were immediately prior to such Business Combination; (ii) no Person (excluding any employee benefit plan (or related trust) of Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 50% or more of the combined voting power of the then outstanding voting securities eligible to elect directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation) except to the extent that such ownership of Company existed prior to the Business Combination; and (iii) at least a majority of the members of the board of directors of the Parent Corporation (or, if there is no Parent Corporation, the Surviving Corporation) were members of the Incumbent Board at the time of the execution of the initial agreement, or the action of the Board, providing for such Business Combination; or

(4) upon approval by the stockholders of Company of a complete liquidation or dissolution of Company.

(e) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(f) "Company" shall mean Integra LifeSciences Holdings Corporation and any corporation, partnership or other entity owned directly or indirectly, in whole or in part, by Integra LifeSciences Holdings Corporation.

(g) "Disability" shall mean Executive's inability to perform her duties hereunder by reason of any medically determinable physical or mental impairment which is expected to result in death or which has lasted or is expected to last for a continuous period of not fewer than six months.

(h) "Good Reason" shall mean:

(1) a material breach of this Agreement by Company which is not cured by Company within 15 days of its receipt of written notice of the breach;

(2) Company fails to obtain the assumption of this Agreement by any successor to Company; or

(3) during the one-year period following a Change in Control, the Company, without Executive's express written consent: (i) reduces Executive's base salary or the aggregate fringe benefits provided to Executive (except to the extent the decrease is pursuant to a general compensation or benefits reduction applicable to all, or substantially all, executive officers of Company); (ii) substantially diminishes the nature or status of Executive's responsibilities; or (iii) requires Executive to be based more than 25 miles from Executive's office location immediately prior to the Change in Control (except for required travel on Company business to an extent substantially consistent with Executive's business travel obligations immediately prior to the Change in Control).

(i) "Retirement" shall mean the termination of Executive's employment with Company in accordance with the retirement policies, including early retirement policies, generally applicable to Company's salaried employees.

(j) "Termination Date" shall mean the date specified in the Termination Notice.

(k) "Termination Notice" shall mean a dated notice which: (i) indicates the specific termination provision in this Agreement relied upon (if any); (ii) sets forth in reasonable detail the facts and circumstances claimed to provide a basis for the termination of Executive's employment under such provision; (iii) specifies a Termination Date; and (iv) is given in the manner specified in Section 9(h).

2. Term of Agreement. The term of this Agreement shall commence on the date hereof as first written above and shall continue through January 1, 2004; provided that commencing on January 1, 2004 and each January 1st thereafter, the term of this Agreement shall automatically be extended for one additional year unless not later than December 31 of the preceding year, the Company shall have given notice that it does not wish to extend this Agreement; and provided, further, that notwithstanding any such notice by the Company not to extend, this Agreement shall continue in effect for a period of 12 months beyond the date on which a Change in Control occurs if a Change in Control shall have occurred during such term.

3. Termination of Employment

(a) Prior to a Change in Control. Executive's rights upon termination of employment prior to a Change in Control shall be governed by the Company's standard employment termination policy applicable to Executive in effect at the time of termination or, if applicable, any written employment agreement between the Company and Executive other than this Agreement in effect at the time of termination.

(b) After a Change in Control.

(i) From and after the date of a Change in Control during the term of this Agreement, the Company shall not terminate Executive from employment with the Company except as provided in this Section 3(b) or as a result of Executive's Disability, Retirement or death.

(ii) From and after the date of a Change in Control during the term of this Agreement, the Company shall have the right to terminate Executive from employment with the Company at any time during the term of this Agreement for Cause, by written notice to Executive, specifying the particulars of the conduct of Executive forming the basis for such termination.

(iii) From and after the date of a Change in Control during the term of this Agreement: (x) the Company shall have the right to terminate Executive's employment without Cause, at any time; and (y) Executive shall, upon the occurrence of such a termination by the Company without Cause, or upon the voluntary termination of Executive's employment by Executive for Good Reason, be entitled to receive the benefits provided in Section 4 hereof. Executive shall evidence a voluntary termination for Good Reason by written notice to the Company given within 60 days after the date of the occurrence of any event that Executive knows or should reasonably have known constitutes Good Reason for voluntary termination. Such notice need only identify Executive and set forth in reasonable detail the facts and circumstances claimed by Executive to constitute Good Reason. Any notice give by Executive pursuant to this Section 3 shall be effective five business days after the date it is given by Executive.

4. Termination.

(a) Termination with Salary Continuation . In the event that within twelve months of a Change in Control (i) Executive terminates her employment for Good Reason, or (ii) Executive's employment is terminated by Company for a reason other than Retirement, Disability, death or Cause, then Company shall:

(i) pay Executive a severance amount equal to Executive's Base Salary (determined without regard to any reduction that would give rise to Good Reason) as of her last day of active employment; the severance amount shall be paid in a single sum on the first business day of the month following the Termination Date; and

(ii) maintain and provide to Executive, at no cost to Executive, for a period ending at the earliest of (i) the third anniversary of the Termination Date and (ii) Executive's death, continued participation in all group insurance, life insurance, health and accident, disability, and other employee benefit plans in which Executive would have been entitled to participate had her employment with Company continued throughout such period, provided that such participation is not prohibited by the terms of the plan or by Company for legal reasons.

(b) Other Termination. In the event Executive's employment terminates other than as set forth in Section 4(a), Executive's rights upon termination shall be governed by the Company's standard employment termination policy applicable to Executive in effect at the time of termination or, if applicable, any written employment agreement between the Company and Executive other than this Agreement in effect at the time of termination

(c) Termination Notice. Except in the event of Executive's death, a termination under this Agreement shall be effected by means of a Termination Notice.

5. Executive Duties. Executive shall not terminate employment with the Company without giving 30 days' prior notice to the Board, and during such 30-day period Executive will assist, as and to the extent reasonably requested by the Company, in training the successor to Executive's position with the Company. The provisions of this Section 5 shall not apply to any termination (voluntary or involuntary) of the employment of Executive pursuant to Section 4(a) hereof.

6. Withholding. Company shall have the right to withhold from all payments made pursuant to this Agreement any federal, state, or local taxes and such other amounts as may be required by law to be withheld from such payments.

7. Assignability. Company may assign this Agreement and its rights and obligations hereunder in whole, but not in part, to any entity to which Company may transfer all or substantially all of its assets, if in any such case said entity shall expressly in writing assume all obligations of Company hereunder as fully as if it had been originally made a party hereto. Company may not otherwise assign this Agreement or its rights and obligations hereunder. This Agreement is personal to Executive and her rights and duties hereunder shall not be assigned except as expressly agreed to in writing by Company.

8. Death of Executive. Any amounts due Executive under this Agreement (not including any Base Salary not yet earned by Executive) unpaid as of the date of Executive's death shall be paid in a single sum as soon as practicable after Executive's death to Executive's surviving spouse, or if none, to the duly appointed personal representative of her estate.

9. Legal Expenses. In the event of a termination pursuant to Section 4(a) hereof, the Company shall also pay to Executive all reasonable legal fees and expenses incurred by Executive as a result of such termination of employment (including all fees and expenses, if any, incurred by Executive in contesting or disputing any such termination or in seeking to obtain to enforce any right or benefit provided to Executive by this Agreement whether by arbitration or otherwise).

10. Miscellaneous.

(a) Amendment. No provision of this Agreement may be amended unless such amendment is signed by Executive and such officer as may be specifically designated by the Board to sign on Company's behalf.

(b) Nature of Obligations. Nothing contained herein shall create or require Company to create a trust of any kind to fund any benefits which may be payable hereunder, and to the extent that Executive acquires a right to receive benefits from Company hereunder, such right shall be no greater than the right of any unsecured general creditor of the Company.

(c) ERISA. For purposes of the Executive Retirement Income Security Act of 1974, this Agreement is intended to be a severance pay Executive welfare benefit plan, and not an Executive pension plan, and shall be construed and administered with that intention.

(d) Prior Employment. Executive represents and warrants that her acceptance of employment with Company has not breached, and the performance of her duties hereunder will not breach, any duty owed by her to any prior employer or other person.

(e) Headings. The Section headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation or this Agreement. In the event of a conflict between a heading and the content of a Section, the content of the Section shall control.

(f) Gender and Number. Whenever used in this Agreement, a masculine pronoun is deemed to include the feminine and a neuter pronoun is deemed to include both the masculine and the feminine, unless the context clearly indicates otherwise. The singular form, whenever used herein, shall mean or include the plural form where applicable.

(g) Severability. If any provision of this Agreement or the application thereof to any person or circumstance shall be invalid or unenforceable under any applicable law, such event shall not affect or render invalid or unenforceable any other provision of this Agreement and shall not affect the application of any provision to other persons or circumstances.

(h) Binding Effect. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors, permitted assigns, heirs, executors and administrators.

(i) Notice. For purposes of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given if hand-delivered, sent by documented overnight delivery service or by certified or registered mail, return receipt requested, postage prepaid, addressed to the respective addresses set forth below:

To the Company:

Integra LifeSciences Holdings Corporation
311 Enterprise Drive
Plainsboro, New Jersey 08536
Attn: President

With a copy to:

The Company's General Counsel

To the Executive:

Deborah Leonetti
143 Orthodox Drive
Richboro, PA 18954

(j) Entire Agreement. This Agreement sets forth the entire understanding of the parties and supersedes all prior agreements, arrangements and communications, whether oral or written, pertaining to the subject matter hereof.

(k) Governing Law. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the United States where applicable and otherwise by the laws of the State of New Jersey.

IN WITNESS WHEREOF, this Agreement has been executed as of the date first above written.

| INTEGRA LIFESCIENCES HOLDINGS CORPORATION | EXECUTIVE |
|---|---|
| By:/s/ Stuart M. Essig | /s/ Deborah Leonetti |
| - ---------------------- | -------------------- |
| Its: President and Chief Executive Officer | |

EXHIBIT 10.23b

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
P. O. Box 362350, San Juan, Puerto Rico 001936-2350

CONSTRUCTION AND LEASE CONTRACT

PROJECT NO: Extension to building
T-0810-0-68 of approximately 6,513 sq. ft.
and Lot 6 of L-154-2-62

LOCATION: Anasco, Puerto Rico

THIS AGREEMENT ENTERED into on April 11, 2003 by AS "LANDLORD", THE PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY, AND AS "TENANT", INTEGRA NEUROSCIENCES P.R., INC. (INTEGRA P.R.).

WITNESSETH:

WHEREAS, LANDLORD is the owner of certain landsites, identified in the Epigraph, described in Schedule "A" annexed hereto and made a part hereof (hereinafter referred to as the Premises). The Premises are subject to the encumbrances, liens and/or restrictions, if any, that may appear from said Schedule "A". Furthermore, the air rights of the Premises, are excepted and reserved to LANDLORD.

WHEREAS, LANDLORD has agreed to lease to TENANT, and TENANT has agreed to hire from LANDLORD the Premises and an industrial building of approximately 6,513 square feet of gross building area to be constructed by LANDLORD on the Premises.

NOW THEREFORE, in consideration of the foregoing premises, the parties herein agree on this Lease subject to the following:

# TERMS AND CONDITIONS

One: TENANT hereby agrees and undertakes to construct a building at the Premises of approximately 6,513 square feet of floor space (hereinafter referred to as the "Building" or "Project").

Upon completion of the construction of the extension, LANDLORD shall describe said extension and said description shall be included and made part of the Supplement and Amendment to Lease Contract.

Two: The Building shall be used and occupied exclusively in the manufacture of medical products and medical devices (SIC #3841). Lot number 6 will be use for parking.

Three: Tenant shall hold the Premises for a period of fifteen (15) years to commence on the first day of the following month after the termination of the building.

Four: Commencing on the first day of the following month after the delivery of the new construction extension TENANT shall pay to LANDLORD annual rental of the following manner:

| | Rent Per Sq. Ft. | Monthly Basic Rent | Annua Basic Rent |
|---|---|---|---|
| (a) | T-0810-0-68 and<br>180 months $3.85 | $7,487.71 | $89,852.46 |
| (b) | Lot 6 | $958.34 | |

The monthly installments for rent specified herein, shall be paid in advance on the first day of each month at LANDLORD'S office, or at any office place that LANDLORD may notify. In the event that the date of commencement does not fall on the first of the month, TENANT further agrees to pay the first partial monthly installments, prior to, or on the date of commencement.

Five: TENANT shall deposit with LANDLORD the amount of $10,782.30 distributed as follows:

a) $3,016.28 previously deposited by TENANT as a reservation fee of Project Num T-0810-0-68, on June 30, 1994.

b) $7,766.02 will be paid upon delivery of the building to TENANT in a Certified or Manager's Check.

This deposit shall guarantee the compliance by TENANT of its obligations, under this Contract particularly, but not limited to, the payment of rent, the compliance of the environmental clauses herein included and the return of the Premises in proper condition at the termination of this Lease. On said termination, if TENANT is not in default of any of the terms and conditions of this Contract, LANDLORD will return to TENANT the sum of money, if any, held pursuant to this provision, after LANDLORD's Environmental Office certifies that there are no environmental deficiencies as a result of TENANT'S manufacturing operation on the demised Premises.

Six: TENANT agrees to have on the date of commencement of the term of this Lease a capitalization of $500,000.00. Likewise, TENANT agrees to install within six (6) months from the same date manufacturing machinery and equipment with a value of at least $900,899.00. This shall not include the cost of transportation and installation thereof, nor its ordinary depreciation after installation; and within eighteen (18) months from the date of commencement of the term, to employ a minimum of eighty-five (85) production workers. The aforementioned levels, shall be maintained throughout the term of this Lease or any extension thereof.

Seven: All notices, demands, approvals, consents and/or communications herein required or permitted shall be in writing If by mail should be certified

and to the following addresses, to LANDLORD: P0 BOX 362350, SAN JUAN, PUERTO RICO 00936-2350. To TENANT:

Mr. Joseph Celusak, General Manager Parent Company: Integra LifeSciences P.O. Box 167, Aoasco, P.R. 00610 311 Enterprise Drive
Phone (787) 826-2329 Plainsboro, NJ 08536
Att: Senior VP-Operations and Law Department

Eight: Net Lease - This Lease shall be interpreted as a net lease; it being the exclusive responsibility of TENANT to pay for all operating expenses, utilities, maintenance, expenses, insurance, taxes or any other costs, expenses or charges of any nature not specifically assumed by LANDLORD hereunder.

Nine: Warranty as to use - LANDLORD does hereby warrant that at the time of the commencement of the term of this Lease, the Premises may be used by TENANT for the manufacturing purposes herein intended which are deemed consistent with the design and construction in accordance with the corresponding plans and specifications.

Ten: Alterations - TENANT shall make no alterations, additions or improvements to the Premises without the prior consent of LANDLORD and all such alterations, additions or improvements made by or for TENANT, shall be at TENANT'S own cost and expenses and shall, when made, be the property of LANDLORD without additional consideration and shall remain upon and be surrendered with the Premises as a part thereof at the expiration or earlier termination of this Lease, subject to any right of LANDLORD to require removal or to remove as provided for hereinafter.

In the event TENANT asks for LANDLORD'S consent or any alteration, LANDLORD may at its option, require from TENANT to submit plans and specifications for said alteration. Before commencing any such work, said plans and specifications,

if required, shall be filed with and approved by all governmental agencies having jurisdiction thereof, and the consent of any mortgagee having any interest in or lien upon this Lease shall be procured by TENANT and delivered to LANDLORD if required by the term of the mortgage.

Before commencing any such work, TENANT shall at TENANT'S own cost and expense, deliver to LANDLORD a General Accident Liability Policy more particularly described in Article THIRTY (30) hereof, but said policy shall recite and refer to such work, and in addition thereto, if the estimated cost of such work is more than FIVE THOUSAND DOLLARS ($5,000.00), TENANT shall, at TENANT'S own cost and expense, deliver to LANDLORD a surety bond, or a performance bond from a Company acceptable to LANDLORD, or a similar bond or other security satisfactory to LANDLORD in an amount equal to the estimated cost of such work, guaranteeing the completion of such work within a reasonable time, due regard being had to conditions, free and clear of materialmen liens, mechanics liens or any other kind of lien, encumbrances, chattel mortgages and conditional bills of sale and in accordance with said plans and specifications submitted to and approved by LANDLORD. At LANDLORD'S option TENANT shall provide a blanket written guarantee in an amount sufficient to satisfy LANDLORD as to all alterations, changes, additions and improvements to the Premises in lieu of separate guarantee for each such project.

TENANT shall pay the increased premium, if any, charged by the insurance companies carrying insurance policies on said building, to cover the additional risk during the course of such work.

Eleven: Power Substation - If required by TENANT'S operations, TENANT shall, at its own cost and expense, construct and/or install a power substation and connect it to the PUERTO RICO ELECTRICAL POWER AUTHORITY (PREPA) distribution lines, for voltages up to 13.2 KV; and to PREPA transmission lines

for voltages of 38 KV, all in conformity to PREPA'S requirements. Such construction shall, in no event, be undertaken by TENANT until after LANDLORD has approved the location thereof, as well as the routing of the power line extension.

Twelve: Repairs and Maintenance - TENANT shall, at its own cost and expense, put, keep and maintain in thorough repair and good order and safe condition of the building and improvements standing upon the Premises at the commencement of the term hereon or thereafter erected upon the premises, or forming part of the Premises, and their full equipment and appurtenances, the side walks areas, sidewalk hoists, railings, gutters, curbs and the like in from of the adjacent to the Premises, and each and every part thereof, both inside and outside, extraordinary and ordinary, and shall repair the whole and each and every part thereof in order to keep the same at all times during the term hereof in through repair and good order and sale conditions, whenever the necessity or desirability therefor may occur, and whether or not the same shall occur, in whole or in part, by wear, tear, obsolescence or defects, and shall use all reasonable precautions to prevent waste, damage or injury, except as provided hereinafter.

LANDLORD and not TENANT, shall be responsible for and shall promptly correct any defects in the building on the Premises which are due to faulty design, or to errors of construction not apparent at the time the Premises were inspected by TENANT for purposes of occupancy by TENANT; this shall not be interpreted to relieve TENANT of any responsibility or liability herein otherwise provided, including among others, for structural failure due to the fault or negligence of TENANT.

TENANT shall also, at TENANT'S own cost and expense, maintain the landsite in thoroughly clean condition; free from solid waste (which includes liquid and

gaseous as defined by the Resource Conservation and Recovery Act), and the Regulation on Hazardous and Non-Hazardous Waste of the Environmental Quality Board, as amended, rubbish, garbage and other obstructions. Specifically, TENANT shall not use said landsite, nor permit it to be used, as a deposit or as dump for raw materials, waste materials, hazardous, toxic or non-toxic substances, or substances of whichever nature. TENANT shall neither make any excavation for the purpose of storing, putting away and/or concealing raw materials or waste materials of any kind. Underground storage of hazardous and/or toxic substances is specifically prohibited.

TENANT shall not do or cause to be done, nor permit on the Premises anything deemed extra hazardous, nor shall it store in the Premises flammable or toxic products of and class or kind without taking the proper precautions and complying with applicable federal and Commonwealth laws and regulations.

In case TENANT needs to store in the landsite raw materials of a hazardous and/or toxic nature or hazardous and/or toxic wastes, TENANT shall notify LANDLORD and secure its prior authorization. LANDLORD shall he furnished with a copy of any permit issued for such storage.

Although it is not intended that TENANT shall be responsible for any decrease in value of the Premises due to the mere passing of time, or for ordinary wear and tear of surfaces and other structural members of the building, nevertheless TENANT shall: (i) replace, with like kind and quality, doors, windows; electrical, sanitary and plumbing, fixtures; building equipment and/or other facilities or fixtures in the Premises which through TENANT'S use, fault or negligence, become too worn out to repair during the life of this Lease, (ii) paint the property inside and outside as required.

In addition to the foregoing, TENANT shall indemnify and safe harmless LANDLORD from and against any and all cost, expenses claims, losses, damages, or penalties, including counsel fees, because of or due to TENANT'S failure to comply with the foregoing, and TENANT shall not call upon LANDLORD for any disbursement or outlay of money whatsoever and hereby expressly releases and discharges LANDLORD of and from any liability or responsibility whatsoever in connection therewith.

Thirteen: Roof Care - TENANT, without the prior consent of LANDLORD, shall not: (i) erect or cause to be erected on the roof any bill board, aerial sign, or structure of any kind, (ii) place any fixture, equipment or any other load over the roof, (iii) drill any hole on the roof for whichever purpose, (iv) use the roof for storage, nor (v) correct any leaks whatsoever, this being LANDLORD'S sole responsibility. Furthermore, TENANT shall take all reasonable precautions to insure that the drainage facilities of the roof are not clogged and are in good and operable conditions at all times.

Fourteen: Floor Loads - TENANT hereby acknowledges that it has been informed by LANDLORD that the maximum floor load of the Premises herein demised is 150 pounds per sq. ft. Therefore, TENANT hereby agrees that in the event the load of the machinery and equipment to be installed thereat exceeds such maximum load, it shall, at its own cost and expense, carry out any improvements to the floor of the Premises which may be necessary to support such additional load; it being further agreed and understood that construction and/or installation of such improvements shall not be commenced until after LANDLORD'S approval of the plans to be prepared therefor by TENANT and thereafter, after completion of construction and/or installation of said facilities, they shall be deemed covered by and subject to the applicable provisions of this Contract; it being further specifically agreed and understood that upon termination of this Lease, such facilities shall be removed by TENANT, at its own cost and expense, or in the alternative, and upon request by LANDLORD, they shall remain as part of the Premises with no right whatsoever on the part of TENANT to be reimbursed and/or compensated therefor.

Fifteen: Fixtures - TENANT shall not affix to the ceiling, nor to its supporting joists or columns, nor to any unit, walls, any air conditioning unit, nor any other fixture, without the prior consent of LANDLORD.

Sixteen: Environment of Protection and Compliance - TENANT agrees, as a condition hereof, that it will not discharge its solid, liquid or gaseous industrial and/or sanitary effluent or discharges, either into the sewer system and/or any other place until after required authorization therefor has been obtained from the Puerto Rico Aqueduct and Sewer Authority and/or the Department of Health of Puerto Rico and/or Environmental Quality Board, and/or any other governmental agency having jurisdiction therefore and TENANT further agrees and undertakes to pre-treat any such effluent, prior to discharge thereof as required by the said Authority, Department and/or governmental agency with jurisdiction, and/or to install any equipment or system required, and to fully abide by and comply with any and all requisites imposed thereby, and upon request by LANDLORD to submit evidence of such compliance; it being agreed that non-compliance thereof by TENANT for a period of ninety (90) days after notice, shall be deemed an additional event of default under the provisions hereof. Provided, that no construction and/or installation shall be made until LANDLORD has approved of it.

TENANT shall also, at TENANT'S own cost and expense, construct and maintain Premises, processes and/or operating procedures in compliance with the terms, conditions and commitments specified in any Environmental Impact Statement, Environmental Assessment or any other analogous document produced by the Commonwealth of Puerto Rico, Economic Development Administration/ LANDLORD as lead agency/ or by any other governmental agency in connection with the approval or operation of the project.

TENANT shall also serve LANDLORD with a copy of any lawsuit, notice of violation, order to show cause or any other regulatory or legal action against TENANT in any environmental-related case or issue.

TENANT shall also serve LANDLORD with a copy of any permit granted to TENANT for air emissions, water discharge, solid waste generation, storage, treatment and/or disposal, and for any hazardous and/or toxic waste raw materials or by-products used or generated, stored, treated and/or disposed or any other endorsement, authorization or permit required to be obtained by TENANT.

TENANT shall also serve LANDLORD with a copy of any filing or notification to be filed by TENANT with any regulatory agency or any environmentally related case or issue, especially in any situation involving underground or surface water pollution, hazardous and/or toxic waste spillage and ground contamination. The notification to LANDLORD shall take place not later than the actual filing of the pertinent documents with the regulatory agency.

Seventeen: Improper Use - TENANT, during the term of this Lease and of any renewal or extension thereof, agrees not to use or keep or allow the leased Premises or any portion thereof to be used or occupied for any unlawful purpose or in violation of this lease or of any certificate of occupancy or certificate of compliance covering or affecting the use of the Premises or any portion thereof, and will not suffer any act to be done or any condition to exist on the Premises or any portion thereof or any article to be brought thereon, which may be dangerous, unless safeguarded as required by law, or which may in law, constitute a nuisance, public or private, or which may made void or voidable any insurance lien in force on the leased Premises.

Eighteen: Government Regulation - TENANT agrees and undertakes to abide by and comply with any and all rules, regulations and requirements of the Planning Board of Puerto Rico, the Department of Health, the Environmental Quality Board, the Environmental Protection Agency (EPA), where applicable and/or of any other governmental agency, having jurisdiction thereon applicable to TENANT operations at the Premises and/or products to be manufactured thereat, and if requested by LANDLORD, TENANT shall submit evidence of such compliance; it being agreed and understood that noncompliance with any and all such rules, regulations and requisites shall be deemed an additional event of default under the provisions of this Contract, unless remedied within thirty (30) days after receipt of notice hereof.

Any and all improvements to the Premises required by any governmental agency, having jurisdiction thereon so as to carry TENANT'S operations in accordance with the regulations and requisites thereof, shall be at TENANT'S own cost and expense, except for any improvements that may be required as a result of any violation by LANDLORD that may exist at the effective date hereof other than violations caused by TENANT or TENANT'S agents.

TENANT further agrees and undertakes to install in the Premises, at its own costs and expense, such devices as may be necessary to prevent any hazard, which may be caused or created by its operations from affecting the environmental integrity of the landsite or causing any nuisance to adjacent TENANTS and/or the community in general, it being agreed and understood that creating or causing any such nuisance, shall be deemed an additional event of default under the provisions of this Contract.

TENANT further agrees and undertakes to abide by and comply with any and all rules, regulations and requisites of the Fire Department relative to the use and storage of raw materials, finished products and/or inflammable materials, and/or of any other governmental agency, having jurisdiction thereon applicable to TENANT'S operations at the Premises, and if requested by LANDLORD, TENANT shall submit evidence of such compliance; it being agreed and understood that noncompliance by TENANT with any of the aforementioned rules, regulations and requisites shall be deemed, in each of such cases, an additional event of default under the provision of this Contract, unless remedied within thirty (30) days after receipt of notice thereof.

If as a consequence of the foregoing dispositions, TENANT need to make alterations to the Premises, the same shall be done subject to the dispositions of Article TEN hereof.

Nineteen: Use Permit - TENANT agrees to abide by and comply with any and all conditions and requisites included in the Use Permit which may be issued by the Puerto Rico Permits and Regulations Administration (ARPE), and if requested by LANDLORD, shall submit evidence of such compliance; it being agreed and understood that non-compliance by TENANT with any and all such conditions and requisites and/or the cancellation of the said Use Permit shall, in each of such cases, be deemed an additional event of default under the provisions of this Contract.

Twenty: Inspection - TENANT shall permit LANDLORD or LANDLORD'S agents to enter the Premises at all reasonable time for the purpose of inspecting the same, or of making repairs that TENANT has neglected or refused to make as required by the terms, covenants and conditions of this Lease, and also for the purpose of showing the Premises to persons wishing to purchase the same, and during the year next preceding the expiration of this Lease, shall permit inspection thereof by or on behalf of prospective TENANT. If, at a reasonable

time, admission to the Premises for the purposes aforesaid cannot be obtained, or if at any time an entry shall be deemed necessary for the inspection or protection of the property, or for making any repairs, whether for the benefit of TENANT or LANDLORD, LANDLORD'S agents or representatives may enter the Premises by force, or otherwise, without rendering LANDLORD, or LANDLORD'S agents or representative liable to any claim or cause of action or damage by reason thereof, and accomplish such purpose.

The provisions contained in this Article are not to be construed as an increase of LANDLORD'S obligations under this Lease; it being expressly agreed that the right and authority hereby reserved does not impose, nor does LANDLORD assume, by reason thereof, any responsibility or liability whatsoever for the repair, care of supervision of the Premises, or any building, equipment or appurtenance on the Premises.

Twenty-one: LANDLORD'S entry for repairs and alterations - LANDLORD reserves the right to make such repairs, changes alterations, additions or improvements in or to any portion of the building and the fixtures and equipment which are reputed part thereof as it may deem necessary or desirable and for the purpose of making the same, to use the street entrances, halls, stairs and elevators of the building provided that there be no unnecessary obstruction of "TENANT'S" right of entry to and peaceful enjoyment of the Premises, and TENANT shall make no claim or rent abatement compensation or damages against LANDLORD by reason of any inconvenience or annoyance arising therefrom.

Twenty-two: LANDLORD excused in certain instances - If, by reason of inability to obtain and utilized labor, materials or supplies, or by reason of circumstances directly or indirectly the result of any state of war, or of emergency duly proclaimed by the corresponding governmental authority, or by reason (if any laws, rules orders, regulations or requirements of any governmental now or hereafter in force or by reason of strikes or riots, or by

reason of accidents, in damage to or the making of repairs, replacements or improvements to the building or any of the equipment thereof, or by reason of any other cause reasonable beyond the control of LANDLORD, LANDLORD shall be unable to perform or shall be delayed in the performance of any covenant to supply any service, such non-performance or delay in performance shall not be ground to any claim against LANDLORD for damages or constitute a total or partial eviction, constructive or otherwise. It being agreed and understood that the time for completion of any such construction, shall be extended for a period of time equal to the number of days of any such delay.

Twenty-three: Quiet Enjoyment - TENANT on paying the full rent and keeping and performing the conditions and covenants herein contained, shall and may peaceably and quietly enjoy the Premises for the term aforesaid, subject, however, to the terms of this Lease and to the mortgages hereinafter mentioned.

Twenty-four: Leasehold Improvements - If leasehold improvements made by or for the benefit of TENANT in the Premises at his request or other personal property to TENANT are assessable or taxable and a tax liability is imposed to TENANT or LANDLORD, it is understood that it shall be the sole responsibility of TENANT to pay such taxes and in no event shall such taxes be the liability or be transferable to LANDLORD. In the event that by operation of law, such taxes became a liability of LANDLORD, TENANT shall pay such taxes as they become due and payable and shall promptly reimburse LANDLORD for any payments or expenses incurred or disbursed by LANDLORD by reasons of any such assessment. Said amount shall be due and payable, as additional rent, with the next installment of rent. In the event that TENANT fails to make this payment when due, it shall be subject to the dispositions of Article THIRTY-SEVEN hereof.

Twenty-five: Stoppage of Operations - It is understood by the parties hereto that this Lease is made by LANDLORD in furtherance of the industrialization plans of the Commonwealth of Puerto Pico, and it is accordingly understood that TENANT will use all reasonable efforts while this Lease is in effect to maintain a manufacturing operation upon the Premises, but nothing contained in this paragraph shall be deemed to require TENANT to maintain such an operation otherwise than in accordance with sound principles of business management, or (without limiting the generality of the foregoing) to prevent TENANT from curtailing such operation or from shutting it down, whenever and as often as TENANT may, in the exercise of sound business judgment, deem such action advisable. However, TENANT shall give to LANDLORD notice of any necessary or convenient curtailment and/or shut-down, at least seven (7) days prior to the date fixed therefor except in cases of an emergency shut-down, in which case such notice shall be given at the earliest possible time. No curtailment of operations or shut-down in accordance with the provisions of this paragraph shall constitute a default under the provisions of this Contract which will enable LANDLORD to terminate it, unless such plants shall have been shut-down for a period of six (6) consecutive months. A shut-down on account of unforeseeable event or events which although foreseeable could not be prevented, shall not constitute a breach of this agreement. Nothing in this paragraph contained shall relieve TENANT from the payment of rent during the period of any shut-down or curtailments of operations.

Twenty-six: Assignment and Subletting - TENANT shall not assign, this Lease nor let or sublet the Premised or any part thereof except to its parent company, to a wholly owned subsidiary, to an affiliate of TENANT, wholly owned by TENANT's parent company or to a corporation to be organized by TENANT. In any of these cases, TENANT shall properly notify LANDLORD of said assignment or

subletting, it being agreed and understood that no such assignment or subletting shall: (i) reduce or, in any way, affect the obligations of TENANT under this Lease, nor (ii) release TENANT from liability under this Lease.

Twenty-seven: Successors in Interest - This Lease Contract and every provision thereof, shall bind and inure to the benefit of the legal representatives, successors and assigns on the parties. However, the term "LANDLORD", as used in this Contract, so far as any covenants or obligations on the part of LANDLORD under this Lease are concerned, shall be limited to mean and include only the owner or lessor, at the time in question, of the Premises, so that in the event hereafter of a transfer of the title to the Premises, whether any such transfer be voluntary or by operation of law or otherwise, the person, natural or juridical, by whom any such transfer is made, shall be and hereby is entirely freed and relieved of all personal liability as respects the performance of the covenants and obligations of LANDLORD under this Lease from and after the date of such transfer.

Twenty-eight: No Representation by LANDLORD - LANDLORD, LANDLORD'S agents, executives or employees, have made no representations or promises with respect to the Premises except as herein expressly set forth and no rights, easements or licenses are acquired by TENANT by implication or otherwise except as expressly set forth in the provisions of this Contract. The taking possession of the Premises by TENANT, shall be conclusive evidence, as against TENANT, that TENANT accepts same "AS IS" and that said Premises, particularly the building which forms a part of the same, were in good and satisfactory conditions at the time such possession was so taken.

Twenty-nine: Damages - LANDLORD shall not be responsible for any latent defect or change of conditions in the Premises resulting in damage to the same, or the property or person therein, except to the extent of LANDLORD'S gross negligence, and provided such claims or loss is not covered by insurances herein required from TENANT. TENANT shall promptly notify LANDLORD of any damage to or defects in the Premises, particularly in any part of the building's sanitary, electrical, air conditioning or other systems located in our passing through the Premises, and the damage or defective conditions, subject to the provisions of Article TWENTY-ONE (21) hereof, shall be remedied by LANDLORD with reasonable diligence.

Thirty: General Liability Insurance - TENANT shall indemnify, have harmless and defend LANDLORD and agents, servants and employees of LANDLORD against and from any and all liability, fines, suits, claims, demands, expenses, including attorneys' fees, and actions of any kind or nature arising by reason of injury to person or property including the loss of use resulting thereof or, violation of law occurring in the Premises occasioned in whole or in part by any negligent act or omission on the part of TENANT or an employee (whether or not acting within the scope of his employment), servant, agent, licensee, visitor, assignor or undertenant of TENANT, or by any neglectful use or occupancy of the Premises or any breach, violation or non-performance of any covenant in this Lease on the part of TENANT to be observed or performed.

Pursuant to the foregoing, TENANT shall, maintain during the term of this lease, at its own cost and expense, a Comprehensive General Liability Policy. Said policy shall: (i) be for a combined single limit of no less than $1,000,000.00 per accident, (ii) hold LANDLORD harmless against any and all liability as hereinbefore stated, and (iii) the care, custody & control exclusion shall be deleted from this coverage. LANDLORD may require additional reasonable limits of public liability insurance and coverages, when changing circumstances so required.

Thirty-one: Property Insurance - TENANT recognizes that the rent provided for herein does not include any element to indemnify, repair, replace or make whole TENANT, his employees servants, agents, licensees, visitors, assignees, or undertenant for any loss or damage to any property or injury to any person in the Premises.

Accordingly, during the term of this Lease, TENANT shall keep the building standing upon the Premises at the commencement of the term hereof or thereafter erected upon the Premises, including all equipment appurtenant to the Premises and all alterations, changes, additions and improvements, insured for the benefit of LANDLORD and TENANT, as their respective interest may appear, in an amount at least equal to the percentages stated below (as LANDLORD may from time to time determine). The basis of the Property Insurance shall be Replacement Cost and the coverage an "All Risks" Property Insurance Policy. Coverages included in the All Risks Form:

1. Fire - "Building & Contents Form"

   (a) Building - 100% of insurable value exclusive of foundations

   (b) Contents - All equipment appurtenant to the Premises (State value of Policy)

2. Additional Coverages under the Fire Policy

   (a) Extended Coverage Endorsement - 100% of insurable value exclusive of foundations

   (b) Earthquake - 100% of insurable value including foundations

   (c) Vandalism and Malicious Mischief Endorsement

   (d) Improvements and Betterments - For all alterations, changes, additions and improvements

3. Landsite and Flood whenever applicable and/or necessary

4. Boiler and Machinery (if any) - 100% of insurable value

5. Pollution Liability Policy - if necessary.

6. Insurance. During the Term of this Lease Agreement, Tenant shall maintain in force the following insurance policies:

(a) commercial general liability, including contractual liability, with limits of not less than $1,000,000 for bodily injury (including death) and $1,000,000 for property damage, per occurrence, which will insure Tenant against any claim for accidents in or around the Leased Premises due to use or occupation of the Leased Premises by Tenant. This Insurance shall include Landlord and its agents, officers, directors and employees as additional insures, and said policy shall include a "fire legal liability" endorsement;

(b) property insurance with "All Risk" coverage, for one hundred percent (100%) real property replacement cost, including foundations, with an extended coverage endorsement, which names Landlord as beneficiary in case of loss. This insurance shall include coverage for fire, hurricanes, floods, earthquakes and other events of a similar nature, vandalism and malicious mischief, boilers and machinery (if applicable) in building format and content, including all changes, alterations, extensions and improvements made by Tenant to the Leased Premises;

(c) pollution liability if required by Landlord because of the type of the operations carried on by Tenant; and,

(d) any other insurance over the Leased Premises which provides adequate coverage for those insurable risks that are common for property similar to the Leased Premises.

The deductibles of the insurance policies herein required shall be Tenant's responsibility and should Landlord undertake any repairs after any loss or damage to the Leased Premises, Tenant shall reimburse Landlord the deductible payable under the insurance policy, together with any amount paid by any insurance provider.

Insurance During Construction. During any construction period at the Leased Premises, including the work to be performed by Tenant described in Attachment E, if any, Tenant must have in force the following insurance policies:

(i) "builders risk" insurance which provides coverage for all improvements that are being constructed, equivalent to one hundred percent (100%) of their replacement value;

(ii) if the estimated cost of construction is over five thousand dollars ($5,000), Tenant must, at Tenant's own cost and expense, provide Landlord with a performance bond from a surety company recognized and

approved by Landlord, or other satisfactory guarantee acceptable to Landlord, in a sum equal to the estimated cost of said construction to guarantee completion of any construction within a reasonable time. At Landlord's option, instead of Tenant's obtention of a separate bond or guarantee for each project that may be in process at any given time, Tenant shall provide Landlord with one bond or guarantee that covers all alterations, changes, additions or improvements and other construction occurring at the same time; and,

(iii) Workers' Compensation from the State Insurance Fund Corporation in such coverage amounts as required by law.

Insurance Policy Increase. Tenant will pay any premium increase required by an insurance company to cover additional risks resulting from any alteration, change, addition or improvement made by Tenant to the Leased Premises.

General Requirements. All insurance policies required of Tenant under this Article XV must comply in form and substance to Landlord's requirements, and must provide the following: (i) that the insurance coverage may not be reduced, canceled or not renewed by the insurance company without written notice to Landlord and Tenant at least sixty (60) days in advance (unless said cancellation is due to failure to pay premium, in which case notice must be sent at least thirty (30) days in advance); and (ii) that the policy shall be immediately renewed by Tenant on or before its expiration date. Tenant must obtain said policies from insurance companies duly authorized to do business in Puerto Rico, and acceptable to Landlord. Said insurance companies shall have a classification of not less than "A" and a financial rating of "IV" or better, as rated by A.M. Best and Company.

Insurance Certificates. Before the Date of Delivery of Possession Tenant shall submit to Landlord the policies (or certified copies) of same required under this Article XV with all the mentioned endorsements, and certificates of insurance which evidence the required coverage by Sections 15.01 and 15.02 of this Lease Agreement. Tenant expressly recognizes Landlord's right not to deliver the Leased Premises to Tenant until two (2) days after the policies (or certified copies) and the insurance certificates have been submitted to Landlord, as required in this section.

Evidence of Payment; Renewal of Policies. Tenant must deliver to Landlord satisfactory evidence of payment of the insurance premiums within fifteen (15) days of the respective renewal dates of the respective policies and at the same time submit the corresponding insurance certificate or certified copy of each renewed policy.

Claims. Tenant shall cooperate with Landlord in the collection of claims against the corresponding insurance companies in those cases where Landlord handles such claims, including the preparation of damage reports and other documents required to process the claim. In the event Tenant does not provide said documents, Landlord, as Tenant's agent and attorney-in-fact, shall, in addition to any other remedy available to Landlord, execute and submit any evidence of loss and/or any other document necessary for collection of the claim.

Periodic Reviews. Landlord reserves the right to review and demand periodically increases in the limits of the coverages required in this Lease Agreement as results from the effects of inflation.

Penalties. Notwithstanding the provisions of Section 22.08, and without affecting the general terms of the matters stipulated therein, should Tenant breach its duty to obtain any of the policies required in Article XV, which as a result renders it necessary for Landlord to obtain said policies, in addition to reimbursement for the premium paid for said policies, Tenant shall pay Landlord a sum equal to twelve percent (12%) of the cost of the policies obtained by Landlord to cover Landlord's administrative costs.

Waiver of Subrogation. (a) Landlord and Tenant agree that all fire and extended coverage and other property damage insurance carried by either of them in relation to the Leased Premises shall be endorsed with a clause providing that any release from liability or waiver of claim for recovery from the other party entered into in writing by the insured thereunder prior to any loss or damage shall not affect the validity of said policy or the right of the insured to recover thereunder, provided that the insurer waives all rights of subrogation which such insurer might have against the other party. Any release or any waiver of claim shall not be operative in any case where the effect of such release or waiver is to invalidate any insurance coverage or invalidate the right of the insured to recover thereunder. Should any waiver of subrogation result in a premium increase, Tenant shall, within ten (10) days of notice, pay said increase in order to maintain the effectiveness said release or waiver.

(b) Neither Landlord nor Tenant shall be liable to the other or the insurance company that provided the coverage for any loss or damage to any building or structure of the Leased Premises for the loss of income either through subrogation or any other form, regardless if such loss or damage be, in whole or in part, caused by a negligent act or omission of the other party, its agents, officers, directors or employees, to the extent that such loss or damage is covered by insurance policy in favor of the affected party.

Thirty-two: Multifactory Building Specific Dispositions - In the event that the Premises constitute a section or sections of an industrial building and landsite in which other operations are conducted by other TENANT'S: (i) the insurance coverage herein required, shall be acquired by LANDLORD for the whole of the industrial building and TENANT shall reimburse LANDLORD, for its proportionate share in the total cost of said policies, (ii) if, because of anything done, caused or permitted to be done, permitted or omitted by TENANT, the premium rate for any kind of insurance affecting the Premises shall be increased, TENANT shall pay to LANDLORD the additional amount which LANDLORD may

be thereby obligated to pay for such insurance, and if LANDLORD shall demand that TENANT remedy the condition which cause the increase in the insurance premiums rate, TENANT will remedy such conditions within five (5) days after such demand, and (iii) the insurance policies required in the preceding Articles THIRTY (30) & THIRTY-ONE (31) shall be endorsed to include a waiver of subrogation against TENANT. All amounts to be reimbursed by TENANT under this Article, shall be due and payable, as additional rent, with the next installment of rent. In the event that TENANT fails to make this payment, when due, it shall be subject to the dispositions of Article THIRTY-SEVEN (37) hereof.

Thirty-three: Additional Dispositions about Insurance - All the Insurance policies herein required from TENANT, shall be taken in form and substance acceptable to LANDLORD with insurance companies duly authorized to do business in Puerto Rico, having a "A" and a higher financial rating according to Best's Insurance Report; and shall include LANDLORD as additional insured. TENANT shall instruct the corresponding insurer to deliver such policies or certified copies of Certificates of Insurance, in lieu of, directly to LANDLORD. LANDLORD reserves the right not to deliver possession of the Premises to TENANT, unless, and until two (2) days after such original policies, or certified copies or certificates have been deposited with LANDLORD.

Furthermore, said policies, shall (i) provide that they may not be cancelled by the insurer for nonpayment of premium or otherwise, until at least thirty (30) days after services of notice by registered or certified mail of the proposed cancellation upon LANDLORD, and (ii) be promptly renewed by TENANT upon expiration and TENANT shall, within thirty (30) days after such renewal, deliver to LANDLORD adequate evidence of the payment of premiums thereon. If such

premiums or any of them shall not be so paid, LANDLORD may procure the same in the manner set forth for governmental agencies, and TENANT shall reimburse LANDLORD any amount so paid. This reimbursement being due and payable with the next installment of rent. In the event that TENANT fails to make this payment when due, it shall be subject to the dispositions of Article THIRTY-SEVEN (37) hereof. It is expressly agreed and understood, that payment by LANDLORD of any such premiums shall not be deemed to waive or release the default in the payment thereof by TENANT nor the right of LANDLORD to take such action as may be available hereunder as in the case of default in the payment of rent.

Upon the commencement of the term hereof, TENANT shall pay to LANDLORD the apportioned unearned premiums on all such policies of insurance then carried by LANDLORD in respect of the Premises in the event TENANT continues with the insurance policies placed in LANDLORD.

TENANT shall not violate nor permit to be violated any of the conditions or provisions of any of said policies, and TENANT shall so perform and satisfy the requirements of the companies writing such policies that at all times companies of good standing and acceptable to LANDLORD shall be willing to write and continue such insurance.

TENANT shall cooperate with LANDLORD in connection with the collection of any insurance monies that may be due in the event of loss and shall execute and deliver to LANDLORD such proofs of loss and other instruments that may be required for the purpose of facilitating the recovery of any such insurance monies, and in the event that TENANT shall fail or neglect so to cooperate or to execute, acknowledge and deliver any such instrument, LANDLORD, in addition to any other remedies, may as the agent or attorney-in-fact of TENANT, execute and deliver any proof of loss or any other instruments as may seem desirable to

LANDLORD and any mortgagee for the collection of such insurance monies. This shall not be interpreted as any waiver of the obligations of TENANT under Articles THIRTY, THIRTY-ONE, THIRTY-TWO and THIRTY-THREE hereof or exclusively in favor of LANDLORD under Article THIRTY NINE hereof.

Thirty-four: Waivers - The receipt by LANDLORD of the rent, additional rent, or any other sum or charges payable by TENANT with or without knowledge of the breach of any covenant of this Contact, shall not be deemed a waiver of such breach. No act or omission of LANDLORD or its agent during the term of this Lease shall be deemed an acceptance of a surrender of the Premises and no agreement to accept a surrender of the Premises shall be valid unless it be made in writing and subscribed by LANDLORD. This Contract contains all the agreements and conditions made between the parties hereto with respect to the Premises and it cannot be changed orally. Any additions to, or charges in this Lease must be in writing, signed by the party to be charged.

Failure on the part of LANDLORD to act or complain of any action or nonaction on the part of TENANT shall not be deemed to be a waiver of any of its respective rights hereunder nor constitute a waiver at any subsequent time of the same provision. The consent or approval by LANDLORD to, or of any action by the other requiring consent or approval, shall not be deemed to waive or render unnecessary the consent or approval by LANDLORD of any subsequent similar act.

Thirty-five: Reinstatement - No receipt of monies by LANDLORD for TENANT after the termination or cancellation hereof in any lawful manner shall reinstate, continue or extend the term hereof, or affect any notice theretofore given to TENANT, or operate as a waiver of the right of LANDLORD to enforce the payment of rent, additional rent, or other charges then due or thereafter falling due, or operate as a waiver of the right of by LANDLORD to recover possession of the Premises proper suit, action, proceeding or remedy; it being

agreed that, after the service of notice to terminate or cancel this Lease, and the expiration of the time therein specified, if the default has not been cured in the meantime, or after the commencement of suit, action or summary proceedings or of any other remedy, or after a final order, warrant of judgment of the possession of the Premises, LANDLORD may demand, receive and collect any monies then due, or hereafter becoming due, without in any manner affecting such notice, proceeding, suit, action, order, warrant or judgment; and any and all such monies so collected shall be deemed to be payments for the use and occupation of the Premises, or at the election of LANDLORD, on account of TENANT'S liability hereunder. Delivery or acceptance of the keys to the Premises, or any similar act, by the LANDLORD, or its agents or employees, during the term hereof, shall not be deemed to be a delivery or an acceptance of a surrender of the Premises unless LANDLORD shall explicitly consent to it, in the manner set forth hereinbefore.

Thirty-six: Subordination and Attornment - This Lease is and shall be subject and subordinate to all liens, or mortgages which may now or hereafter affect the Premises and to all renewals, modifications, consolidations, replacements and extensions thereof and, although this subordination provision shall be deemed for all purposes to be automatic and effective without any further instrument on the part of TENANT, TENANT shall execute any further instrument requested by LANDLORD to confirm such subordination.

TENANT further covenants and agrees that it by reason of a default upon the part of LANDLORD of any mortgage affecting the Premises, the mortgage is terminated or foreclosed by summary proceedings or otherwise, TENANT will attorn to the mortgagee or the purchaser in foreclosure proceedings, as the case may be, and will recognize such mortgage or purchaser, as the TENANT'S landlord under this Lease. TENANT agrees to execute and deliver, at any time and from

time to time, upon the request of LANDLORD or of the mortgagee or the purchaser in foreclosure proceedings, as the case may be, any reasonable instrument which may be necessary or appropriate to evidence such attornment. TENANT further waives the provision of any statute or rule of law now or hereafter in effect which may give or purport to give TENANT any right of election to terminate this lease or to surrender possession of the Premises demised hereby in the event any such proceeding is brought by the holder of any such mortgage, and TENANT'S obligations hereunder shall not be affected in any way whatsoever by any such proceeding.

TENANT, covenants and agrees, upon demand of the holder of any mortgage duly recorded or recordable in the corresponding Registry of the Property or of any receiver duly appointed by the foreclose any such mortgage, to pay to the holder of any such mortgage or to such receiver, as the case may be, all rent becoming due under this Lease after such demand, provided such holder of any such mortgage or any such receiver complies with the obligations of LANDLORD under this Lease.

TENANT, upon request of LANDLORD or any holder of any mortgage or lien affecting the Premises, shall from time to time, deliver or cause to be delivered to LANDLORD or such lien holder or mortgagee, within ten (10) working days from date of demand a certificate duly executed and acknowledged in form for recording, without charges, certifying, if true, or to extent true, that this Lease is valid and subsisting and in full force and effect and LANDLORD is not in default under any of the terms of this Lease.

Thirty-seven: Late Payments and Payment by LANDLORD - In the event that (i) TENANT makes late payment, or fails to make payments to LANDLORD, in whole or in part, of the rent, or of the additional rent, or of any of the other payments of money required to be paid by TENANT to LANDLORD, as stipulated in this Lease, when and as due and payable; or if (ii) LANDLORD, without assuming any obligation to do so, after any notice or grace period provided hereunder, performs or causes to be performed, at the cost and expense of TENANT, any of

the acts or obligations agreed to be performed by TENANT, as stipulated in this Lease, and TENANT fails to refund LANDLORD any amounts of money paid or incurred by LANDLORD in performing of causing the performance of such acts or obligations, when and as due and payable, TENANT undertakes and agrees to pay LANDLORD as additional rent, interest on such lately paid or unpaid rents, additional rent, and/or on such other payments of money required to be paid, and/or on any such amounts of money required to be refunded, from and after the date when payment thereof matured or became due and payable, until full payment, at the rate of twelve (12%) per cent per annum, or if such 12% interest, is unlawful, then and in such event, at the highest maximum prevailing rate of interest on commercial unsecured loans as fixed by the Board of Regulatory Rates of Interest and Financial Charges, created under Law #1, approved October 15, 1973 (10 LPRA 998), as amended, or by any successor statute or regulation thereof.

Thirty-eight: Abatement - If any substantial service or facility to be provided by LANDLORD is unavailable for a period exceeding thirty (30) days and LANDLORD has been notified of the same, should time unavailability of such service render all or any portion of the Premises untenable, TENANT after the aforesaid thirty (30) days, shall be entitled to an abatement of a portion of the rent that shall reflect that portion of the Premises which is untenable, provided the damage to the service or facility is not attributable to the act or neglect of TENANT or the employees, servants, licensees, visitors, assigns or undertenants of TENANT.

Thirty-nine: Fire or other Casualty - If before or during the term of this Lease, the Premises shall be damaged by fire or other casualty, LANDLORD after written notice thereof is given by TENANT, shall repair the same with reasonable dispatch after notice to it of the damage, due allowances being made for any delay due to causes beyond the LANDLORD'S reasonable control, provided, however, that LANDLORD shall not be required to repair or replace any furniture, furnishings or other personal property which TENANT may have placed or installed or which it may be entitled or required to remove from the Premises. LANDLORD shall proceed with due diligence to obtain the corresponding insurance adjustment of the loss and TENANT shall fully cooperate with LANDLORD and assist in the adjustment of the loss. Until such repairs are completed, and provided such damage or other casualty is not attributable to the act or neglect of TENANT or the employees, servants, licensees, visitors, assigns or undertenants of TENANT, the rent required to be paid pursuant to Article FOUR hereof, shall be abated in proportion to the part of the Premises which are untenable. If the building, be so damaged that LANDLORD shall decide to demolish and/or to reconstruct the building, in whole or in part, LANDLORD may terminate this Lease by notifying TENANT within a reasonable time after such damage of LANDLORD'S election to terminate this Lease, such termination to be effective immediately if the term shall not have commenced or on a date to be specified in such notice if given during the term. In the event of the giving of such notice during the term of this Lease, the rent shall be apportioned and paid up to the time of such fire or other casualty if the Premises are damaged, or up to the specified date of termination if the Premises are not damaged and LANDLORD shall not be otherwise liable to TENANT for the value of the unexpired term of this Lease.

Forty: Default Provisions - If, during the term of this Lease, TENANT shall: (i) apply for or consent in writing to, the appointment of a receiver, trustee or liquidator of TENANT or of all or substantially all of its assets or (ii) seek relief under the Bankruptcy Act, or admit in writing its inability to pay its debts as they become due, or (iii) make a general assignment for the benefit of this creditors, or (iv) file a petition case or an answer seeking relief (other than a reorganization not involving the liabilities of TENANT) or arrangement with creditors, or take advantage of any insolvency law, or (v) file an answer admitting the material allegations of a case filed against it in any bankruptcy, reorganization or insolvency proceeding or, if an order, judgment or decree shall be entered by any court of competent jurisdiction on the application of TENANT or creditor adjudicating TENANT a bankrupt or insolvent, or approving a petition seeking reorganization of TENANT (other than a reorganization not involving the liabilities of TENANT) or appointment of a receiver, trustee or liquidator of TENANT or of all or substantially all its assets, and such order, judgment or decree, shall continue stayed and in effect for any period of sixty (60) consecutive days, the term of this Lease and all right, title and interest of TENANT hereunder shall expire as fully and completely as if that day were the date herein specifically fixed for the expiration of the term, and TENANT will then, quit and surrender the Premises to LANDLORD, but TENANT shall remain liable as hereinafter provided.

If, during the term of this Lease: (i) TENANT shall default in fulfilling any of the covenants of this Lease (other than the covenants for the payment of rent or additional rent), or of any other standing contract with LANDLORD or (ii) if, during the term of this Lease TENANT shall abandon, vacate, or remove from the Premises the major portion of the goods, wares, equipment, or furnishings usually kept on said premises, of (iii) this Lease, without the

prior consent of LANDLORD, shall be encumbered, assigned or transferred in any manner in whole or in part or shall, by operation of law, pass to or devolve upon any third party, except as herein provided, or (iv) if TENANT is in violation of laws, rules and regulations regarding minimum wages of its employees, or of any other law, rules and regulations applicable to his operations, but which have not been specifically mentioned in this Lease, LANDLORD may give to TENANT notice of any such default or the happening of any event referred to above and if at the expiration of thirty (30) days after the service of such a notice the default or event upon which said notice was based shall continue to exist, or in the case of a default which cannot with due diligence be cured within a period of thirty (30) days, if TENANT fails to proceed promptly after the service of such notice and with all due diligence to cure the same and thereafter to prosecute the curing of such default with all due diligence (it being intended that in connection with a default not susceptible of being cured with due diligence within thirty (30) days that the time of TENANT within which to cure the same shall be extended for such period as may be necessary to complete the same with all due diligence), LANDLORD may give to TENANT a notice of expiration of the term of this Lease as of the date of the service of such second notice, and upon the giving of said notice of expiration the term of this Lease and all right, title and interest of TENANT hereunder shall expire as full and completely as if that day were the date herein specifically fixed in the expiration of the term, and TENANT or any party holding under his will then quit and surrender the Premises to LANDLORD, but TENANT shall remain liable as hereinafter provided.

If, (i) TENANT shall default in the payment of the rent, the additional rent, or of any other payment as required under this Lease and such default shall continue for ten (10) working day's after notice thereof by LANDLORD, of (ii) if the default of the payment of the rent, continues for thirty (30) days

from the date any such payment became due and payable (AUTOMATIC DEFAULT TERMINATION), or (iii) if this Lease shall terminate as in Paragraph one and two of this Article provided, this Lease shall terminate and TENANT will then quit and surrender the Premises to LANDLORD, but TENANT shall remain liable as hereinafter provided, LANDLORD or LANDLORD's agents and servants may immediately or at any time thereafter re-enter the Premises and remove all persons and all or any property therefrom, whether by summary dispossess proceedings or by any suitable action or proceeding at law, or with the license and permission of TENANT which shall under this Contract be deemed given upon expiration of the strict thirty (30) days notice period of subdivision of paragraph Two of this Article, without LANDLORD being liable to indictment, prosecution or damages therefor and repossess and enjoy the Premises with all additions, alterations and improvements.

If TENANT shall fail to take possession of the Premises within ten (10) days after the commencement of the term of this Lease, or if TENANT shall vacate and abandon the Premises, LANDLORD shall have the right, at LANDLORD'S option, to terminate this Lease and the term hereof, as well as all the right, title and interest of TENANT hereunder, by giving TENANT five (5) days notice in writing of such intention, and upon the expiration of the time fixed in such latter notice, if such default be not cured prior thereto, this lease and the term hereof, as well as all the right, title and interest of TENANT hereunder, shall wholly cease and expire in the same manner and with the same force and effect (except as to TENANT'S liability) as if the date fixed by such latter notice were the expiration of the herein originally granted; and TENANT shall immediately quit and surrender to LANDLORD the Premises and each and every part thereof and LANDLORD may enter into or repossess the Premises, either by force, summary proceedings or otherwise. The right granted to LANDLORD in this Article

or any other Article of this Lease to terminate this Lease, shall apply to any extension or renewal of the term hereby granted, and the exercise of any such right by LANDLORD during the term hereby granted, shall terminate any extension or renewal of the term hereby granted and any right on the part of TENANT thereto.

Upon the termination of this Lease by reason of any of the foregoing event, or in the event of the termination of this Lease by summary dispossess proceedings or under any provisions of law, now or at any time hereafter, in force by reason of, or based upon, or arising out of a default under or breach of this Lease on the part of "TENANT", or upon LANDLORD recovering possession of the Premises in the manner or in any of the circumstances hereinbefore mentioned, or in any other manner or circumstances whatsoever, whether with or without legal proceedings, by reason of, or based upon, or arising out of a default under or breach of this Lease on the part of TENANT, LANDLORD, at its option, but without assuming any obligation to do so in any case, may at any time, and from time to time, relet the Premises or any part or parts thereof for the account of TENANT or otherwise on such terms as LANDLORD may elect, including the granting of concessions, and receive and collect the rents therefor, applying the same at a rental not higher than the one stipulated in this Contract, first to the payment of such reasonable expenses as LANDLORD may have incurred in recovering possession of the Premises, including reasonable legal expenses, and for putting the same into good order or condition or preparing or altering the same for re-rental, and expenses, commissions and charges paid, assumed, or incurred by LANDLORD in and about the reletting of the Premises or any portion thereof and then to the fulfillment of the covenants of TENANT hereunder. Any such reletting herein provided for, may be for the

remainder of the term of this Lease or for a longer or shorter period or at a higher or lower rental. In any such case, whether or not, the Premises or any part thereof be relet, TENANT shall pay to LANDLORD the rent required to be paid by TENANT up to the time of such termination of this Lease, and/or the full rent provided for in the agreement for any holdover of such period after termination and up to the surrender or recovery of possession of the Premises by LANDLORD, as the case may be, and thereafter TENANT covenants and agrees, to pay to LANDLORD until the end of the term of this Lease as originally demised the equivalent of any deficiency amount of all the rent reserved herein, less the net avails of reletting, if any, as specified hereinabove in this Article and the same shall be due and payable by TENANT to LANDLORD as provided herein, that is to say, TENANT shall pay to LANDLORD the amount of any deficiency then existing.

Forty-one: LANDLORD'S Remedies - In the event TENANT shall default in the performance of any of the terms, covenants or provisions herein contained, LANDLORD may, but without the obligation to do so, perform the same for the account of TENANT and any amount paid or expense incurred by LANDLORD in the performance of the same shall be repaid by TENANT on demand. In the event of a breach or threatened breach by TENANT or any subtenant or other person holding or claiming under TENANT of any of the covenants, conditions or provisions hereof, LANDLORD shall have the right of injunction to restrain the same, and the right to invoke any remedy allowed by law or in equity as if specific remedies, indemnity or reimbursement were not herein provided for. The rights and remedies given to LANDLORD in this Lease are distinct, separate and cumulative, and no one of them, whether or not exercised by LANDLORD, shall be deemed to be a waiver, or an exclusion of any of the others.

Forty-two: Notice if Default - Anything in this Lease to the contrary notwithstanding, it is specifically agreed that there shall be no enforceable default against LANDLORD under any provisions of this Lease, unless notice of such default be given by TENANT to LANDLORD in which TENANT shall specify the default or omission complained of, and LANDLORD shall have thirty (30) days after receipt of such notice in which to remedy such default, or if said default or omission shall be of such a nature that the same cannot be cured within said period, then the same shall not be an enforceable default if LANDLORD shall have commenced taking the necessary steps to cure or remedy said default within the said thirty (30) days and diligently proceeds with the correction thereof.

Forty-three: Capitalization - For the purpose of this Contract, specifically of Article SIX, Capitalization includes the total of owners equity sources (preferred stock, common stock and surplus accounts) plus long-term debts, it being agreed and understood that the amortization of any such debt shall in no way diminish the amount originally determined as capitalization.

Forty-four: Disclosure of Information - TENANT agrees to furnish to LANDLORD within ninety (90) days after the expiration of each fiscal year of TENANT, an annual statement certified by an independent Certified Public Accountant showing as of the end of each such fiscal year: (i) TENANT'S paid-in capital, (ii) long-term debts and capitalization as required by Articles SIX and FORTY-THREE hereof, (iii) investment in machinery and its capacity to provide employment, (iv) taxes (including Social Security taxes) paid, and (v) any other information as required by this Lease.

In the event such statement is not filed with LANDLORD as herein provided, LANDLORD may obtain such information from TENANT at TENANT'S expense, and for such purpose TENANT shall make available to LANDLORD'S designated

representatives, its books of accounts and other necessary data and facilities, all of which shall be provided and made available at TENANT'S principal office in Puerto Rico.

Forty-five: Automatic Renewal - In the event TENANT does not vacate the Premises in the manner and under the conditions hereinbefore provided, within ninety (90) days after the normal expiration of the term hereof, LANDLORD shall have the option to be exercised at any time thereafter, to notify TENANT that the lease herein has been renewed for an additional term of five (5) years from the date of the last normal expiration of the term hereof and, in such event, the parties agree that this Contract shall be held to have been renewed and to continue in full force and effect for such additional term of five (5) years upon the mere mailing of such notice by LANDLORD to TENANT. This provision shall in no way prejudice, affect or deny any right which LANDLORD may otherwise have because, or at the time, of any such termination of the term hereof, particularly whenever LANDLORD does not exercise such option; it being agreed and understood that such renewal shall be upon the same terms and conditions contained herein except that the rental rate to be charged shall be the rate then currently being charged by LANDLORD for similar building in the area, but in no event shall it be less than the rate herein stipulated.

Forty-six: Partial Invalidity and Applicable Law - If any term or provisions of this Lease or the application thereof to any person or circumstances shall, to any extent, be invalid or unenforceable, the remainder of this Lease and the application of such term or provision to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and each term and provision of this Lease shall

be valid and be enforceable to the fullest extent permitted by law. This Contract is entered into and shall be interpreted in accordance with the laws of the Commonwealth of Puerto Rico.

Forty-seven: Lease Termination and Holding Over - Upon the expiration or termination of this Lease:

(i) TENANT shall inform LANDLORD in writing of TENANT activities affecting each or any environmental area of concern during the period of TENANT'S operation, including a description from an environmental standpoint of the physical conditions of the premises and landsite. TENANT shall also inform to LANDLORD in writing of any environmental regulatory violations, compliance plans, permits, closure plans, clear-up actions or any other regulatory procedures related to the operation In the extent that the information reveals TENANT'S noncompliance of any of the above, or in the event that a physical inspection of the Premises and adjacent areas by LANDLORD, or any other source of information reveal the possibility of contamination, in that event, TENANT shall, at LANDLORD'S request submit a plan of action with the appropriate financial provisions to execute it. LANDLORD shall hold TENANT responsible for any and all environmental damage, or any damage to third parties as a result in any environmental damage, or any remedial action (including monitoring) to be performed at landsite or otherwise as a result of TENANT'S operations after termination of Leases until such a time as complete remediation or fulfillment of TENANT'S obligations is effected. In case TENANT fails to comply with the foregoing provisions, LANDLORD may elect to effect them at TENANT'S expense and responsibility.

(ii) TENANT shall remove all hazardous and toxic substances belonging to TENANT or to a third party. TENANT shall also remove all other property of TENANT and that of any third party and failing so to do, TENANT hereby appoints LANDLORD its agent so that LANDLORD may cause all of the said

property to be removed at the expense and risk of TENANT. TENANT covenants and agrees to give full and timely observance and compliance to this covenant to remove all its property and surrender the Premises broom clean. TENANT hereby agrees to pay all reasonable necessary cost and expenses thereby incurred by LANDLORD. If, as the sole result of the removal of TENANT'S property any portion of the Additional Premises or of the building of which they are a part, are damaged, TENANT shall pay to LANDLORD the reasonable cost of repairing such damages unless due to the negligence of LANDLORD, its agents, servants, employees and contractors. TENANT'S obligation to observe or perform this covenant shall survive the expiration or other termination of the term of this Lease.

Forty-eight: Change of Address - TENANT shall promptly notify LANDLORD of any change in the addresses other than those required from it in Article SEVEN hereof.

Forty-nine: TENANT will indemnify LANDLORD for any and all liability, loss, damages, expenses, penalties and/or fines, and any additional expenses including any attorney fees LANDLORD may suffer as a result of claims, lawsuits, demands, administrative orders, costs, resolutions or judgments against it arising out of negligence and/or failure of TENANT or those acting under TENANT to conform to the statutes, ordinances, or other regulations or requirements of any governmental authority, be it Federal, of the Commonwealth of Puerto Rico, its instrumentalities or public corporations, in connection with the performance of this Lease.

Fifty: Inasmuch as TENANT is currently in possession of Project No. T-0810-0-68 pursuant to a Lease Contract dated June 30, 1994 entered into between LANDLORD and TENANT, TENANT accepts Project No. T-0810-0-68 in its present condition.

Fifty-one: Construction Clauses:

(a) A definite manufacturing project must be submitted to LANDLORD through LANDLORD's Continental and International Industrial Promotions Area or the proper evaluation and approval.

(b) The project must be favorably recommended by LANDLORD's Planning and Environmental Division and Office of Economic Research and by the Puerto Rico Aqueducts and Sewers Authority and the Puerto Rico Planning Board. (

(c) The building extension with an area of approximately 5,400 square feet built by Heyer Schulte del Caribe, Inc., in 1993 will be included as part of the leased premises and will be identified as Project No. 1-0810-1-02.

(d) LANDLORD will obtain the necessary permits from all concerned government agencies for the construction of the new building extension. The Use Permit shall be TENANT'S responsibility. LANDLORD and TENANT will enter into a new Lease Contract covering Projects Nos. 1-0810-0-68 and 1-0810-1-02.

(e) The rental payments for Project No. 1-0810-1-02 shall not commence until the first day of the month following the date of delivery to TENANT of the new building extension to be built by LANDLORD. The rental payments for Project No. 1-0810-0-68 shall remain at the current rate of $2.75 per square foot per annum until June 30, 2004 or the date of commencement of rental payments for the new building extension, whichever comes first. The rental rate for Projects Nos. 1-0810-0-68 and 1-0810-1-02, and for the new building extension shall at the rate of $3.85 per square foot per annum

during a period of fifteen (15) years commencing on the first day of the month following the date of delivery of the new building extension of TENANT

(f) The new rental rate for Project Nos. 1-0810-0-68 and 1-0810-1-02, and for the new building extension, is based on the estimated construction cost of the new building extension, plus other expenses related to the construction which have already been incurred by LANDLORD. In the event that after completion of the construction project, any change order are implemented which may increase the estimated construction costs, LANDLORD will adjust the rental rate of $3.85 per square foot per annual on the basis of the actual construction costs incurred to complete the construction of the new building extension. Any and all change orders for this construction project shall be subject to the approval in writing of the director of Operations of TENANT and of LANDLORD.

(g) Completion of minor details of construction or the correction of construction defects which do not impede occupancy or other activities related to the installation of machinery and equipment, and the commencement of industrial operations in the new building extension, shall in no way affect the date of completion of the construction project.

(h) In the event TENANT should decide to cease manufacturing operations in Puerto Rico prior to the expiration of the fifteen-year lease term under the new Lease Contract, TENANT shall reimburse LANDLORD for the unamortized portion of the construction portion of the construction costs for the new building extension. The construction portion of the

construction costs for the new building extension is estimated to the $526,500.00, which amount shall be amortized on a straight-line basis over a period of fifteen (15) years. In the event of an early cessation of manufacturing operations by TENANT, both LANDLORD and TENANT shall exercise their best efforts to identify and secure a new tenant for the leased premises.

(i) Should this construction project be cancelled prior to its completion, TENANT shall reimburse LANDLORD for the design fees and other construction costs incurred by LANDLORD, subject to the presentation by LANDLORD to TENANT of adequate evidence that such expenditures relating to this construction project were made.

(j) Any special facilities required for the new building extension, including, but not limited to, landscaping, shall be at TENANT sole cost and expense.

Fifty-two: Anything contained in this Contract to the contrary notwithstanding, in the event that TENANT requires additional volume of water and/or pressure as is now available within the area wherein the demised premises are located, it shall be at its own cost and expense the construction and/or installation of such improvements and/or facilities as may be necessary to or

convenient and/or required by the Puerto Rico Aqueduct and Sewer Authority to increase such volume and/or pressure; it being agreed and understood, however, that such construction and/or installation shall in no event be commenced until after LANDLORD'S written approval has first been requested and obtained.

Fifty-three: TENANT hereby acknowledges that in the industrial park there are other industries; theretofore TENANT hereby specifically agrees and undertakes to take such steps and install such equipment as may be necessary to prevent that any hazard and/or noise which may be created by its operations may in any way or manner unduly affect the operations of the other industries and therefore TENANT hereby releases and saves LANDLORD harmless from any and all claims or demands arising therefrom or in connection therewith.

Fifty-four: TENANT shall, at its own cost and expense, install a fire protection system and shall obtain the endorsement and approval from said Fire Department for such installation. TENANT must also provide security measures to prevent or reduce fire hazard due to the storage of inflammable materials and products.

Fifty-five: TENANT shall procure and obtain a permit for the operation of a solid waste emission source from the Environmental Quality Board and authorization for the Office of Solid Waste and/or from the Municipality of Aoasco for the final disposition of wastes.

Fifty-six: TENANT, at its own cost and expense, shall implement the necessary measures and install the control equipment to maintain the atmospheric air quality levels in compliance with the environmental laws and regulations of the Environmental Quality Board and the Environmental Protection Agency, as promulgated by any succeeding law or regulations.

Fifty-seven: It is hereby agreed and understood that TENANT shall take the necessary steps to comply with the regulations and law requirements of the PUERTO RICO OCCUPATIONAL SAFETY AND HEALTH OFFICE (PROSHO).

Fifty-eight: TENANT shall, at is own cost and expense, construct and/or install all necessary equipment required to connect the buildings electrical system to the Puerto Rico Electrical Power Authority's electrical distribution lines, such connection to be made in compliance with the requirement of PREPA.

Fifty-nine: TENANT must comply with the rules and regulations of pre-treatment established by the Puerto Rico Aqueduct and Sewer Authority, the Environmental Quality Board and the Environmental Protection Agency related to the effluent industrial discharge in the sanitary sewer system and their final disposition. Also, any improvement necessary to provide pre-treatment facilities for the above mentioned effluents shall be at TENANT'S own cost and expense and in coordination and with the approval of LANDLORD's Engineering and Maintenance Departments.

Sixty: It is hereby agreed and understood that TENANT at its own cost and expense, shall install an air conditioning system in the demised premises, in the event TENANT needs to use and/or install it in his process. Such air conditioning system shall be considered as a special facility from LANDLORD, and it shall be installed in coordination with LANDLORD'S Engineering and Maintenance Departments.

Sixty-one: TENANT agrees to submit to LANDLORD within thirty (30) days from the date of execution of this Contract: (a) evidence of its registration in the Department of State of the Commonwealth of Puerto Rico and the name and address of its resident agent; and (b) a certificate of a resolution of its Board of Directors either authorizing or ratifying the execution of this Contract.

Sixty-two: TENANT certifies and guarantees that at the date of subscribing this Contract it has submitted the Corporate Tax Returns Forms during the last five (5) years and does not have any tax debt pending with the Commonwealth of Puerto Rico, or is complying with the terms of a payment plan duly approved.

TENANT also certifies and guarantees that at the date of execution of this contract it has paid unemployment insurance compensation, temporary disability insurance, and the driver's social security (as applicable); or is complying with a payment plan duly approved.

TENANT acknowledges that this is an essential condition of the Contract and if the above certification is incorrect in any of its parts, LANDLORD may cancel this contract.

Sixty-three: LANDLORD reserves the right to audit the leased premises from time to time during the term of this contract, as LANDLORD may deem necessary, in order to assess all aspects of the environmental condition of said premises and TENANT'S compliance with all environmental legislation and regulations, under Commonwealth and federal law; TENANT hereby agrees to provide access to all areas and structures of the premises for these purposes, upon LANDLORD's request, and to also provide access to all books, records, documents and instruments which LANDLORD may deem necessary in order to fully audit the premises as herein stated.

Sixty-four: TENANT shall furnish to LANDLORD, in addition to any other information, documents or instruments that may be required in this contract:

(a) Prompt written notice of the occurrence of any event that by law or regulation would require any oral, telephonic or written notice or communication to the US Environmental Protection Agency and/or to the Puerto Rico Environmental Quality Board, or any successor agency, and copies of all orders, notices or other communications and reports received, made or given in connection with any such event, and any enforcement action taken against TENANT or against any property owned, occupied or used by TENANT;

(b) Quarterly certifications subscribed by an authorized representative designated by TENANT, as to the environmental condition of the leased premises, containing the information required by LANDLORD, which is specified in the form included as Schedule "B" of this contract, or any subsequent modification thereto;

(c) Any other information and documents relating to TENANT's compliance with environmental legislation and regulations under federal and commonwealth laws.

Sixty-five: TENANT hereby guarantees to LANDLORD that, neither he, or any of its stockholders, in case of a corporation, owes any money to LANDLORD under its corporate name or any other corporate name and/or person.

Sixty-six: TENANT shall not transfer, lease, burden or dispose of in any way of the equipment used on its operations without the previous written notice of LANDLORD.

Sixty-seven: TENANT shall not sell, lease or transfer in any way its operations to any other tenant without the previous written consent of LANDLORD, except as established on clause Twenty-Six.

Sixty-eight: TENANT recognizes and accepts that this Contract is subject to the endorsement of the Puerto Rico Aqueduct and Sewer Authority (PRASA). Said endorsement have been requested by LANDLORD and is under evaluation at this moment.

Sixty-nine: LANDLORD agrees to indemnify and save harmless TENANT, TENANT'S successors and assigns and TENANT'S present and future officers, directors, employees and agents (collectively "Indemnitees") from and against any and all liabilities, penalties, fines, forfeitures, demands, damages, losses, claims, causes of action, suits, judgments, and costs and expenses incidental thereto (including cost of defense, settlement, reasonable attorney's fees, reasonable consultant's fees and reasonable expert fees), which TENANT or any or all of the Indemnitees may hereafter suffer, incur, be responsible for or disburse as a result of Environmental Liabilities directly or indirectly cause by LANDLORD when the premises were in its control (collectively "Environmental Liabilities") directly or indirectly caused by or arising out of any Environmental Hazards existing on or about the premises except to the extent that any such existence is caused by TENANT'S activities on the premises. The term "Environmental Hazardous" shall be defined as hazardous substances, hazardous wastes, pollutants, asbestos, polychlorinated biphenyls (PCBs), petroleum or other fuels (including crude oil or any faction or derivative thereof) and underground storage tanks. The term "hazardous substances" shall be as defined in the Comprehensive Environmental Response, Compensation, and Liability Act (42 U.S.C Section 9601 et seq) (CERCLA), and any regulations promulgated pursuant thereto. The term "hazardous wastes" shall be as defined in the Resource Conservation and Recovery Act (42 U.S.C. Section 6901 et seq) (RCRA), and any regulations promulgated pursuant thereto. The term "pollutants" shall be as defined in the Clean Water Act (33 U.S.C. Section 1251 et seq), and any regulations promulgated pursuant thereto This provision shall survive termination of the lease.

TENANT agrees to indemnify and save harmless LANDLORD, LANDLORD's successors and assigns and LANDLORD'S present and future officers, directors, employees and agents (collectively "Indemnities") from and against any and all

liabilities, penalties, fines forfeitures, demands, damages, losses, claims, causes of action, suits, judgments, and costs and expenses incidental thereto (including cost of defense, settlement, reasonable attorney's fees, reasonable consultant fees and reasonable expert fees), which LANDLORD or any or all of the Indemnitees may hereafter suffer, incur, be responsible for or disburse as a result of any Environmental Liabilities directly or indirectly caused by or arising out of Environmental Hazardous existing on or about the premises but only to the extent that any such existence is caused by TENANT's activities on the premises. This provision shall survive termination of the Lease.

In the event any Environmental Hazards are found at any time to be in existence or about the premises other than any Environmental Hazards whose existence is caused by TENANT's activities on the premises, TENANT shall have the right to terminate this Lease by so notifying LANDLORD in writing. Notwithstanding anything to the contrary contained herein, TENANT shall not be required to pay for any environmental Liability as operating expenses, additional rental or otherwise if TENANT is not responsible for such expenses pursuant to this paragraph.

IN WITNESS WHEROF, LANDLORD and TENANT have respectfully signed upon proper authority this Construction and Lease Contract, this 11 day of April 2003.

PUERTO RICO INDUSTRIAL DEVELOPMENT COMPANY
SSP# 66-0292871

BY:[Signature Unreadable]
--------------------

INTEGRA NEUROSCIENCES P.R., INC. (INTEGRA P.R.)
SSP# ###-##-####

BY:/s/ John B. Henneman, III
-------------------------
Vice President

SCHEDULE "A"

DESCRIPTION OF PARCEL OF LAND
LOT NO. 6 LOCATED AT URBAN ZONE INDUSTRIAL AREA
ANASCO, PUERTO RICO
SITE FOR PROJECT NO. L-154-2-62

Parcel of land, Lot No 6, located at urban Zone Industrial Area, Aoasco, Puerto Rico.

It bounds: by the North with Street "A" of the same industrial area, by the south with Lot No. 6-1 of the same industrial area, by the East with State Road No. 402; and by the West with Lot No. 8 of the same industrial area.

It has an approximate surface area of 2,518.59 square meters equivalent to 0.6408 cuerdas.

It is affected by a 5.0 feet wide strip in favor of PREPA, running along the western boundary.

SCHEDULE `B'
COMPLIANCE REPORT OF WITH
ENVIRONMENTAL REQUIREMENTS

In the period of __________ to __________

I. PERMITS

| PERMITS NUMBER | EXPIRATION | RENEWAL DATE DATE |
|---|---|---|
| (IF APPLY) | | |

II. COMPLIANCE ACTIONS

| REFERENCE/CASE NUMBER | DATE | RESPONSE OF DATE OF |
|---|---|---|

III. CERTIFICATION

I certify, under penalty of law, that this document was prepared under my supervision and direction; and that was based in my investigation by the persons directly responsible of gathering the information, that the information here submitted is, according to my best judgment, certain, complete and precise.

Exhibit 10.24a

SORRENTOVIEW

INDUSTRIAL REAL ESTATE TRIPLE NET SUBLEASE

July 1, 2001

LANDLORD: Sorrento Montana, L. P.,
a California Limited Partnership

TENANT: Camino Neurocare, Inc. a Delaware
Corporation

SORRENTOVIEW

INDUSTRIAL REAL ESTATE TRIPLE NET SUBLEASE

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SORRENTOVIEW

INDUSTRIAL REAL ESTATE TRIPLE NET SUBLEASE

ARTICLE I

BASIC TERMS

This Article One contains the Basic Terms of this Sublease between the Landlord and Tenant named below. This Sublease is subject to the Master Lease identified in Section 2.1 below. Other Articles, Sections, and Subsections of this Sublease referred to in this Article One explain and define the Basic Terms and are to be read in conjunction with the Basic Terms.

1.1 DATE OF SUBLEASE July 1, 2001

1.2 LANDLORD Sorrento Montana, L. P., a California Limited Partnership

Address of Landlord: c/o Sorrento Commercial Properties, Inc.,
dba Sorrento Management Company
10211 Pacific Mesa Boulevard, Suite 406
San Diego, California 92121

1.3 TENANT: Camino NeuroCare, Inc., a Delaware Corporation

Address of Tenant: 5955 Pacific Center Boulevard
San Diego, California 92121

1.4 PREMISES. In consideration of the rents, covenants, and agreement on the part of the Tenant to be paid and performed, Landlord subleases to Tenant, and Tenant subleases from Landlord, those certain premises identified on Exhibit "A" attached hereto and by this reference incorporated herein (the "Premises"). The Premises contain approximately 16,205 square feet of space, and are situated within that certain building ("Building") known as Building 7 and located at 5965 Pacific Center Boulevard, Suite #706 through #714 and Suite #716, San Diego, California 92121.

The Building is situated within that certain project ("Project") known as SORRENTOVIEW, located at the east side of Pacific Mesa Boulevard, between Pacific Mesa Court and Pacific Center Boulevard, San Diego, California, more particularly identified on Exhibit "B" attached hereto and by this reference incorporated herein.

1.5 SUBLEASE TERM. Twenty-four (24) months, beginning on July 1, 2001 or such other date as is specified in this Sublease (the "Sublease Term") (See Article 2).

1.6 PERMITTED USES. The Premises shall be used and occupied only for the research, manufacturing, warehousing and distribution of medical products, and administrative and storage uses related directly thereto (See Section 5.1).

1.7 TENANTS GUARANTOR. (IF NONE, SO STATE) None.

1.8 INITIAL SECURITY DEPOSIT. (See Section 3.3) Thirteen Thousand Seven Hundred Seventy-Four and 25/100 ($13,774.25).

1.9 RENT AND OTHER CHARGES PAYABLE BY TENANT.

1.9.1 BASE RENT. The base rent ("Base Rent") shall be Thirteen Thousand Seven Hundred Seventy-Four and 25/100 ($13,774.25) per month for the first Twelve (12) months, as provided in Section 3.1, then Base Rent shall be increased on each annual anniversary of the Commencement Date, beginning on the first anniversary of the Commencement Date, by five percent (5%) of the Base Rent in effect during the immediately preceding one year period. If the Commencement Date does not occur on the first day of the month, then the foregoing adjustments to Base Rent shall occur on the first day of the month in which the Commencement Date occurs.

1.9.2 OTHER PERIODIC PAYMENTS; ADDITIONAL RENT. (i) Real Property Taxes; (ii) utilities; (iii) insurance premiums; (iv) Common Area Costs; (v) impounds for insurance premiums and Real Property Taxes; (vi) maintenance, repairs, and alterations (See Articles Four and Six).

1.10 RIDERS. The following Riders are attached to and made a part of this Sublease: (If none, so state.) None.________________________________________.

1.11 BROKERS. (See Section 13.14). Tenant is not represented by an outside broker.

ARTICLE II

SUBLEASE TERM

2.1 MASTER LEASE. Landlord is the ground lessee of the real property improved with and identified as the Project under that certain Lease dated August 25, 1987, by and between the San Diego Unified School District ("District) as lessor and Landlord as lessee (the "Master Lease"). The Master Lease provided that Landlord may construct improvements and sublease portions thereof to tenants. Accordingly, and subject to the Master Lease, Landlord is entering into this sublease with Tenant.

2.2 SUBLEASE OF PREMISES FOR SUBLEASE TERM. Landlord subleases the Premises to Tenant and Tenant subleases the Premises from Landlord for the Sublease Term. The Sublease Term is for the period stated in Section 1.5 above and shall begin and end on the dates specified in Section 1.5 above, unless the beginning or end of the Sublease Term is changed under any provision of this Sublease. The "Commencement Date" shall be the date specified in Section 1.5 above for the beginning of the Sublease Term, unless advanced or delayed under any provision of this Sublease.

2.3 DELAY IN COMMENCEMENT. Deleted.

2.4 EARLY OCCUPANCY. If Tenant occupies the Premises prior to the Commencement Date, Tenant's occupancy of the Premises shall be subject to all of the provisions of this Sublease, except for payment of Rent. Early occupancy of the Premises shall not advance the expiration date of this Sublease.

2.5 HOLDING OVER. Tenant shall vacate the Premises upon the expiration or earlier termination of this Sublease. Tenant shall reimburse Landlord for and indemnify Landlord against all damages, loss or liability (including reasonable attorneys' fees and costs) incurred by Landlord from any delay by Tenant in vacating the Premises. If Tenant remains in possession of all or any part of the Premises after the expiration of the term hereof without the express consent of Landlord, such tenancy shall be from month-to-month only and not a renewal hereof or an extension for any further term, and in such case, Base Rent then in effect shall be increased by fifty percent (50%) and other monetary sums due hereunder shall be payable in the amount and at the time specified in this Sublease; and such month-to-month tenancy shall be subject to every other term, covenant and agreement contained herein, except that the month-to-month tenancy will be terminable on thirty (30) days notice given at any time by either party.

2.6 SURRENDER OF PREMISES. Upon the termination of the Sublease, Tenant shall surrender the Premises to Landlord in the condition specified in and according to Section 6.7.

ARTICLE III

BASE RENT

3.1 TIME AND MANNER OF PAYMENT. Upon execution of this Sublease, Tenant shall pay Landlord the Base Rent in the amount stated in Subsection 1.9.1 above for the first month of the Sublease Term. On the first day of the second month of the Sublease Term and each month thereafter, Tenant shall pay Landlord the Base Rent in United States currency, in advance, without offset, deduction or prior demand. The Base Rent shall be payable at Landlord's address or at such other place as Landlord may designate in writing.

3.2 INCREASE. The Base Rent shall be increased at the times specified in Subsection 1.9.1 above. Tenant shall be obligated to pay the new Base Rent from its effective date until the next periodic increase without any prior notice from Landlord.

3.3 SECURITY DEPOSIT INCREASES.

3.3.1 DEPOSIT. Upon the execution of this Sublease, Tenant shall deposit with Landlord a cash security deposit in the amount set forth in Section 1.8 above (the "Security Deposit"). Landlord may apply all or part of the Security Deposit to any unpaid rent or other charges due from Tenant or to cure any other defaults of Tenant. Tenant hereby waives the provisions of Section 1950.7 of the California Civil Code, and all other provisions of law, now or hereafter in force, which provide that Landlord may claim from a security deposit only those sums reasonably necessary to remedy defaults in the payment of rent, to repair damage caused by Tenant or to clean the Premises, it being agreed that Landlord may, in addition, claim those sums reasonably necessary to compensate Landlord

for any other loss or damage, foreseeable or unforeseeable, caused by the act or omission of Tenant or any officer, employee, agent or invitee of Tenant. If Landlord uses any part of the Security Deposit, Tenant shall restore the Security Deposit to its full amount within ten (10) days after Landlord's written request. Tenant's failure to do so shall be a material default under this Sublease. No interest shall be paid on the Security Deposit. Landlord shall not be required to keep the Security Deposit separate from its other accounts and no trust relationship is created with respect to the Security Deposit.

3.3.2 INCREASE IN DEPOSIT. Any time Base Rent increases, Tenant shall, upon written request of Landlord, deposit additional sums with Landlord as an addition to the Security Deposit so that the total Security Deposit shall at all times bear the same proportion to the then current Base Rent as the initial Security Deposit bears to the initial Base Rent.

3.4 TERMINATION; ADVANCE PAYMENTS. Upon termination of this Sublease under Article Seven (Damage or Destruction), Article Eight (Condemnation), or any other termination not resulting from Tenant's default, and after Tenant has vacated the Premises in the manner required by this Sublease, an equitable adjustment shall be made concerning advance Rent, any other advance payments made by Tenant to Landlord, and accrued Real Property Taxes, and Landlord shall refund the unused portion of the Security Deposit to Tenant or Tenant's successor.

## ARTICLE IV

## OTHER CHARGES PAYABLE BY TENANT

4.1 ADDITIONAL RENT. All charges payable by Tenant other than Base Rent are called "Additional Rent." Unless this Sublease provides otherwise, all Additional Rent shall be paid with the next monthly installment of Base Rent and shall be in United States currency. The term "Rent" shall mean Base Rent and Additional Rent.

4.2 REAL PROPERTY TAXES.

4.2.1 PAYMENT OF TAXES. Tenant shall pay its proportionate share of all Real Property Taxes levied and assessed against the Project. Tenant's proportionate share of Real Property Taxes shall be the ratio that the total number of square feet in the Premises bears to the total number of leasable square feet in the Project existing upon the date the computation is made. Each year Landlord shall notify Tenant of Landlord's calculation of Tenant's proportionate share of the Real Property Taxes and together with such notice shall furnish Tenant with a copy of the tax bill. If any supplemental tax bills are delivered with respect to the Project, Landlord may notify Tenant of Landlord's new calculation of Tenant's proportionate share of Real Property Taxes as soon as such supplemental tax bill is received. Subject to Section 4.8 below, Tenant shall reimburse Landlord for Tenant's proportionate share of Real Property Taxes semiannually no later than fifteen (15) days before the taxing authority's delinquency date.

4.2.2 DEFINITION OF "REAL PROPERTY TAXES". "Real Property Taxes" means (i) any fee, license fee, license tax, commercial rental tax, levy, charge, assessment, penalty or tax (other than inheritance or estate taxes) imposed by any authority having the direct or indirect power to tax, including any City, County, State or Federal government, or any school, agriculture, lighting,

drainage or other improvement district thereof, as against any legal or equitable interest of Landlord in the Premises; (ii) any tax on the Landlord's right to receive, or the receipt of, rent or income from the Premises or against Landlord's business of leasing the Premises; (iii) any tax or charge for fire protection, streets, sidewalks, road maintenance, refuse or other services provided to the Premises by any governmental agency; (iv) any tax imposed upon this transaction or based upon a reassessment of the Premises due to a change in ownership or transfer of all or part of Landlord's interest in the Premises; and (v) any charge or fee replacing any tax previously included within the definition of Real Property Taxes. "Real Property Taxes" does not, however, include Landlord's Federal or State income, franchise, inheritance or estate taxes.

4.2.3 PERSONAL PROPERTY TAXES.

(a) Tenant shall pay prior to delinquency all taxes charged against trade fixtures, furnishings, equipment or any other personal property belonging to Tenant. Tenant shall attempt to have such personal property taxed separately from the Premises.

(b) If any such taxes on Tenant's personal property are levied against Landlord or Landlord's property, or if the assessed value of the Premises is increased by the inclusion therein of a value placed upon such personal property or trade fixtures of Tenant, then Landlord, after written notice to Tenant, shall have the right to pay the taxes based upon such increased assessments, regardless of the validity thereof, but only under proper protest if requested by Tenant in writing. If Landlord shall do so, then Tenant shall, upon demand, repay to Landlord the taxes levied against Landlord, or the proportion of such taxes resulting from such increase in the assessment. In any such event, however, Tenant, at Tenant's sole cost and expense, shall have the right, in the name of Landlord and with Landlord's cooperation, to bring suit in any court of competent jurisdiction to recover the amount of any such taxes so paid under protest; any amount so recovered to belong the Tenant.

(c) If any of Tenant's personal property is taxed with the Premises, Tenant shall pay Landlord the taxes for the personal property within fifteen (15) days after Tenant receives a written statement from Landlord for such personal property taxes.

4.3 UTILITIES. Tenant shall arrange for and pay, directly to the appropriate supplier, the cost of all natural gas, heat, light, power, sewer, telephone, water and other utilities and services supplied to the Premises. Landlord will cooperate in attempting to have each of the utilities supplied to the Premises separately metered. However, if any such utilities or services are jointly metered with other premises within the Project, Landlord shall make a reasonable determination of Tenant's proportionate share of the cost of such utilities and services, based on information reasonably available to Landlord, and Tenant shall pay such share to Landlord within fifteen (15) days after receipt of Landlord's written statement of such cost.

4.4 INSURANCE.

4.4.1 LANDLORD'S LIABILITY INSURANCE. During the Sublease Term, Landlord shall maintain a policy of commercial general liability insurance at Tenant's expense, insuring Landlord against liability arising out of the ownership, use, occupancy or maintenance of the Premises. The initial amount of such insurance

shall be at least $2,000,000.00, and shall be subject to periodic increase based upon inflation, increased liability awards, recommendations of professional insurance advisers, and other relevant factors. However, the amount of such insurance shall not limit Tenant's liability nor relieve Tenant or any obligation hereunder. Tenant shall, at Tenant's expense, maintain such other liability insurance as required pursuant to Subsections 4.4 6 and 4 4 7 hereof.

4.4.2 LANDLORD'S HAZARD AND RENTAL INCOME INSURANCE. During the Sublease Term, Landlord shall, at Tenant's expenses, maintain policies of insurance covering loss of or damage to the Premises to the extent of at least one hundred percent (100%) of its replacement value. Such policies shall provide protection against all perils included within the classification of fire, extended coverage, vandalism, malicious mischief, and any other perils which Landlord deems necessary. Landlord may obtain insurance coverage for Tenant's fixtures, equipment or building improvements installed by Tenant in or on the Premises. Tenant shall, at tenant's expense, maintain such primary or additional insurance on its fixtures, equipment and building improvements as is required pursuant to Subsections 4.4.6 and 4.4.7 hereof. During the Sublease Term, Landlord may also maintain a rental income insurance policy at Tenant's expense, with loss payable to Landlord in an amount equal to one year's Rent. Tenant shall not do or permit to be done anything which invalidates any such insurance policies.

4.4.3 PAYMENT OF PREMIUMS; INSURANCE POLICIES. Tenant shall pay its pro rata share of the premiums for maintaining the insurance required by Subsections 4.4.1 and 4.4.2. Tenant's pro rata share of all such premiums shall be based on the same proportion as used for payment of taxes pursuant to Subsection 4.2.1 hereof. All such amounts will be due and payable upon ten (10) days written notice.

4.4.4 INCREASE IN FIRE INSURANCE PREMIUM. Tenant agrees that it will not keep, use, manufacture, assemble, sell or offer for sale in or upon the Premises any article which may be prohibited by the standard form of fire insurance policy Tenant agrees to pay any increase in premiums for fire and extended coverage insurance that may be charged during the term of this Sublease on the amount of such insurance which may be carried by Landlord on said Premises or the Building, resulting from the acts or omissions of Tenant, its agents, servants or employees, or the use or occupancy of the Premises by Tenant or from the type of materials or products stored, manufactured, assembled or sold by Tenant in the Premises, whether or not Landlord has consented to the same. In determining whether increased premiums are the result of Tenant's use of the Premises, a schedule, issued by the organization making the insurance rate on the Premises, showing the various components of such rate, shall be conclusive evidence of the several items and charges which make up the fire insurance rate on the Premises.

4.4.5 WAIVER OF SUBROGATION. Landlord and Tenant each hereby release and relieve the other, and waive their entire right to recover damages (whether in contract or in tort) against the other, for loss or damage arising out of or incident to the perils required to be insured against under Section 4.4. The effect of such releases and waivers of the right to recover damages shall not be

limited by the amount of insurance carried or required, or by any deductibles applicable thereto. Landlord and Tenant agree to have their respective insurance companies issuing property damage insurance waive any right to subrogation that such companies may have against Lessor or Lessee, as the case may be, so long as the insurance is not invalidated thereby.

4.4.6 TENANT'S REQUIRED INSURANCE. Tenant shall keep in force throughout the Sublease Term: (a) a commercial general liability insurance policy or policies to protect the Landlord Entities against any liability to the public or to any invitee of Tenant or a Landlord Entity incidental to the use of or resulting from any accident occurring in or upon the Premises with a limit of not less than $1,000,000.00 per occurrence and not less than $2,000,000.00 in the annual aggregate, or such larger amount as Landlord may prudently require from time to time, covering bodily injury, personal injury, property damage and contractual liability and $1,000,000 products/completed operations aggregate; (b) Business Auto Liability covering owned, non-owned and hired vehicles with a limit of not less than $1,000,000 per accident; (c) insurance protecting against liability under Worker's Compensation Laws with limits at least as required by statute; (d) Employer's Liability with limits of $500,000 each accident, $500,000 disease policy limit, $500,000 disease-each employee; (e) All Risk or Special Form coverage protecting Tenant against loss of or damage to Tenant's alterations additions, improvements, carpeting, floor coverings, paneling, decorations, fixtures, inventory, and other personal property situated in or about the Premises to the full replacement value of the property so insured; (f) Business Interruption Insurance in such amount as will reimburse Tenant for direct or indirect earnings attributable to all perils commonly insured against by prudent tenants or attributable to prevention of access to the Premises as a result of such perils; and (g) such other reasonable types of insurance and in such reasonable amounts covering the Premises and operations therein as Landlord may reasonably require from time to time. The term "Landlord Entities" shall mean Landlord and any other person or entity that Landlord may designate from time to time.

4.4.7 REQUIRED INSURANCE POLICIES. Each of the policies required under Section 4.4.6 shall (a) be provided at Tenant's expense; (b) name the Landlord Entities as additional insureds; (c) be issued by an insurance company with a minimum Best's rating of "A:VII" during the Sublease Term; (d) provide that said insurance shall not be canceled unless thirty (30) days prior written notice (ten days for non-payment of premium) shall have been given to Landlord; and (e) be primary to and not contributory with any similar insurance carried by Landlord. Said policy or policies or certificates thereof shall be delivered to Landlord by Tenant upon the Commencement Date and at least thirty (30) days prior to each renewal of said insurance

4.4.8 ADDITIONAL LIABILITY; UNDER CONSTRUCTION. Whenever Tenant shall undertake any alterations, additions or improvements in, to or about the Premises ("Work") the aforesaid insurance protection must extend to and include injuries to persons and damage to property arising in connection with such Work, together with such other insurance as Landlord shall require; and the policies of or certificates evidencing such insurance must be delivered to Landlord prior to the commencement of any such Work.

4.5 COMMON AREAS.

4.5.1 DEFINITION; LOCATION. As used in this Sublease, "Common Areas" shall mean all areas within the Project which are available for the common use of

tenants of the Project and which are not leased or held for the exclusive use of tenants of the Project or which are not leased or held for the exclusive use of Tenant or other tenants, including, but not limited to, parking areas, driveways, sidewalks, loading areas, retaining walls, truck service ways, pedestrian malls, stairs, ramps, restrooms, access roads, corridors, landscaping, planted areas and trash enclosures. Landlord may from time to time change the size, location, nature and use of the Common Areas, including converting Common Areas into leasable areas, construction of additional parking facilities (including parking structures) in the Common Areas, and increasing or decreasing Common Area land and/or facilities. Tenant acknowledges that such activities may result in occasional inconvenience to Tenant from time to time. Landlord will exercise good faith efforts to minimize any disruption to Tenant's business caused by such activities, but Tenant hereby releases Landlord from any and all claims pertaining to such activities.

4.5.2 USE OF COMMON AREAS. Subject to other provisions of this Sublease, Tenant shall have the nonexclusive right (in common with other tenants and all others to whom Landlord has granted or may grant such rights) to use the Common Areas for the purposes intended, subject to such reasonable rules and regulations as Landlord may establish from time to time. Tenant shall abide by such rules and regulations and shall use its best effort to cause others who use the Common Areas with Tenant's expressed or implied permission to abide by Landlord's rules and regulations. At any time, Landlord may close any Common Areas to perform any acts in and to the Common Areas as, in Landlord's judgment, may be desirable to improve the Project. Tenant shall not, at any time, intentionally interfere with the rights of Landlord, other tenants, or any other person entitled to use the Common Areas.

4.5.3 VEHICLE PARKING. Tenant shall be entitled to use 3.8 vehicle parking spaces in the Project for each 1,000 (One Thousand) square feet (a total of sixty-two (62) spaces) within the Premises without paying any additional rent. Tenant's parking shall not be reserved and shall be limited to vehicles no larger than standard size automobiles or pickup or utility vehicles. Tenant shall not cause large trucks or other large vehicles to be parked within the Project. Vehicles shall be parked only in striped parking spaces and not in driveways, loading areas or other locations not specifically designated for parking. If Tenant parks more vehicles in the parking area than the number identified herein, such conduct shall be a material breach of this Sublease. No vehicle may be parked at the Project for more than seventy-two (72) consecutive hours without Landlord's prior written consent.

4.5.4 MAINTENANCE OF COMMON AREAS. Landlord shall maintain the Common Areas in good order, condition and repair and shall operate the Project, in Landlord's sole discretion, as a first class industrial/commercial real property development. Tenant shall pay Tenant's pro rata share (as defined below) of all costs incurred by Landlord in connection with the ownership, operation and maintenance of the Common Area ("Common Area Costs"). Common Area Costs include, but are not limited to, costs and expenses for the following: gardening and landscaping; pest control and extermination services; utilities, water and sewage charges; maintenance of signs (other than Tenant's signs); premiums for liability, property damage, fire and other types of casualty insurance on the Common Areas and all Common Area improvements; all personal property taxes levied on or attributable to personal property used in connection with the Common Areas; straight-line depreciation on personal property owned by Landlord which is consumed in the operation or maintenance of the Common Areas; fees for

required licenses and permits; repairing, resurfacing, repaving, maintaining, painting, lighting, cleaning, refuse removal, security and similar items; reserves; and a reasonable allowance to Landlord for Landlord's supervision of the Common Areas (not to exceed five percent (5%) of the total of all other Common Area Costs for the calendar year). Landlord may cause any or all of such services to be provided by third parties, or by entities associated with Landlord. Common Area Costs shall not include depreciation of real property which forms part of the Common Area, all Real Property Taxes for which Tenant is liable under this Sublease, all insurance premiums for which Tenant is liable under this Sublease, and all maintenance and repair costs for which Tenant is liable under this Sublease.

4.5.5 TENANT'S SHARE AND PAYMENT. Tenant shall pay Tenants annual pro rata share of all estimated Common Area Costs, in advance, in monthly installments on the first day of each month during the Sublease Term (prorated for any fractional month). Tenant's pro rata share shall be calculated by dividing the square foot area of the Premises, as set forth in Section 1.4 of this Sublease, by the aggregate square foot area of the leasable area within the Project whether currently leased or not upon the date the computation is made. Landlord may adjust such estimates at any time and from time to time based upon Landlord's experience and reasonable anticipation of costs. Such adjustments shall be effective as of the next Rent payment date after notice to Tenant. Within thirty (30) days after the end of each calendar year of the Sublease Term, Landlord shall deliver to Tenant a statement prepared in accordance with generally accepted accounting principles setting forth, in reasonable detail, the actual Common Area Costs paid or incurred by Landlord during the preceding calendar year and Tenant's pro rata share. Upon receipt of such statement, there shall be an adjustment between Landlord and Tenant with payment to or credit given by Landlord (as the case may be) so that Landlord shall receive the entire amount of Tenant's share of such costs and expenses for such period. Any delay or failure of Landlord to deliver such statement within said thirty (30) day period will not constitute a waiver of Landlord's right to subsequently deliver such statement and require Tenant to pay any deficiency in Tenant's pro rata share as may be disclosed by such statement. Tenant shall have the right to audit within landlord's office the Common Area Costs billed to Tenant by Landlord. The cost of the audit shall be the responsibility of and paid for by Tenant, unless the Common Area Costs billed to Tenant by Landlord exceed actual costs as verified by the audit by more than five (5) percent, in which case the cost of the audit shall be paid by Landlord.

4.5.5.1 ALTERNATIVE PAYMENT. Notwithstanding the foregoing, Landlord has the right to notify Tenant on a monthly or other basis of the actual amount Landlord has expended for all Common Area Costs incurred during the previous month or period. Such notice shall also set forth Tenant's pro rata share of such actual costs. Upon receipt of such statement, Tenant shall pay with the next monthly installment of Rent Tenant's pro rata share of the actual Common Area Costs incurred during the previous month or period.

4.5.6 ADDITIONAL AREAS. In addition to the Common Areas and costs associated therewith described in this Section 4.5, Landlord may, but is not obligated to, provide certain additional spaces and areas within or in close proximity to the Project ("Additional Areas") as (and included within the definition of) Common Areas. The Additional Areas may include, but are not limited to, an office used by and subject to the exclusive control of Landlord for leasing and/or managing the Project, a conference room available on a reserved basis for use by tenants within the Project during normal business hours, maintenance facilities for the storage of equipment and supplies, and a

locker room facility for use by tenants of the Project and their employees that are employed at the Project. Common Area Costs for which Tenant is liable for its pro rata share as described in Section 4.5.4 shall include costs of operating and the reasonable rental value of the space occupied by the Additional Areas.

4.6 LATE CHARGES. Tenant's failure to pay Rent promptly may cause Landlord to incur unanticipated costs. The exact amount of such costs is impractical or extremely difficult to ascertain. Such costs may include, but are not limited to, processing and accounting charges and late charges which may be imposed on Landlord by any ground lease, mortgage or trust deed encumbering the Premises. Therefore, if Landlord does not receive any Rent payment within five (5) business days after it becomes due, Tenant shall pay Landlord a late charge equal to five percent (5%) of the overdue amount. The parties agree that such late charge represents a fair and reasonable estimate of the costs Landlord will incur by reason of such late payment.

4.6.1 REPEATED LATE CHARGES. In the event that a late charge is payable under this Sublease, whether or not collected, for four (4) installments of Base Rent during any one calendar year of the Sublease Term, then the Base Rent shall automatically become due and payable quarterly in advance, rather than monthly All moneys paid to Landlord under this provision may be commingled with other moneys or Landlord and shall not bear interest.

4.7 INTEREST ON PAST DUE OBLIGATIONS. Any amount owed by Tenant to Landlord which is not paid when due shall bear interest at (i) the prime or reference rate, or succeeding similar index, announced by Bank of America (or its successor) from time to time plus four (4) percentage points or (ii) the highest rate then permitted by law, whichever is less, from the due date of such amount (the "Interest Rate"). However, interest shall not be payable on late charges to be paid by Tenant under this Sublease.

4.8 IMPOUNDS FOR INSURANCE PREMIUMS AND REAL PROPERTY TAXES. If requested by any ground lessor or lender to whom Landlord has granted a security interest in the Premises or the Project, or if Landlord deems it necessary in Landlord's sole and absolute discretion, or if Tenant is more than ten (10) business days late in the payment of Rent more than once in any consecutive twelve (12) month period, Tenant shall pay Landlord a sum equal to one-twelfth (1/12) of the annual Real Property Taxes and/or insurance premiums payable by Tenant under this Sublease (the "Impound Payments"), together with each payment of Base Rent. The Improved Payments shall be paid to the ground lessor or lender if required or held by Landlord with no obligation to pay Tenant interest thereon or keep the Impound Payments in a separate account. The amount of the Real Property Taxes and insurance premiums when unknown shall be reasonably estimated by Landlord. The Impound Payments shall be applied by Landlord to the payment of Real Property Taxes and insurance premiums when due. Any deficiency of Impound Payments shall be paid by Tenant to Landlord upon written request. If Tenant defaults under this Sublease, Landlord may apply the Impound Payments to any obligation then due under this Sublease.

## ARTICLE V

## USE OF PREMISES

5.1 PERMITTED USES. Tenant may use the Premises only for the Permitted Uses set forth in Section 1.6 above.

5.2 MANNER OF USE.

5.2.1 OBJECTIONABLE USES. Tenant shall not do or permit anything to be done in or about the Premises which will in any way obstruct or interfere with or infringe on the rights of other occupants of the Project, or injure or annoy them, or use or allow the Premises to be used for any improper, immoral, or objectionable purposes; nor shall Tenant cause, maintain or permit any nuisance in, on or about the Premises or commit or suffer to be committed any waste in, on or about the Premises.

5.2.2 NONPERMITTED USES; COMPLIANCE WITH LAW. Tenant shall not do or permit to be done in or about the Premises, nor bring, keep or permit to be brought or kept therein, anything which is prohibited by or will in any way conflict with any law, statute, ordinance or governmental rule or regulation now in force or which may hereafter be enacted or promulgated, or which is prohibited by any standard form of fire insurance policy or will in any way increase the existing rate of or affect any fire or other insurance policy covering the Project or any part thereof or any of its contents. Tenant shall, at its sole expense, comply with all governmental laws, ordinances and regulations, with the requirements of any Board of Fire Underwriters or other similar body now or hereafter instituted, and with any order, directive or certificate of occupancy issued pursuant to any law, ordinance or regulation by any public officer, insofar as the same relates to or affects the condition, use or occupancy of the Premises; provided, however, Tenant will not be required to make any structural changes to the Premises unless such structural change is required due to Tenant's acts or particular occupancy or use of the Premises. The judgment of any court of competent jurisdiction or the admission of Tenant in any action against Landlord, whether or not Tenant is a party to such action, shall be conclusive in establishing such violations between Landlord and Tenant.

5.2.3 NOXIOUS ODORS. Tenant shall not use, keep or permit to be used or kept any foul or noxious gas or substance in the Premises, or permit or suffer the Premises to be occupied or used in a manner offensive or objectionable to Landlord or other occupants of the Project by reason of noise, odors and/or vibrations, or interfere in any way with other tenants or those having business therein, nor shall any animals or birds be brought in or kept in or about the Premises or the Project. Tenant shall not conduct any auction on the Premises. No cooking shall be done or permitted by Tenant on the Premises, nor shall the Premises be used for washing clothes, for lodging, or for any improper, objectionable or immoral purposes. Tenant shall not use or keep in the Premises or the Project any kerosene, gasoline or inflammable or combustible fluid or material, or use any method of heating or air conditioning other than that supplied by Landlord.

5.2.4 PERMIT. Tenant shall obtain, pay for and keep current all permits required for Tenant's occupancy of the Premises and shall promptly take all actions necessary to comply with all applicable statutes, ordinances, rules, regulations, orders and requirements regulating the use by Tenant of the Premises, including, without limitation, the Occupational Health and Safety Act and the Americans With Disabilities Act.

5.3 SIGNS AND AUCTIONS.

5.3.1 AUCTION. Tenant shall not conduct, or permit to be conducted, any sale by auction on the Premises.

5.3.2 PROHIBITED SIGNS. Tenant shall not place, or suffer to be placed or maintained, on any exterior door, wall or window of the Premises any sign, awning or canopy, or advertising matter or other thing of any kind, and will not place or maintain any decoration, lettering or advertising mailer on the glass of any window or door, or that can be seen through the glass, of the Premises without Landlord's prior written approval. Tenant further agrees to maintain such sign, awning, canopy, decoration, lettering, advertising matter or thing as may be approved, in good condition and repair at all times.

5.3.3 SIGN CRITERIA. Unless Tenant and Landlord agree otherwise, Landlord will install, at Tenant's expense, a sign for Tenant in the Project in accordance with the criteria described on Exhibit "C' attached hereto and by this reference incorporated herein.

5.4 HAZARDOUS MATERIALS.

5.4.1 PROHIBITION OF STORAGE; INDEMNITY. Tenant shall not cause or permit any Hazardous Material (as hereinafter defined) to be brought upon, kept or used in or about the Premises or the Project by Tenant, its agents, employees, contractors or invitees, other than those expressly permitted by Landlord in writing. If Tenant breaches the obligation stated in the preceding sentence, or if the presence of Hazardous Materials on the Premises caused or permitted by Tenant (including Hazardous Materials specifically permitted by Landlord) results in contamination of the Premises or the Project, or if contamination of the Premises or the Project by Hazardous Material otherwise occurs for which Tenant is legally liable to Landlord for damage resulting therefrom, Tenant shall indemnify, defend and hold the Landlord Entities harmless from and against any and all claims, judgments, damages, penalties, fines, costs, liabilities, or losses (including without limitation diminution in value of the Premises or any portion of the Project, damages for the loss or restriction on use of rentable or usable space or of any amenity of the Premises of the Project, damages arising from any adverse impact on marketing of spaces in the Premises or the Project due to Tenant's breach of its obligations under the first sentence herein, and sums paid in settlement of claims, attorneys' fees, consultant fees and expert fees) which arise during of after the Sublease Term as a result of such contamination. This indemnification of the Landlord Entities by Tenant includes, without limitation, costs incurred in connection with any investigation of site conditions or any cleanup, remedial, removal, or restoration work required by any federal, state or local governmental agency or political subdivision because of Hazardous Material present in the soil or ground water on or under the Premises. Without limiting the foregoing, if the presence of any Hazardous Material on the Premises caused or permitted by Tenant results in any contamination of the Premises or the Project, Tenant shall promptly take all actions at its sole expense as are necessary to return the Premises or the Project, as applicable, to the condition existing prior to the introduction of any such Hazardous Material to the Premises or the Project, as applicable, provided that Landlords approval of such action shall first be obtained, which approval shall not be unreasonably withheld so long as such actions would not potentially have any material adverse long-term or short-term effect on the Premises or the Project.

5.4.2 TERMINATION OF LEASE. Notwithstanding the provisions of Paragraph 5.4.1 above, if (i) any anticipated use of the Premises by Tenant or any proposed assignee or sublessee of Tenant involves generation, storage, use, treatment or disposal of Hazardous Material, (ii) Tenant or the proposed assignee or sublessee has been required by any prior landlord, lender or governmental authority to take remedial action in connection with Hazardous Material contaminating a property if the contamination resulted from such party's action or use of the property in question, or (iii) Tenant or the proposed assignee or sublessee is subject to an enforcement order issued by any governmental authority in connection with the use, disposal or storage of a Hazardous Material, Landlord shall have the right to terminate this Sublease in Landlord's sole and absolute discretion.

5.4.3 TESTING. At any time prior to the expiration of the Sublease Term and upon twenty four (24) hours advance notice to Tenant, Landlord shall have the right to conduct at Landlord's expense (subject to reimbursement as provided below) appropriate tests of water and soil and to deliver to Tenant the results of such tests to demonstrate that contamination has occurred as a result of Tenant's use of the Premises, provided, however, that Landlord shall not unreasonably interfere with Tenant's business operations. If the results of such tests demonstrate that contamination has occurred as a result of Tenant's use of the Premises, Tenant shall reimburse Landlord for the cost of such tests within ten (10) days following written demand therefor.

5.4.4 UNDERGROUND TANKS. If underground or other storage tanks storing Hazardous Materials are located on the Premises or are hereafter placed on the Premises by any party, Tenant shall monitor the storage tanks, maintain appropriate records, implement reporting procedures, properly close any underground storage tanks, and take or cause to be taken all other steps necessary or required under the California Administrative Code, Title 23, Chapter 3, Subchapter 16, "Underground Storage Tank Regulations," and Division 20, Chapter 6.7 of the California Health & Safety Code, "Underground Storage of Substances," as they now exist or may hereafter be adopted or amended.

5.4.5 TENANT'S OBLIGATIONS. Tenant's obligations under this Section 5.4 shall survive the termination of this Sublease. During any period of time employed by Tenant after the termination of this Sublease to complete the removal from the Premises of any such Hazardous Materials, the provisions of Section 2.5 shall apply.

5.4.6 DEFINITION OF "HAZARDOUS MATERIAL". As used herein, the term "Hazardous Material" means any hazardous or toxic substance, material or waste which is or becomes regulated by any local governmental authority, the State of California, the United States Government or any agency thereof. The term "Hazardous Material" includes, without limitation, any material or substance which is (i) defined as a "hazardous waste," "extremely hazardous waste" or "restricted hazardous waste" under Sections 25115, 25117 or 25122.7, or listed pursuant to Section 25140, of the California Health and Safety Code, Division 20, Chapter 6.5 (Hazardous Waste Control Law), (ii) defined as a "hazardous substances" or under Section 25316 of the California Health and Safety Code, Division 2, Chapter 6.8 (Carpenter-Presley-Tanner Hazardous Substance Account Act), (iii) defined as a "hazardous material," "hazardous substance" or "hazardous waste" under Section 25501 of the California Health and Safety Code, Division 20, Chapter 6.95 (Hazardous Substances), (v) petroleum, (vi) asbestos, (vii) listed under Article 9 and defined as hazardous or extremely hazardous

pursuant to Article 11 of Title 22 of the California Administrative Code, Division 4, Chapter 20, (viii) designated as a "hazardous substance" pursuant to Section 311 of the Federal Water Pollution Control Act (33 U.S.C. Section 1317), (ix) defined as a "hazardous waste" pursuant to Section 1004 of the Federal Resource Conservation and Recovery Act, 42 U.S.C. Section 6901 et seq. (42 U.S.C. Section 6903), or (x) defined as a "hazardous substance: pursuant to Section 101 of the Comprehensive Environmental Response Compensation and Liability Act, 42 U.S.C. Section 9601 et seq. (42 U.S.C. Section 9601).

5.5 INDEMNIFICATION. None of the Landlord Entities shall be liable and Tenant hereby waives all claims against them for any damage to any property or any injury to any person in or about the Premises or the Project by or from any cause whatsoever (including without limiting the foregoing, rain or water leakage of any character from the roof, windows, walls, basement, pipes, plumbing works or appliances, the Project, or any portion thereof, not being in good condition or repair, gas, fire, oil, electricity, theft or the presence of Hazardous Material), except to the extent caused by or arising from the gross negligence or willful misconduct of Landlord or its agents, employees or contractors, or failure of Landlord to make repairs after receipt of notice of defects from Tenant, and then only to the extent such damage or injury is of a type not insured against, or required to be insured against hereunder, by Tenant. Tenant shall protect, indemnify, and hold the Landlord Entities harmless from and against any and all loss, claims, liability or costs (including court costs and attorney's fees) incurred by reason of (a) any damage to any property (including but not limited to property of any Landlord Entity) or any injury (including but not limited to death) to any person occurring in, on or about the Premises or the Project to the extent that such injury or damage shall be caused by or arise from any actual or alleged act, neglect or fault by Tenant, its agents, servants, employees, invitees or visitors, or from any omission by or of Tenant, its agents, servants, employees, invitees or visitors to meet any standards imposed by any duty with respect to the injury or damage; (b) the conduct or management of any work or thing whatsoever done by the Tenant in or about the Premises or from transactions of the Tenant concerning the Premises; (c) Tenant's failure to comply with any and all governmental laws, ordinances, and regulations applicable to the condition or use of the Premises or its occupancy; or (d) any breach or default on the part of Tenant in the performance of any covenant or agreement on the part of the Tenant to be performed pursuant to this Sublease. The provisions of this Section shall survive the termination of this Sublease with respect to any claims or liability accruing prior to such termination.

5.6 LANDLORD'S ACCESS. Landlord or its agents may enter the Premises during normal business hours to show the Premises to potential buyers, investors or tenants or other parties, or for any other purpose, Landlord deems necessary. Landlord shall give Tenant prior notice of such entry, except in the case of an emergency. Landlord may place customary "For Sale" or "For Lease" signs on the Premises. Notwithstanding the foregoing, Landlord shall not unreasonably interfere with Tenant's business operations.

5.7 QUIET POSSESSION. If Tenant pays the rent and complies with all other terms of this Sublease, Tenant may occupy and enjoy the Premises for the full Sublease Term, subject to the provisions of this Sublease, free from hindrance by anyone claiming by, through or under Landlord.

5.8 WINDOW COVERING. Tenant shall not change the window coverings in the Premises without Landlord's prior written consent.

## ARTICLE VI

## CONDITION OF PREMISES; MAINTENANCE, REPAIRS, AND ALTERATIONS

6.1 EXISTING CONDITIONS. Tenant accepts the Premises in its condition as of the execution of this Sublease, subject to any other provisions of this Sublease and to all recorded matters, laws, ordinances, and governmental regulations and orders. Tenant acknowledges that neither Landlord nor any agent of Landlord has made any representation as to the condition of the Premises or the suitability of the Premises for Tenant's intended use.

6.2 EXEMPTION OF LANDLORD FROM LIABILITY; WAIVER. Landlord shall not be liable for any damage or injury to the person, business (or any loss of income therefrom), goods, wares, merchandise or other property of Tenant, Tenant's employees, invitees, customers or any other persons in or about the Premises, whether such damage or injury is caused by or results from: (a) fire, steam, electricity, water, gas or rain; (b) the breakage, leakage, obstruction or other defects of pipes, sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures or any other cause; (c) conditions (including the presence of Hazardous Material) arising in or about the Premises or upon other portions of the Project, or from other sources or places; or (d) any act or omission of any other tenant of the Project. Landlord shall not be liable for any such damage or injury even though the cause of or the means of repairing such damage or injury are not accessible to Tenant. Tenant, as a material part of the consideration to be rendered to Landlord, hereby waives all claims against Landlord for the foregoing damages from any cause arising at any time. The provisions of this Section 6.2 shall not, however, except Landlord from liability for Landlord's gross negligence or willful misconduct, or for Landlord's failure to observe any of the terms and conditions of this Sublease, to the extent any damage or injury resulting therefrom is of a type not covered by the insurance carried, or required to be carried hereunder, by Tenant.

6.3 TENANT'S OBLIGATIONS.

6.3.1 MAINTENANCE AND REPAIR. Tenant shall keep the Premises (including all nonstructural, interior and exterior areas, systems and equipment, all glass, glazing, window moldings, partitions, doors, door hardware, interior painting, fixtures, and appurtenances thereof (including electrical, lighting, plumbing, and plumbing fixtures) in good order, condition, and repair during the Sublease Term. Tenant shall promptly replace any portion of the Premises or system or equipment in the Premises which cannot be fully repaired, regardless of whether the benefit of such replacement extends beyond the Sublease Term. Tenant shall also maintain a preventive maintenance contract providing for the regular inspection and maintenance of the heating and air conditioning system (including leaks around ducts, pipes, vents, or other parts of the air conditioning) by a licensed heating and air conditioning contractor. However, Landlord shall have the right, upon written notice to Tenant, to undertake the responsibility for preventive maintenance of the heating and air conditioning system, at Tenant's expense. It is the intention of the Landlord and Tenant that, at all times during the Sublease Term, Tenant shall maintain the Premises in an attractive,

first-class fully operative condition. Further, Tenant shall keep the exterior areas surrounding the Premises free from litter and debris. Tenant waives and releases its rights under California Civil Code Sections 1932(1), 1941 and 1942 or any other laws granting Tenant the right to terminate this Sublease for Landlord's failure to make repairs, imposing an obligation of repair on Landlord or giving Tenant the right to make repairs at Landlord's expense.

6.3.2 TENANT EXPENSE. All of Tenant's obligations under Section 6.3.1 shall be accomplished at Tenant's sole expense. If Tenant refuses or neglects to properly perform its obligations as required under Section 6.3.1 and to the reasonable satisfaction of Landlord, Landlord may, on ten (10) days' prior written notice (except that no notice shall be required in case of emergency) enter the Premises and perform such obligation on behalf of Tenant without liability to Tenant for any loss or damage that may accrue to Tenant's merchandise, fixtures, or other property or to Tenant's business by reason thereof, and upon completion thereof, Tenant shall pay Landlord's costs for making such repairs plus fifteen percent (15%) for overhead, upon presentation of bill therefor, as Additional Rent. Said bill shall include interest at the Interest Rate on said costs from the date of completion of repairs by Landlord.

6.4 LANDLORD'S OBLIGATIONS. Landlord shall be responsible only for the maintenance and repair of structural portions of the Premises. As used herein, structural portions of the Premises shall only refer to the foundation and slabs, exterior walls, and exterior roof of the Building in which the Premises are located. If Landlord is required to make repairs to structural portions by reason of Tenant's conduct or activities, Landlord may add the cost of such repairs to the Rent which shall thereafter become due. Except for the cost of repairs subject to reimbursement pursuant to the preceding sentence, Tenant shall pay its pro rata share, computed in accordance with Subsection 4.2.1 hereof, of all repairs, alterations and improvements made by Landlord to the structural portions of the Building where the Premises are located. All such amounts shall be due and payable upon five (5) business days written notice from Landlord.

6.5 ALTERATIONS, ADDITIONS, AND IMPROVEMENTS.

6.5.1 PROHIBITED ACTIONS. Tenant shall not make any alterations, additions or improvements to the Premises without Landlord's prior written consent, except for nonstructural alterations which do not exceed Five Thousand Dollars ($5,000) per alteration which are not visible from the outside of the Premises. In no event may Tenant install any antennas, satellite dishes or other devices on the roof of the Premises without Landlord's prior written consent, which consent Landlord may withhold in its sole and absolute discretion. Landlord may require Tenant to provide demolition and/or lien and completion bonds in form and amount satisfactory to Landlord. Tenant shall promptly remove any alterations, additions, or improvements constructed in violation of this Subsection 6.5.1 upon Landlord's written request. All alterations, additions, and improvements will be accomplished in good and workmanlike manner, in conformity with all applicable laws and regulations, and by a contractor approved by Landlord. Upon completion of any such work, Tenant shall provide Landlord with "as built" plans, copies of all construction contracts, and proof of payment for all labor and materials. Any additions to, or alterations of, the Premises, except moveable furniture and trade fixtures, shall become at once a part of the Premises and belong to Landlord; provided, however, (i) Landlord shall not be

obligated to insure or restore such additions or alterations pursuant to Subsections 4.4.2 and 7.3, respectively, and (ii) Landlord may require Tenant to remove any such additions to, or alterations of, the Premises by giving Tenant written notice thereof prior to the termination of this Sublease in which event Tenant shall remove the same and repair any damage to the Premises caused by such removal. Nothing in this Section 6.5.1 shall prevent Tenant from installing trade fixtures, machinery or other trade equipment in conformance to all applicable laws and regulations, and the same may be removed upon the termination of this Sublease, provided the Premises are not damaged by such removal, and provided further that Tenant shall not then be in default under the terms and conditions of this Sublease.

6.5.2 PAYMENT BY TENANT. Tenant shall pay when due all claims for labor and material furnished to the Premises.

6.5.3 FREEDOM FROM LIENS. Tenant shall keep the Premises, all other property therein and the Project free from any liens arising out of any work performed, material furnished or obligations incurred by Tenant, and shall indemnify, hold harmless and defend the Landlord Entities from and against any liens and encumbrances arising out of any work performed or materials furnished by or at the direction of Tenant. In the event that Tenant shall not, within twenty (20) days following the imposition of any such lien, cause such lien to be released of record by payment or posting of a proper bond, Landlord shall have, in addition to all other remedies provided herein and by law, the right, but no obligation, to cause the same to be released by such means as it shall deem proper, including payment of the claim giving rise to such lien. All such sums paid by Landlord and all expenses incurred by it in connection therewith, including attorneys' fees and costs, shall be payable to Landlord by Tenant on demand with interest at the Interest Rate.

6.5.4 WRITTEN NOTIFICATION REQUIRED. Tenant will notify Landlord in writing thirty (30) days prior to commencing any alterations or additions to allow Landlord time to file and post notices of nonresponsibility. Landlord reserves the right to approve any contractor and method of Payment, prior to said contractor making any improvements to the Premises.

6.6 RULES AND REGULATIONS.

Tenant agrees as follows:

(1) Landlord shall arrange for a trash collection service which will provide and periodically empty trash containers placed in designated areas for use by Tenant and other tenants in the Project. Tenant shall be responsible for placing all of its garbage and trash in such trash containers, and Tenant shall not permit any of its garbage or trash to accumulate outside of such trash containers.

(2) No aerial shall be erected on the roof or exterior walls of the Premises, or on the grounds, without in each instance, the written consent of the Landlord. Any aerial so installed without such written consent shall be subject to removal without notice at any time.

(3) No loudspeakers, televisions, phonographs, radios, or other devices shall be used in a manner so as to be heard or seen outside of the Premises without the prior written consent of Landlord.

(4) The outside areas immediately adjoining the Premises shall be kept clean and free from dirt and rubbish by Tenant to the satisfaction of Landlord, and Tenant shall not place or permit any obstruction or materials in such areas. No exterior storage shall be allowed without permission in writing from Landlord.

(5) The plumbing facilities shall not be used for any other purpose than that for which they are constructed, and no foreign substance of any kind shall be thrown therein, and the expense of any breakage, stoppage, or damage resulting from a violation of this provision shall be borne by Tenant.

(6) Tenant shall not burn any trash or garbage of any kind in or about the Premises, or the Project.

(7) The sidewalks, halls, passages, exits, entrances, and stairways in and about the Project shall not be obstructed by Tenant or used for any purpose other than for ingress to and egress from the Premises. The halls, passages, exits, entrances, stairways, balconies and roof are not for the use of the general public and Landlord shall in all cases retain the right to control and prevent access thereto by all persons whose presence in the judgment of the Landlord shall be prejudicial to the safety, character, reputation and interests of the Project, provided that nothing herein contained shall be constructed to prevent such access to persons with whom Tenant normally deals in the ordinary course of Tenant's business unless such persons are engaged in illegal activities. Tenant and its employees and invitees shall not go upon the roof of the Building.

(8) No additional locks or bolts of any kind shall be placed upon any of the doors or windows by Tenant, nor shall any changes be made in existing locks or the mechanisms thereof. Tenant must, upon the termination of Tenant's tenancy, return to Landlord all keys of stores, offices and toilet rooms either furnished to or otherwise procured by Tenant, and in the event of the loss of any keys so furnished Tenant shall pay to Landlord the cost thereof.

(9) Tenant shall not lay linoleum or other similar floor covering so that the same shall be affixed to the floor of the Premises in any manner except by a paste, or other material, which may easily be removed with water, the use of cement or other similar adhesive materials being expressly prohibited. The method of affixing any such linoleum or other similar floor covering to the floor, as well as the method of affixing carpets or rugs to the Premises, shall be subject to approval by Landlord. The expense of repairing any damage resulting from a violation of this rule shall be borne by Tenant.

(10) Tenant will not install blinds, shades, awnings, or other form of inside or outside window covering, or window ventilators or similar devices, without the prior written consent of Landlord.

Landlord reserves the right from time to time to amend or supplement the foregoing rules and regulations, and to adopt and promulgate additional rules and regulations applicable to the Premises. Notice of such rules and regulations

and amendments and supplements thereto, if any, shall be given to the Tenant and Tenant agrees to comply with all such rules and regulations upon receipt of notice to Tenant from Landlord. Landlord shall not be liable in any way to Tenant for any damage or inconvenience caused by any other tenant's noncompliance with these rules and regulations. Landlord shall, however, use its best commercially reasonable efforts to cause such compliance.

6.7 CONDITION UPON TERMINATION. Upon the termination of the Sublease, Tenant shall surrender the Premises to Landlord, broom-clean and in the same condition as received except for ordinary wear and tear which Tenant was not otherwise obligated to remedy under any provision of this Sublease. However, Tenant shall not be obligated to repair any damage which Landlord is required to repair under Article Seven (Damage or Destruction). In addition, and in accordance with Section 6.5.1, Landlord may require Tenant to remove any alterations, additions or improvements (whether or not made with Landlord's consent) prior to the termination of this Sublease. Any alterations, additions or improvements which Landlord has not required Tenant to remove shall become Landlord's property and shall be surrendered to Landlord upon the termination of the Sublease, except that Tenant may remove any of Tenant's machinery or equipment which can be removed without material damage to the Premises. Tenant shall repair, at Tenant's expense, any damage to the Premises caused by the removal of any such machinery or equipment. In no event, however, shall Tenant remove any of the following materials or equipment without Landlord's prior written consent: any power wiring or power panels; lighting or lighting fixtures; wall coverings; drapes, blinds or other window coverings; carpets or other floor coverings; heaters, air conditioners or any other heating or air conditioning equipment; fencing or security gates; or other similar building operating equipment and decorations.

6.8 MAINTENANCE OF COMMON AREAS. Landlord shall maintain the Common Areas as set forth in Section 4.5 above.

## ARTICLE VII

## DAMAGE OR DESTRUCTION

7.1 PARTIAL DAMAGE TO PREMISES. Tenant shall notify Landlord in writing immediately upon the occurrence of any damage to the Premises. If the Premises are only partially damaged and if the proceeds received by Landlord from the insurance policies described in Subsection 4.4.2 are sufficient to pay for the necessary repairs, this Sublease shall remain in effect and Landlord shall repair the damage as soon as reasonably possible, provided, however, that if Landlord either (i) fails to commence repairs within thirty (30) days, or (ii) fails to complete such repairs within 270 days, and further provided that such damage materially interferes with Tenant's business operations, Tenant may elect to terminate this Sublease. Landlord may elect, with Tenant's consent, to repair any damage to Tenant's equipment, fixtures or improvements installed in the Premises at Tenant's sole cost and expense. If the insurance proceeds received by Landlord are not sufficient to pay the entire cost of repair, or if the cause of the damage is not covered by the insurance policies which Landlord maintains under Subsection 4.4.2, Landlord may elect either to (a) repair the damage as soon as reasonably possible, in which case this Sublease shall remain in full force and effect, or (b) terminate this Sublease as of the date the damage

occurred. Landlord shall notify Tenant within thirty (30) days after receipt of notice of the occurrence of the damage whether Landlord elects to repair the damage or terminate this Sublease. Tenant shall pay to Landlord within thirty (30) days after request therefor by Landlord the "deductible amount" (if any) under Landlord's insurance policies if the damage was due to an act or omission of Tenant. If the damage to the Premises occurs during the last twelve (12) months of the Sublease Term, Landlord may elect to terminate this Sublease as of the date the damage occurred, regardless of the sufficiency of any insurance proceeds, and Landlord may retain all such proceeds. In such event, Landlord shall not be obligated to repair or restore the Premises, and Tenant shall have no right to continue this sublease. Landlord shall notify Tenant of its election within thirty (30) business days after receipt of notice of the occurrence of the damage.

7.2 TOTAL OR SUBSTANTIAL DESTRUCTION. If the Premises are totally or substantially destroyed (meaning the cost to repair would exceed twenty-five percent (25%) of replacement value) by any cause whatsoever, or if the Premises are in a building which is substantially destroyed (even though the Premises are not totally or substantially destroyed), or if the Project is substantially destroyed (even though the Premises are not totally or substantially destroyed), this Sublease shall, at the election of the Landlord, terminate as of the date the destruction occurred regardless of whether Landlord receives any insurance proceeds. Landlord shall notify Tenant of such election within thirty (30) business days after the occurrence of total or substantial destruction. If the destruction was caused by an act or omission of Tenant, Tenant shall pay Landlord the difference between the actual cost of rebuilding and any insurance proceeds received by Landlord.

7.3 LANDLORD'S OBLIGATIONS. Landlord shall promptly commence and diligently pursue to completion any repairs which it is obligated to effect under Section 7.1. Landlord shall not be required to repair any injury or damage by fire or other cause to (or to make any restoration or replacement of) any paneling, decorations, partitions, railings, floor coverings, office fixtures or any other improvements of property installed in the Premises by Tenant or at the direct or indirect expense of Tenant which are not part of the original Tenant improvements paid for by Landlord. Tenant shall be required to restore or replace same in the event of damage except for damage caused solely by the Landlord's gross negligence or intentional misconduct that is not covered by the insurance carried, or required to be carried hereunder, by Tenant. Tenant shall have no claim against Landlord for any damage suffered by reason of any such damage, destruction, repair or restoration, except to the extent caused by Landlord's gross negligence or willful misconduct.

7.4 TEMPORARY REDUCTION OF RENT. If the Premises are destroyed or damaged and Landlord or Tenant repairs or restores the Premises pursuant to the provisions of this Article Seven, any Base Rent payable during the period of such damage, repair and/or restoration shall be reduced in proportion to the rentable space which is unusable by Tenant in the conduct of its business, but only to the extent that Landlord has obtained rental income insurance to cover such abatement of Base Rent. Except for such possible reduction in payments required from Tenant, Tenant shall not be entitled to any compensation, reduction, or reimbursement from Landlord as a result of any damage, destruction, repair or restoration of or to the Premises.

7.5 WAIVER. Tenant waives the provisions of any statute, code or judicial decision which grants a tenant the right to terminate a lease in the event of damage or destruction of its premises, including Sections 1932(2) and 1933(4) of the California Civil Code, due to the fact that Tenant agrees that the provisions of this Article Seven shall govern the rights and obligations of Landlord and Tenant in the event of any damage or destruction of the Premises.

ARTICLE VIII

CONDEMNATION

8.1 CONDEMNATION. If all or any portion of the Premises is taken under the power of eminent domain or sold under the threat of that power (all of which are called "Condemnation"), this Sublease shall terminate as to the part taken or sold on the date the condemning authority takes title or possession, whichever occurs first. If more than twenty percent (20%) of the floor area of the Premises is taken, either Landlord or Tenant may terminate this Sublease as of the date the condemning authority takes title or possession, whichever occurs first, by delivering written notice to the other within ten (10) days after receipt of written notice of such taking (or in the absence of such notice, within ten (10) days after the condemning authority takes possession). If more than twenty percent (20%) of all subleasable space in the Building in which the Premises are located or in the Project is taken Landlord may elect to terminate this Sublease by delivering such notice to Tenant. If neither Landlord nor Tenant terminates this Sublease, this Sublease shall remain in effect as to the portion of the Premises not taken, except that the Base Rent shall be reduced in proportion to the reduction in the floor area of the Premises. Any Condemnation award or payment shall be distributed in the following order: (a) first, to any ground lessor, mortgagee or beneficiary under a deed of trust encumbering the Premises, the amount of its interest in the Premises and Tenant hereby assigns any other rights which Tenant may have now or in the future to any other award to Landlord; (b) second, to Tenant, only the amount of any award specifically designated for loss of or damage Tenant's trade fixtures or removable personal property, and Tenant hereby assigns any other rights which Tenant may have now or in the future to any other award to the Landlord; and (c) third, to Landlord, the remainder of such award, whether as compensation for reduction in the value of the subleasehold, the taking of the fee, or otherwise. If this Sublease is not terminated, Landlord shall repair any damage to the Premises caused by the Condemnation, except that Landlord shall not be obligated to repair any damage for which Tenant has been reimbursed by the condemning authority. If the severance damages received by Landlord are not sufficient to pay for such repair, Landlord shall have the right to either terminate this Sublease or make such repair at Landlord's expense.

8.2 WAIVER. Tenant waives the provisions of any statute, code or judicial decision which grants a tenant the right to terminate a lease in the event of a taking of its premises, including California Code of Civil Procedure Section 1265.130, due to the fact that Tenant agrees that the provisions of this Article Eight shall govern the rights and obligations of Landlord and Tenant in the event of a taking of the Premises.

ARTICLE IX

ASSIGNMENT AND SUBLETTING

9.1 LANDLORD'S CONSENT REQUIRED. No portion of the Premises or of Tenant's interest in this Sublease may be acquired by any other person or entity, whether by assignment, mortgage, sublease, transfer, operation of law, or act of Tenant, without Landlord's prior written consent, except as provided in Section 9.2 below. Any attempted transfer without consent shall, at Landlord's option, be void and shall constitute a noncurable breach of this Sublease. Except as otherwise provided in Section 9.2, if Tenant is a partnership, limited liability company or corporation, any cumulative transfer of more than fifty percent (50%) of the ownership interest in Tenant shall be deemed an assignment of this Sublease requiring Landlord's consent. If Tenant effects a transfer or requests the consent of Landlord to any transfer (whether or not such transfer is consummated), then, upon demand, and as a condition precedent to Landlord's consideration of the proposed transfer, Tenant agrees to pay Landlord a non-refundable administrative fee of Five Hundred Dollars ($500.00), plus Landlord's reasonable attorneys' fees and costs and other costs incurred by Landlord in reviewing such proposed transfer.

9.2 TENANT AFFILIATE. Tenant may assign this Sublease or sublease the Premises, without Landlord's consent, to any entity which controls, is controlled by or is under common control with Tenant, or to any entity resulting from the merger of or consolidation with Tenant ("Tenant's Affiliate"). In such case, any Tenant's Affiliate shall assume in writing all of Tenant's obligations under this Sublease, but Tenant shall remain primarily liable hereunder.

9.3 NO RELEASE OF TENANT. No transfer permitted by this Article Nine, whether with or without Landlord's consent, shall release Tenant or change Tenant's primary liability to pay the Rent and to perform all other obligations of Tenant under this Sublease. Landlord's acceptance of Rent from any other person is not a waiver of any provision of this Article Nine. Consent to one transfer is not a consent to any subsequent transfer. If Tenant's transferee defaults under this Sublease, Landlord may proceed directly against Tenant without pursuing remedies against the transferee. Landlord may consent to subsequent assignments or modifications of this Sublease by Tenant's transferee, without notifying Tenant or obtaining its consent. Such action shall not relieve Tenant's liability under this Sublease.

9.4 LANDLORD'S ELECTION. Tenant's request for consent to any transfer described in Section 9.1 above shall be accompanied by a written statement selling forth the details of the proposed transfer, including the name, business and financial condition of the prospective transferee, financial details of the proposed transfer (e.g., the term of any rent and security deposit payable under any assignment or sublease), and any other information Landlord deems relevant. Landlord shall have the right (a) to withhold consent in Landlord's reasonable discretion; (b) to grant consent; or (c) if the transfer is a sublease of the Premises or an assignment of this Sublease, to terminate this Sublease as of the effective date of such sublease or assignment, in which case Landlord may elect to enter into a direct sublease with the proposed assignee or subtenant. By way of example and without limitation, the parties agree it shall be reasonable for Landlord to withhold its consent to a proposed transfer if any of the following situations exist or may exist: (i) the transferee's contemplated use of the Premises following the proposed transfer is different than the Permitted Uses set forth in Section 1.6; (ii) in Landlord's reasonable business judgment, the transferee lacks sufficient business reputation or experience to operate a successful business of the type and quality permitted under this Lease; (iii) in

Landlord's reasonable business judgment, the present net worth of the transferee is less than the greater of Tenant's net worth as of the date Landlord and Tenant entered into this Lease or Tenant's net worth at the date of Tenant's request for consent; or (iv) the proposed transfer would breach any covenant of Landlord respecting radius, location, use or exclusivity in any other lease, financing agreement, or other agreement to which Landlord is bound.

9.5 NO MERGER. No merger shall result from Tenant's sublease of the Premises under this Article Nine. Tenant's surrender of this Sublease or the termination of this Sublease in any other manner. In any such event, Landlord may terminate any or all subtenancies or succeed to the interest of Tenant as sublandlord thereunder.

9.6 EXCESS RENTALS. Tenant agrees to pay to Landlord, as additional rent, all sums and other consideration payable to and for the benefit of Tenant by the assignee or sublessee in excess of the rent payable under this Lease for the same period and portion of the Premises. In calculating excess rent or other consideration which may be payable to Landlord under this Section 9.6, Tenant will be entitled to deduct commercially reasonable third party brokerage commissions and attorneys' fees and other amounts reasonably and actually expended by Tenant in connection with such assignment or subletting if acceptable written evidence of such expenditures is provided to Landlord.

## ARTICLE X

## DEFAULTS; REMEDIES

10.1 COVENANTS AND CONDITIONS. Tenant's performance of each of Tenant's obligations under this Sublease is a condition as well as a covenant. Tenant's right to continue in possession of the Premises is conditioned upon such performance. Time is of the essence in the performance of all covenants and conditions.

10.2 DEFAULTS. Tenant shall be in material default under this Sublease:

10.2.1 VACATION OR ABANDONMENT. If Tenant abandons or vacates the Premises or if such abandonment or vacation of the Premises results in the cancellation of any insurance described in Section 4.4; or

10.2.2 FAILURE TO PAY. If Tenant fails to pay rent or any other charge required to be paid by Tenant, as and within five (5) business days of the date when due. The notice required by this Subsection is intended to satisfy any and all notice requirements imposed by California Code of Civil Procedure Section 1161 et seq. or any other applicable law and is not in addition to any such requirements; or

10.2.3 FAILURE TO PERFORM. If Tenant fails to perform any of Tenant's nonmonetary obligations under this Sublease for a period of thirty (30) days after written notice from Landlord; provided that if more time is required to complete such performance, Tenant shall not be in default if Tenant commences such performance within the thirty (30) day period and thereafter diligently pursues its completion. However, Landlord shall not be required to give such notice if Tenant's failure to perform constitutes a non-curable breach of this Sublease. The notice required by this Subsection is intended to satisfy any and all notice requirements imposed by California Code of Civil Procedure Section 1161, et seq. or any other applicable law and is not in addition to any such

requirements. Notwithstanding the foregoing, Tenant shall be obligated to commence performance to cure matters related to the storage or use of hazardous materials within fifteen days of receipt of notice from Landlord.

10.2.4 OTHER DEFAULTS. (i) If Tenant makes a general assignment or general arrangement for the benefit of creditors; (ii) if a petition for adjudication of bankruptcy or for reorganization or rearrangement is filed by or against Tenant and is not dismissed within thirty (30) days; (iii) if a trustee or receiver is appointed to take possession of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Sublease and possession is not restored to Tenant within thirty (30) days; or (iv) if substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Sublease is subjected to attachment, execution or other judicial seizure which is not discharged within thirty (30) days; or (iv) if substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Sublease is subjected to attachment, execution or other judicial seizure which is not discharged within thirty (30) days. If a court of competent jurisdiction determines that any of the acts described in this Subsection 10.2.4 is not a default under this Sublease, and a trustee is appointed to take possession (or if Tenant remains a debtor in possession) and such trustee or Tenant transfers Tenant's interest hereunder, then Landlord shall receive, as Additional Rent, the difference between the Rent (or any other consideration) paid in connection with such assignment or sublease and the Rent payable by Tenant hereunder.

10.3 REMEDIES. On the occurrence of any material default by Tenant, Landlord may, at any time thereafter, with or without notice or demand and without limiting Landlord in the exercise of any right or remedy which Landlord may have:

10.3.1 TERMINATION OF POSSESSION. Terminate Tenant's right to possession of the Premises by any lawful means, in which case this Sublease shall terminate and Tenant shall immediately surrender possession of the Premises to Landlord. In such event Landlord shall have the immediate right to re-enter and remove all persons and property and such property may be removed and stored in a public warehouse or elsewhere at the cost of, and for the account of Tenant, all without service of notice or resort to legal process and without being deemed guilty of trespass, or becoming liable for any loss or damage which may be occasioned thereby; and Landlord shall be entitled to recover from Tenant all damages incurred by Landlord by reason of Tenant's default, including (i) the worth at the time of the award of all Base Rent, Additional Rent and other charges which were earned or were payable at the time of the termination; (ii) the worth at the time of the award of the amount by which the unpaid Base Rent, Additional Rent and other charges which would have been earned or were payable after termination until the time of the award exceeds the amount of such Rental loss that Tenant proves could have been reasonably avoided; (iii) the worth at the time of the award of the amount by which the unpaid Base Rent, Additional Rent and other charges which would have been payable for the balance of the Sublease Term after the time of award exceeds the amount of such Rental loss that Tenant proves could have been reasonably avoided; and (iv) any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Sublease or which in the ordinary course of things would be likely to result therefrom, including, but not limited to, any costs or expenses incurred by Landlord in maintaining or preserving the Premises after such default, the cost of recovering possession of the Premises, expenses of reletting, including necessary renovation or

alteration of the Premises, Landlord's reasonable attorneys' fees incurred in connection therewith, and any real estate commissions or other such fees paid or payable.

As used in subparts (i) and (ii) above, the "worth at the time of the award" is computed by allowing interest on unpaid amounts at the Interest Rate. As used in subpart (iii) above, the "worth at the time of the award" is computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of the award, plus one percent (1%). If Tenant shall have abandoned the Premises, Landlord shall have the option of (i) retaking possession of the Premises and recovering from Tenant the amount specified in this Subsection 10.3.1, or (ii) proceeding under Subsection 10.3.2.

10.3.2 MAINTENANCE OF POSSESSION. Maintain Tenant's right to possession, in which case this Sublease shall continue in effect whether or not Tenant shall have abandoned the Premises. In such event, Landlord shall be entitled to enforce all of Landlord's rights and remedies under this Sublease, including the right to recover the Rent as it becomes due hereunder as permitted by California Civil Code Section 1951.4 or any successor statute.

10.3.3 OTHER REMEDIES. Pursue any other remedy now or hereafter available to Landlord under the laws or judicial decisions of the State of California.

10.4 THE RIGHT TO RELET THE PREMISES. Should Landlord elect to re-enter, as herein provided, or should it take possession pursuant to legal proceedings or pursuant to any notice provided for by law, it may either terminate this Sublease or it may from time to time without terminating this Sublease, make such alterations and repairs as may be necessary in order to relet the Premises, and relet the Premises or any part thereof for such term or terms (which may be for a term extending beyond the term of this Sublease) and at such rental or rentals and upon such other terms and conditions as Landlord in its sole discretion may deem advisable; upon each such reletting all rentals received by Landlord from such reletting shall be applied, first, to the repayment of any indebtedness other than Rent due hereunder from Tenant to Landlord; second, to the payment of any costs and expenses of such reletting, including brokerage fees and attorneys' fees and of costs of such alterations and repairs; third, to the payment of Rent due and unpaid hereunder, and the residue, if any, shall be held by Landlord and applied in payment of future Rent as the same may become due and payable hereunder. If such Rentals received from such reletting during any month are less than that to be paid during that month by Tenant hereunder, Tenant shall pay any such deficiency to Landlord. Such deficiency shall be calculated and paid monthly. No such re-entry or taking possession of the Premises by Landlord shall be construed as an election on its part to terminate this Sublease unless a written notice of such intention be given to Tenant or unless the termination thereof be decreed by a court of competent jurisdiction.

10.5 WAIVER OF RIGHTS OF REDEMPTION. Tenant hereby expressly waives any and all rights of redemption granted by or under any present or future laws in the event of Tenant being evicted or dispossessed for any cause, or in the event of Landlord obtaining possession of the Premises, by reason of the violation by Tenant of any of the covenants or conditions of this Sublease, or otherwise.

10.6 CUMULATIVE REMEDIES. Landlord's exercise of any right or remedy shall not prevent it from exercising any other right or remedy.

10.7 RIGHT TO CURE. If Tenant fails, refuses or neglects to perform any obligation under this Sublease in the time and manner required herein, Landlord shall have the right, but not the obligation, to do the same, but at the expense and for the account of Tenant. The amount of money so expended or obligations so incurred by Landlord, together with interest thereon at the Interest Rate, shall be repaid to Landlord as Additional Rent within ten (10) days of Tenant's receipt of written notice thereof. Landlord's performance of such obligations shall not waive any default by Tenant hereunder.

ARTICLE XI

PROTECTION OF CREDITORS

11.1 SUBORDINATION. This Sublease is and shall remain subordinate to the Master Lease. In addition, this Sublease is and shall remain subordinate to any other ground lease, deed of trust or mortgage encumbering the Premises, any advances made on the security thereof and any renewals, modifications, consolidations, replacements or extensions thereof, whenever made or recorded. If any ground lessor, beneficiary or mortgagee elects to have this Sublease prior to the lien of its ground lease, deed of trust or mortgage and gives written notice thereof to Tenant, this Sublease shall be deemed prior to such ground lease, deed of trust or mortgage whether this Sublease is dated prior or subsequent to the date of said ground lease, deed of trust or mortgage of the date of recording thereof. Landlord shall, however, with respect to any existing encumbrance exercise its best efforts to deliver to Tenant within thirty (30) days following the Commencement Date a non-disturbance agreement in a commercially reasonable form, in which such ground lessor or the beneficiary or holder of such encumbrance shall agree to honor all of Tenant's rights and remedies under this sublease.

11.2 ATTORNMENT. If Landlord's interest in the Premises is acquired by any ground lessor, beneficiary under a deed of trust, mortgagee, or purchaser at a foreclosure sale, Tenant shall attorn to the transferee of or successor to Landlord's interest in the Premises and recognize such transferee or successor as Landlord under this Sublease. Tenant waives the protection of any statue or rule of law which gives or purports to give Tenant any right to terminate this Sublease or surrender possession of the Premises upon the transfer of Landlord's interest.

11.3 SIGNING OF DOCUMENTS. Tenant shall sign and deliver any instrument or documents necessary or appropriate to evidence any such attornment or subordination or agreement to do so. If Tenant fails to do so within fifteen (15) days after written request, Tenant shall be in material default under this Sublease and, in addition, Tenant hereby makes, constitutes and irrevocably appoints Landlord, or any transferee or successor of Landlord, the attorney-in-fact of Tenant to execute and deliver any such instrument or document.

11.4 ESTOPPEL CERTIFICATES.

11.4.1 LANDLORDS REQUEST. Upon Landlords written request, Tenant shall execute, acknowledge and deliver to Landlord a written statement certifying: (i) that none of the terms or provisions of this Sublease have been changed (or if

they have been changed, stating how they have been changed); (ii) that this Sublease has not been canceled or terminated; (iii) the last date of payment of the Base Rent and other charges and the time period covered by such payment; (iv) that Landlord is not in default under this Sublease (or, if the Landlord is claimed to be in default, stating why); and (v) as to such other matters as may be reasonably requested of Tenant. Tenant shall deliver such statement to Landlord within ten (10) days after Landlord's request. Any such statement by Tenant may be given by Landlord to any prospective purchaser or encumbrancer of the Premises. Such purchaser or encumbrancer may rely conclusively upon such statement as true and correct.

11.4.2 FAILURE TO DELIVER. If Tenant does not deliver such statement to Landlord within such ten (10) day period, Tenant shall be in material default under this Sublease and, in addition, Landlord, and any prospective purchaser or encumbrancer, may conclusively presume and rely upon the facts set forth in such Statement. In such event, Tenant shall be estopped from denying the truth of such facts.

11.5 TENANT'S FINANCIAL CONDITION. Tenant shall, upon ten (10) days prior written notice, provide Landlord with a financial statement for the prior year and, if available, the current year, to the extent such statements are then in existence, prepared in accordance with generally accepted accounting principles and, if such is Tenant's normal practice, audited by an independent certified public accountant.

## ARTICLE XII

## LEGAL COSTS

12.1 ATTORNEYS' FEES. If either party commences litigation against the other for the specific performance of this Sublease, for damages for the breach hereof or otherwise for enforcement of any remedy hereunder, the parties agree to and hereby waive any right to a trial by jury and, in the event of any such commencement of litigation, the prevailing party shall be entitled to recover from the other party such costs and reasonable attorneys' fees as may have been incurred.

Further, if for any reason Landlord consults legal counsel or otherwise incurs any costs or expenses as a result of its rightful attempt to enforce the provisions of this Sublease after Tenant's grace or notice period has expired, after written notice to Tenant from Landlord that Landlord is seeking the advice of counsel, even though no litigation is commenced, or if commenced is not pursued to final judgment, Tenant shall be obligated to pay to Landlord, in addition to all other amounts for which Tenant is obligated hereunder, all of Landlord's costs, expenses and reasonable attorneys' fees incurred in connection with obtaining such advice.

12.2 LANDLORD'S CONSENT. Tenant shall pay Landlord's reasonable attorneys' fees (not to exceed $1,000 per occurrence) incurred in connection with Tenant's request for Landlord's consent under Article Nine (Assignment and Subletting), or in connection with any other act which Tenant proposes to do and which requires Landlord's consent.

ARTICLE XIII

MISCELLANEOUS PROVISIONS

13.1 SUBSTITUTED PREMISES. Deleted

13.2 LANDLORD'S LIABILITY; CERTAIN DUTIES.

13.2.1 LANDLORD. As used in this Sublease, the term "Landlord" means only the current owner or owners of the leasehold estate under the Master Lease at the time in question. Each Landlord is obligated to perform the obligations of Landlord under this Sublease only during the time such Landlord owns such interest or title. Any Landlord who transfers its title or interest is relieved of all liability with respect to the obligations of Landlord under this Sublease to be performed on or after the date of transfer. However, each Landlord shall deliver to its transferee all funds previously paid by Tenant if such funds have not yet been applied under the terms of this Sublease. Notwithstanding the foregoing, for purposes of Tenant's indemnification obligations under this Sublease, the term "Landlord" shall include the current owner(s) of the leasehold estate under the Master Lease and all prior owner(s) thereof during the Sublease Term.

13.2.2 WRITTEN NOTICE. Tenant shall give written notice of any failure by Landlord to perform any of its obligations under this Sublease to Landlord and to the District, any ground lessor, mortgagee or beneficiary under any deed of trust encumbering the Premises whose name and address have been furnished to Tenant in writing. Landlord shall not be in default under this Sublease unless Landlord (or the District, or such ground lessor, mortgagee or beneficiary) fails to cure such non-performance within thirty (30) days after receipt of Tenant's notice. However, if such non-performance reasonably requires more than thirty (30) days to cure, Landlord shall not be in default if such cure is commenced within such thirty (30) day period and thereafter diligently pursued to completion.

13.2.3 EXCULPATION. It is expressly understood and agreed that, notwithstanding anything in this Sublease to the contrary, and notwithstanding any applicable law to the contrary, the liability of Landlord hereunder and any recourse by Tenant against Landlord shall be limited solely and exclusively to the interest of Landlord in and to the Project, and neither Landlord, nor any of its constituent partners or subpartners, shall have any personal liability therefor, and Tenant, on behalf of itself and all persons claiming by, through or under Tenant, hereby expressly waives and releases Landlord and such partners and subpartners from any and all personal liability.

13.2.4 FAILURE TO GIVE CONSENT. If Landlord impermissibly fails to give any consent required hereunder, Tenant shall be entitled to specific performance in equity and shall have such other remedies as are reserved to it under this Sublease, but in no event shall this Lease be subject to termination or shall Landlord be responsible in monetary damages for such failure to give consent unless said consent is withheld maliciously or in bad faith.

13.3 SEVERABILITY. A determination by a court of competent jurisdiction that any provision of this Sublease or any part thereof is illegal or

unenforceable shall not cancel or invalidate the remainder of such provision or this Sublease, which shall remain in full force and effect.

13.4 INTERPRETATION. The captions of the Articles or Sections of this Sublease are to assist parties in reading this Sublease and are not a part of the terms of provisions of this Sublease. Whenever required by the context of this Sublease, the singular shall include the plural and the plural shall include the singular. The masculine, feminine, and neuter genders shall each include the other. In any provision relating to the conduct, acts or omissions of Tenant, the term "Tenant" shall include Tenant's agents, employees, contractors, invitees, successors or others using the Premises with Tenant's expressed or implied permission.

13.5 INCORPORATION OF PRIOR AGREEMENTS; MODIFICATIONS. This Sublease is the only agreement between the parties pertaining to the sublease of the Premises and no other agreements are effective. All amendments to this Sublease shall be in writing and signed by all parties. Any other attempted amendment shall be void.

13.6 NOTICES. All notices required or permitted under this Sublease shall be in writing and be personally delivered or sent by certified mail, return receipt requested, postage prepaid. Notices to Tenant shall be delivered to the address specified in Section 1.3 above, except that upon Tenants taking possession of the Premises, the Premises shall be Tenant's address for notice purposes Notices to Landlord shall be delivered to the address specified in Section 1.2 above. If personally delivered, notice shall be effective upon personal delivery or refusal. If mailed as aforesaid notice shall be effective upon delivery or refusal as evidenced by the return receipt Either party may change its notice address upon written notice to the other party.

13.7 WAIVERS. All waivers must be in writing and signed by the waiving party. Landlord's failure to enforce any provision of this Sublease or its acceptance of rent shall not be a waiver and shall not prevent Landlord from enforcing that provision or any other provision of this Sublease in the future. No statement on a payment check from Tenant or in a letter accompanying a payment check shall be binding on Landlord. Landlord may, with or without notice to Tenant, negotiate such check without being bound to the conditions of such statement.

13.8 NO RECORDATION. Tenant shall not record this Sublease without prior written consent from Landlord. However, Landlord may require that a "Short Form" memorandum of this Sublease be executed by both parties and recorded.

13.9 BINDING EFFECT; CHOICE OF LAW. This Sublease binds any party who legally acquires any rights or interest in this Sublease from Landlord or Tenant. However, Landlord shall have no obligation to Tenant's successor unless the rights or interests of Tenant's successor are acquired in accordance with the terms of this Sublease. The laws of the State of California shall govern this Sublease.

13.10 CORPORATE AUTHORITY; PARTNERSHIP AUTHORITY. If Tenant is a corporation, each person signing this Sublease on behalf of Tenant represents and warrants that he has full authority to do so and that this Sublease binds the corporation. Within five (5) days after this Sublease is signed, Tenant

shall deliver to Landlord a certified copy of a resolution of Tenant's Board of Directors authorizing the execution of this Sublease or other evidence of such authority reasonably acceptable to Landlord. If Tenant is a partnership, each person signing this Sublease for Tenant represents and warrants that he is a general partner of the partnership, that he has full authority to sign for the partnership and that this Sublease binds the partnership and all general partners of the partnership. Tenant shall give written notice to Landlord of any general partner's withdrawal or addition. Within five (5) days after this Sublease is signed, Tenant shall deliver to Landlord a copy of Tenant's recorded statement of partnership or certificate of limited partnership.

13.11 JOINT AND SEVERAL LIABILITY. All parties signing this Sublease as Tenant shall be jointly and severally liable for all obligations of Tenant.

13.12 FORCE MAJEURE. If Landlord cannot perform any of its obligations due to events beyond Landlord's control, the time provided for performing such obligations shall be extended by a period of time equal to the duration of such events. Events beyond Landlord's control include, but are not limited to, acts of God, war, civil commotion, labor disputes, strikes, fire, flood or other casualty, shortages of labor or material, government regulation or restriction and weather conditions.

13.13 NO OPTION. The submission of this Sublease for examination does not constitute a reservation of or option to sublease the Premises and this Sublease becomes effective only upon execution and delivery thereof by Landlord and Tenant.

13.14 BROKERS. Deleted.

13.15 HAZARDOUS SUBSTANCE CONDITIONS. If a Hazardous Substance Condition occurs, unless Tenant or its agents, employees, contractors or invitees are responsible therefor in accordance with Section 5.4, Landlord may at Landlord's option either (i) investigate and remediate such Hazardous Substance Condition, if required, as soon as reasonably possible at Landlord's expense, in which event this Lease shall continue in full force and effect, or (ii) if the estimated cost to investigate and remediate such condition exceeds twelve (12) times the then monthly Base Rent or $100,000 whichever is greater, give written notice to Tenant within thirty (30) days after receipt by Landlord of knowledge of the occurrence of such Hazardous Substance Condition of Landlord's intent to terminate this Lease as of the date sixty (60) days following the date of such notice. In which event, this Sublease shall terminate as of the date specified in Landlord's notice of termination. A "Hazardous Substance Condition" is the occurrence or discovery of a condition involving the presence of, or contamination by, Hazardous Material.

ARTICLE XIV

14.0 OPTION TO RENEW Tenant shall, provided Tenant is not in default of this Sublease, have a one-time option to renew ("Option") this Sublease of the premises in an "as is" condition for a two-year term commencing July 1, 2003 and continuing for twenty-four (24) consecutive months. Beginning Base Rent for the Option Period shall be ninety percent (90%) of the then-prevailing market rate for comparable space in the general area, but in no event less than $0.89 NNN per square foot per month. Tenant shall exercise the Option by notifying Landlord in writing on or before December 31, 2002 of Tenant's intention to renew. Tenant's failure to exercise the Option on or before December 31, 2002 shall be considered a waiver of the Option.

ARTICLE XV

15.0 CROSS DEFAULT Tenant and Landlord have concurrently entered into a July 1, 2001 Sublease of approximately 19,897 square feet of Premises within Sorrento View Business Park commonly known as 5955 Pacific Center Boulevard, Suites #600, San Diego, California 92121. A default of this Sublease shall also be considered a default of Tenant's Sublease of Premises at 5955 Pacific Center Boulevard; conversely, a default of the Sublease of Premises at 5955 Pacific Center Boulevard shall also be considered a default of this Sublease.

ARTICLE XVI

16.0 RIGHT OF FIRST REFUSAL. Tenant shall, provided Tenant is not in default, have a Right of First Refusal ("Right") to sublease additional premises within Building 7 as the additional premises may become available from time to time during the term of this Sublease. Landlord shall, upon receipt of a bona fide offer to sublease received from an outside third party and conditionally accepted by Landlord, notify Tenant of the terms and conditions of the offer received from the an a seven (7) working days from receipt of notification by Landlord within which to commit to Landlord in writing to sublease the additional premises upon the same terms and conditions as offered by the outside third part. Tenant's failure to respond within the seven day period shall be deemed a waiver of Tenants Right if First Refused.

LANDLORD:

SORRENTO MONTANA, L.P.,
a California Limited Partnership

By: Sorrento Commercial Properties, Inc.
d.b.a Sorrento Management Company,
A California Corporation

By: /s/ Roger W. Hillbrook
Name: Roger W. Hillbrook
Title: Vice President/Corporate Broker
Date: 7/3/01

TENANT:

CAMINO NEUROCARE, INC.,
a Delaware Corporation

By: /s/ David B. Holtz
Name: David B. Holtz
Title: Vice President, Finance
Date: 7/2/01

EXHIBIT 10.24b

# FIRST AMENDMENT TO SUBLEASE

THIS FIRST AMENDMENT TO SUBLEASE ("First Amendment") is made as of July 1, 2003 by and between Sorrento Montana, L.P., a California Limited Partnership ("Landlord") and Integra NeuroSciences CA Corporation, a Delaware Corporation ("Tenant"), with reference to the following facts and circumstances:

Landlord and Camino NeuroCare, Inc. entered into a Sublease dated July 1, 2001 for approximately 16,205 square feet of premises commonly known as Suites #706 through #714 and Suite #716, 5965 Pacific Center Boulevard, San Diego, California 92121 ("Premises").

Landlord and Tenant desire to modify, amend and supplement the Sublease through this First Amendment as follows:

1. Paragraph 1.3 ("TENANT") is hereby amended to delete Camino NeuroCare, Inc., a Delaware Corporation as Tenant and substitute therefore Integra Neurosciences CA Corporation, a Delaware Corporation as Tenant.

2. Paragraph 1.5 ("SUBLEASE TERM") is hereby amended to extend the term of the Sublease an additional twenty-four months through June 30, 2005.

3. Paragraph 1.8 ("INITIAL SECURITY DEPOSIT") is hereby amended to provide for Tenant's Security Deposit to be increased by Ten Thousand Sixty-Four and 75/100 Dollars ($10,064.75), resulting in a Security Deposit of Fifteen Thousand Three Hundred Ninety-Four and 75/100 Dollars ($15,394.75).

4. Paragraph 1.9.1 ("BASE RENT") is amended to provide for payment by Tenant of Base Rent of Fifteen Thousand Three Hundred Ninety-Four and 75/100 Dollars ($15,394.75) per month effective July 1, 2003. Effective July 1, 2004 and every July 1 thereafter throughout the sublease term, Tenant's Base Rent shall be increased four percent (4%) over the Base Rent payable by Tenant for the immediately preceding month.

5. Paragraph 14.0 ("OPTION TO RENEW") is hereby amended to provide Tenant an Option to Renew ("Renewal Option") this Sublease for one additional two-year term commencing July 1, 2005 and continuing for twenty-four consecutive months. Provided Tenant is not in default of this Sublease or Tenant's July 1, 2001 Sublease of 5955 Pacific Center Boulevard as subsequently amended, Tenant shall exercise the Renewal Option by notifying Landlord in writing on or before December 31, 2004 of Tenant's intention to renew. Tenant's Beginning Base Rent for the option term shall be ninety-five percent (95%) of the then-prevailing market rate for comparable space in the Sorrento Mesa/Sorrento Valley area, but in no event less than $1.03 NNN per square foot per month. Tenant's failure to exercise the Renewal Option on or before December 31, 2004 shall constitute a waiver of the Renewal Option by Tenant.

6. Paragraph 17.0 ("OPTION TO RETURN PREMISES") is hereby added to provide Tenant with a one-time Option to Return and delete from this Sublease a portion of Tenant's Premises ("Return Option") upon thirty

days' advance written notification served to Landlord any one time during the period July 1, 2003 and November 30, 2003. The premises which Tenant may return under the Return Option are specifically limited to the approximately 1,203 square toot Suite #716 and/or any one (but not more than one) of the following:

i. Suite #706 (approximately 1,728 square feet)

ii.Suites #706 and #707 (approximately 3,456 square feet)

iii.Suite #714 (approximately 1,618 square feet)

iv. Suites #714 and #713 (approximately 3,236 square feet)

v. Suite #706 and #714 (approximately 3,346 square feet)

Thirty days following Landlord's receipt of Tenant's written notice specifically identifying the suite or suites from the above list to be returned (which may be served by Tenant any one time during the period July 1, 2003 and November 30, 2003 only), the identified suites shall be deleted from Section 1.4 ("Premises") of this Sublease without penalty. Tenant's Base Rent payable under Paragraph 1.9.1 shall be reduced by $0.95 NNN per square foot per month for all square footage of Premises returned under this Return Option effective thirty days from Landlord's receipt of Tenant's written notice identifying the Premises to be returned hereunder. The foregoing notwithstanding, Tenant, at Tenant's sole cost and expense, shall be responsible for physically demising with a wall or walls as necessary and separating as necessary the system or systems serving the returned premises, including but not necessarily limited to electrical, heating, ventilation and air conditioning, from the then-remaining portion of Tenant's Premises.

Except as specifically provided in this First Amendment, all of the terms, conditions and definitions set forth in the Sublease shall remain unchanged and in full force and effect. In the event of any conflict between this First Amendment and the Sublease, the terms of this First Amendment shall prevail.

IN WITNESS WHEREOF, the parties hereto have executed this First Amendment To Sublease effective the day and year first written above:

LANDLORD:

SORRENTO MONTANA, L.P., A
A California Limited Partnership
By: Sorrento Commercial Properties, Inc.
A California Corporation doing business
as Sorrento Management Company

By: /s/ Roger W. Hillbrook
------------------------------
Roger W. Hillbrook
Vice President/Corporate Broker

Date: 7/21/03

TENANT:

INTEGRA NEUROSCIENCES CA
CORPORATION
A Delaware Corporation

By: /s/ Stuart M. Essig
-----------------------
Title: President and CEO

Date:

EXHIBIT 10.24c

# SECOND AMENDMENT TO SUBLEASE

THIS SECOND AMENDMENT TO SUBLEASE ("Second Amendment") is made as of June 1, 2004 by and between Sorrento Montana, LP., a California Limited Partnership ("Landlord") and Integra NeuroSciences CA Corporation, a Delaware Corporation ("Tenant"), with reference to the following facts and circumstances:

A. Landlord and Camino NeuroCare, Inc. entered into a Sublease dated July 1, 2001 ("Sublease") for approximately 16,205 square feet of premises commonly known as Suites #706 through #714 and Suite #716, 5965 Pacific Center Boulevard, San Diego, California 92121 ("Premises").

B. Landlord and Tenant subsequently amended and supplemented the Sublease through First Amendment to Sublease dated July 1, 2003 which in part substituted Integra Neurosciences CA Corporation for Camino NeuroCare, Inc. as Tenant and extended the term of the Sublease two additional years through June 30, 2005.

Landlord and Tenant desire to modify, amend and supplement the Sublease through this Second Amendment as follows:

1. Paragraph 1.4 ("PREMISES") is hereby amended to add the approximately 1,180 square foot Suite #717, 5965 Pacific Center Boulevard, San Diego, California 92121 to Tenant's Premises in an "as is" condition effective June 1, 2004 resulting in Premises of approximately 17,385 square feet.

2. Paragraph 1.8 ("INITIAL SECURITY DEPOSIT") is hereby amended to provide for Tenant's Security Deposit to be Increased by One Thousand One Hundred Twenty-One and No/100 Dollars ($1,121.00), resulting in a Security Deposit of Sixteen Thousand Five Hundred Fifteen and 75/100 Dollars ($16,515.75).

3. Paragraph 1.9.1 ("BASE RENT") is amended to provide for payment by Tenant of Base Rent of Sixteen Thousand Five Hundred Fifteen and 75/100 Dollars ($16,515.75) per month effective June 1, 2004.

4. Paragraph 17.0 ("OPTION TO RETURN PREMISES") is hereby deleted in its entirety.

Except as specifically provided in this Second Amendment, all of the terms, conditions and definitions set forth in the Sublease shall remain unchanged and in full force and effect. In the event of any conflict between this Second Amendment and the Sublease, the terms of this Second Amendment shall prevail.

IN WITNESS WHEREOF, the parties hereto have executed this Second Amendment To Sublease effective the day and year first written above:

LANDLORD:

SORRENTO MONTANA, L.P.

A California Limited Partnership
By: Sorrento Commercial Properties, Inc.
A California Corporation doing business as
Sorrento Management Company

By: /s/ Roger W. Hillbrook
------------------------------
Roger W. Hillbrook
Vice President/Corporate Broker

Date: 5/12/04

TENANT:

INTEGRA NEUROSCIENCES CA
CORPORATION
A Delaware Corporation

By: /s/ Stuart M. Essig
-----------------------
Title: President and CEO

Date: 5/11/04

EXHIBIT 10.24d

THIRD AMENDMENT TO SUBLEASE

THIS THIRD AMENDMENT TO SUBLEASE ("Third Amendment") is made as of June 15, 2004 by and between Sorrento Montana, L.P., a California Limited Partnership ("Landlord") and Integra LifeSciences Corporation, successor by merger to Integra NeuroSciences CA Corporation, a Delaware Corporation ("Tenant"), with reference to the following facts and circumstances:

I. Landlord and Camino NeuroCare, Inc. entered into a Sublease dated July 1, 2001 for approximately 16,205 square feet of premises commonly known as Suites #706 through #714 and Suite #7l6, 5965 Pacific Center Boulevard, San Diego, California 92121 ("Premises").

II. Landlord and Tenant subsequently modified and amended the Sublease through First Amendment to Sublease dated July 1, 2003. which in part extended the term of the Sublease two additional years through June 30, 2005 and granted Tenant one Option to Renew the Sublease for an additional two-year term through June 30, 2007.

III. Landlord and Tenant subsequently modified and amended the Sublease through Second Amendment to Sublease dated June 1, 2004, which in part added the approximately 1,180 square foot Suite #717 to Tenant's Sublease effective June 1, 2004.

Landlord and Tenant desire to further modify, amend and supplement the Sublease through this Third Amendment as follows:

1. Tenant hereby exercises it Option to Renew contained in First Amendment to Sublease, and Paragraph 15 ("SUBLEASE TERM") is therefore and hereby amended to extend the term of the Sublease an additional twenty-four months through June 30, 2007.

2. Paragraph 14.0 ("OPTION TO REVIEW') is hereby amended to provide Tenant with an Option to Renew ("Option") this Sublease for one additional two-year term commencing July l, 2007 and continuing for twenty-four consecutive months. Provided Tenant is not in default of this Sublease or Tenant's July 1, 2001 Sublease of 5955 Pacific Center Boulevard as subsequently amended, Tenant shall exercise the Option by notifying Landlord in writing on or before December 31, 2006 of Tenant's intention to renew. Tenant's Beginning Base Rent for the option term shall be one hundred four percent (104%) of the Base Rent payable by Tenant for the month of June 2007. Tenant's failure to exercise the Option on or before December 31, 2006 shall constitute a waiver of the Option by Tenant.

3. Paragraph 18.0 ("RIGHT OF FIRST REFUSAL") is hereby added, which, provided Tenant is not in default of this Sublease or Tenant's July 1, 2001 Sublease of 5955 Pacific Center Boulevard as subsequently amended, shall provide Tenant with a one-time Right of First Refusal ("Right") to individually add each of the following suites within 5965 Pacific Center Boulevard ("Additional Premises") to Tenant's Sublease as the suites are vacated by the present occupants or otherwise

become available from time to time during the term of Tenant's Sublease and any extensions thereof:

Suite #701 (approximately 781 square feet) Suites #702 through #705 (approximately 4,956 square feet) Suite #715 (approximately 1,027 square feet)

Upon receipt and conditional acceptance by Landlord of a bona fide offer or offers from an outside thud party or parties ("Third Party") to sublease any or all of the Additional Premises spaces listed above, Landlord shall promptly notify Tenant of the terms and conditions upon which Landlord is willing to sublease the Particular Additional Premises space to the Third Party. Tenant shall have ten (10) working days from receipt of Landlord's notice within which to agree in writing to add the Additional Premises to Tenant's Sublease upon the same terms and conditions as offered by the Third Party and conditionally accepted by Landlord. In the event Tenant rejects or fails to respond to Landlord within ten (10) working days of receipt of Landlord's notice. Tenant's Right of First Refusal as pertains to the particular space involved shall become null and void, and Landlord shall have no further obligation with regard thereto.

Except as specifically provided in this Third Amendment, all of the terms, conditions and definitions set faith in the Sublease shall remain unchanged and in full force and effect. In the event of any conflict between this Third Amendment and the Sublease, the terms of this Third Amendment shall prevail.

IN WITNESS WHEREOF, the parties hereto have executed this Third Amendment To Sublease effective the day and year first written above:

LANDLORD:

SORRENTO MONTANA, L.P., A
A California Limited Partnership
By: Sorrento Commercial Properties, Inc.
A California Corporation doing business as
Sorrento Management Company

By: /s/ Roger W. Hillbrook
------------------------------
Roger W. Hillbrook
Vice President/Corporate Broker

Date: 7/19/04

TENANT:

INTEGRA LIFESCIENCES
CORPORATION
A Delaware Corporation

By: /s/ Stuart M. Essig
-----------------------
Title: CEO

Date: 7/15/04

EXHIBIT 10.30

INTEGRA LIFESCIENCES HOLDINGS CORPORATION
STOCK OPTION GRANT AND AGREEMENT
Pursuant to
2003 EQUITY INCENTIVE PLAN

STOCK OPTION GRANT AND AGREEMENT made as of the 27th day of July, 2004 (the "Grant Date"), between INTEGRA LIFESCIENCES HOLDINGS CORPORATION, a Delaware corporation (the "Company"), and STUART M. ESSIG, an employee of the Company (the "Employee").

WHEREAS, the Company desires to afford the Employee an opportunity to purchase shares of common stock of the Company ("Common Stock"), par value $.01 per share, as hereinafter provided, under the Integra LifeSciences Holdings Corporation 2003 Equity Incentive Plan (the "2003 Plan"), a copy of which is attached.

NOW THEREFORE, in consideration of the mutual covenants hereinafter set forth and for other good and valuable consideration the legal sufficiency of which is hereby acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

1. Grant of Option. Pursuant to Section 3.2(b)(i)(B) of the Amended and Restated Employment Agreement by and between the Employee and the Company dated as of July 27, 2004 (the "Employment Agreement"), the Company hereby grants to the Employee a non-qualified stock option (the "Option") to purchase all or any part of an aggregate of 250,000 shares of Common Stock.

2. Purchase Price. The purchase price per share of the shares of Common Stock covered by the Option shall be $31.38. It is the determination of the Company's Stock Option Committee (the "Committee") that on the Grant Date the purchase price per share was not less than the greater of one hundred percent (100%) of the fair market value of the Common Stock, or the par value thereof.

3. Term. Unless earlier terminated pursuant to any provision of this Stock Option Grant and Agreement or the Employment Agreement, this Option shall expire on July, 27, 2014 (the "Expiration Date"), which date is not more than ten (10) years from the Grant Date. Notwithstanding anything herein to the contrary, this Option shall not be exercisable after the Expiration Date.

4. Exercise of Option. The Committee, using its authority and discretion under Sections 3(b) and 7.1 of the 2003 Plan to set the terms of Options granted under the 2003 Plan, has determined that this Option, subject to law and regulation, shall vest and become exercisable in such installments and on such dates, as follows:

This Option shall vest and become exercisable with respect to 62,500 shares on the first anniversary of the date hereof. Thereafter, this Option shall vest and become exercisable with respect to 1/36th of the remaining shares on the first business day of each following month. Except as provided in

Section 8(i) hereof, this Option shall vest and become exercisable in its entirety, and shall remain exercisable until the Expiration Date, (i) upon the occurrence of a "Change in Control" (as defined in the Employment Agreement), or (ii) upon the receipt of a bona fide two-tier tender offer with respect to the outstanding shares of Common Stock.

Once the Option becomes exercisable in accordance with the foregoing, it shall remain exercisable, subject to the provisions contained in this Stock Option Grant and Agreement, until the expiration of the term of this Option as set forth in Paragraph 3 or until other termination of the Option as set forth in this Stock Option Grant and Agreement.

5. Method of Exercising Option. Subject to the terms and conditions of this Stock Option Grant and Agreement, the Option may be exercised in whole or in part by written notice to the Company, at its principal office, which is located at 311 Enterprise Drive, Plainsboro, New Jersey 08536. Such notice shall state the election to exercise the Option, and the number of shares with respect to which it is being exercised, shall be signed by the person or persons so exercising the Option; shall, unless the Company otherwise notifies the Employee, be accompanied by the investment certificate referred to in Section 6; and shall be accompanied by payment of the full Option price of such shares.

The Option price shall be paid to the Company in: (i) cash; (ii) cash equivalent; (iii) Common Stock of the Company, in accordance with Section 7.1(f)(ii) of the 2003 Plan (as in effect on the date of this Stock Option Grant and Agreement); (iv) any combination of (i)-(iii); or (v) by delivering a properly executed notice of exercise of the Option in accordance with Section 7.1(f)(iii) of the 2003 Plan (as in effect on the date of this Stock Option Grant and Agreement).

Upon receipt of such notice and payment, the Company, as promptly as practicable, shall deliver or cause to be delivered a certificate or certificates representing the shares with respect to which the Option is so exercised. Such certificate(s) shall be registered in the name of the person or persons so exercising the Option (or, if the Option is exercised by the Employee and if the Employee so requests in the notice exercising the Option, shall be registered in the name of the Employee and the Employee's spouse, jointly, with right of survivorship) and shall be delivered as provided above to or upon the written order of the person or persons exercising the Option. In the event the Option is exercised by any person or persons after the legal disability or death of the Employee, such notice shall be accompanied by appropriate proof of the right of such person or persons to exercise the Option. All shares that are purchased upon the exercise of the Option as provided herein shall be fully paid and not assessable by the Company.

6. Shares to be Purchased for Investment. Unless the Company has theretofore notified the Employee that a registration statement covering the shares to be acquired upon the exercise of the Option has become effective under the Securities Act of 1933 and the Company has not thereafter notified the Employee that such registration statement is no longer effective, it shall be a condition to any exercise of this Option that the shares acquired upon such exercise be acquired for investment and not with a view to distribution, and the person effecting such exercise shall submit to the Company a certificate of such investment intent, together with such other evidence supporting the same as the Company may request. Notwithstanding the foregoing, upon the written request of

Employee, the Company shall provide the Employee with a shelf registration pursuant to a registration statement subject to the terms set forth in Exhibit B to the Employment Agreement. The Company shall be entitled to delay the transferability of the shares issued upon any such exercise to the extent necessary to avoid a risk of violation of the Securities Act of 1933 (or of any rules or regulations promulgated thereunder) or of any state laws or regulations. Such restrictions may, at the option of the Company, be noted or set forth in full on the share certificates. If any law or regulation requires the Company to take any additional action regarding the Common Stock before the Company issues certificates for the Common Stock subject to this Option or before such Common Stock may be transferred by the Employee, the Company shall use its commercially reasonable best efforts to resolve such problem.

7. Transferability. This Option is not assignable or transferable, in whole or in part, by the Employee other than by will or by the laws of descent and distribution, and during the lifetime of the Employee the Option shall be exercisable only by the Employee or by his/her guardian or legal representative.

8. Termination of Employment. If the Employee's employment with the Company and all Related Corporations, as defined in the 2003 Plan, is terminated for any reason other than death or disability prior to the Expiration Date of this Option as set forth in Paragraph 3, this Option shall vest and become exercisable in the following manner:

(i) Termination for Cause or Voluntary Termination Without Good Reason. If the Employee is terminated for "Cause" as defined in Section 4.3 of the Employment Agreement, or if the Employee voluntarily leaves his employment with the Company (other than for "Good Reason" as defined in Section 4.4 of the Employment Agreement, or "Disability" as defined in Section 4.2 of the Employment Agreement) prior to December 31, 2009, then the portion of this Option that is vested on the date of termination shall be exercisable until the Expiration Date and the non-vested portion of this Option shall terminate on the date of termination.

(ii) Termination without Cause or by Employee for Good Reason. If Employee is terminated without "Cause" or terminates employment for "Good Reason," then this Option shall become immediately vested and exercisable and shall remain exercisable in full until the Expiration Date.

(iii) Termination After December 31, 2009. If the Employee's employment terminates for any reason following December 31, 2009 (including if the Employment Agreement is not renewed following December 31, 2009), then this Option shall remain exercisable in full until the Expiration Date.

9. Disability. If the Employee is terminated for Disability during his employment and prior to the Expiration Date of this Option as set forth in Section 3, the vested portion of this Option shall be exercisable until the later of (i) one year from the date of termination or (ii) December 31, 2009, but in no event beyond the Expiration Date, and the non-vested portion of this Option shall terminate on the date of termination.

10. Death. If the Employee dies during his employment and prior to the Expiration Date, or if the Employee dies during any period following termination of employment but while this Option is still exercisable, then the vested portion of this Option shall be exercisable by the Employee's estate, personal representative or beneficiary who acquired the right to exercise this Option by bequest or inheritance or by reason of the Employee's death at any time prior to the later of (i) December 31, 2009, or (ii) one (1) year after the Employee's death, but in no event beyond the Expiration Date, and the non-vested portion of this Option shall terminate on the date of Employee's death.

11. Withholding of Taxes. The obligation of the Company to deliver shares of Common Stock upon the exercise of the Option shall be subject to applicable federal, state and local tax withholding requirements. If the exercise of any Option is subject to the withholding requirements of applicable federal, state or local tax laws, the Committee, in its discretion, may permit the Employee, subject to the provisions of the 2003 Plan (as in effect on the date of this Stock Option Grant and Agreement) and such additional withholding rules (the "Withholding Rules") as shall be adopted by the Committee, to satisfy the withholding tax, in whole or in part, by electing to have the Company withhold (or by returning to the Company) shares of Common Stock, which shares shall be valued, for this purpose, at their fair market value on the date of exercise of the Option (or, if later, the date on which the Employee recognizes ordinary income with respect to such exercise). An election to use shares of Common Stock to satisfy tax withholding requirements must be made in compliance with and subject to the Withholding Rules. The Committee may not withhold shares in excess of the number necessary to satisfy the minimum tax withholding requirements.

12. Adjustment of and Changes in the Common Stock.

(a) In the event the outstanding shares of the Common Stock shall be changed into an increased number of shares, through a share dividend or a split-up of shares, or into a decreased number of shares, through a combination of shares, then immediately after the record date for such change, the number of shares of Common Stock then subject to the Option shall be proportionately increased, in case of such share dividend or split-up of shares, or proportionately decreased, in case of such combination of shares. In the event the Company shall issue any of its shares of Common Stock or other securities or property (other than common stock which is covered by the preceding sentence), in a reclassification of the Common Stock (including without limitation any such reclassification in connection with a consolidation or merger in which the Company is the continuing entity), the Option shall be adjusted so that the Employee shall be entitled to receive upon exercise of the Option the same kind and number of shares or other securities or property which the Employee would have owned or have been entitled to receive after the happening of any of the events described above, had he owned the shares of the Common Stock subject to the Option immediately prior to the happening of such event or any record date with respect thereto, which adjustment shall become effective immediately after the effective date of such event retroactive to the record date, if any, for such event.

(b) In the event the Company shall distribute to all holders of the Common Stock evidences of its indebtedness or assets (including leveraged recapitalizations with special cash distributions), but excluding regular

quarterly cash dividends, then in each case the number of shares of Common Stock thereafter subject to the Option shall be determined by multiplying the number of shares theretofore subject to the Option by a fraction, (i) the numerator of which shall be the then current market price per share of Common Stock (as determined in paragraph (c) below) on the record date for such distribution, and (ii) the denominator of which shall be the then current market price per share of the Common Stock less the then fair value (as mutually determined in good faith by the Board of Directors of the Company (the "Board") and the Employee) of the portion of the assets or evidences of indebtedness so distributed applicable to a share of Common Stock. Such adjustment shall be made whenever any such distribution is made, and shall become effective on the date of distribution retroactive to the record date for the determination of shareholders entitled to receive such distribution.

(c) For the purpose of any computation under paragraph (b) of this Section 12, the current market price per share of the Common Stock at any date shall be deemed to be the average of the daily Stock Prices for 15 consecutive Trading Days commencing 20 Trading Days before the date of such computation. "Stock Price" for each Trading Day shall be the "Fair Market Value" of the Common Stock (as defined in the 2003 Plan, as in effect on the date of this Stock Option Grant and Agreement) for such Trading Day. "Trading Day" shall be each Monday, Tuesday, Wednesday, Thursday and Friday, other than any day on which the Common Stock is not traded on the exchange or in the market which is the principal United States market for the Common Stock.

(d) Notwithstanding anything in this Agreement to the contrary, in the event of a spin-off by the Company to its shareholders, the adjustment of the Option shall be determined in an appropriate and equitable manner, and it is the intention of the parties hereto that, to the extent practicable, such adjustment shall include an option grant to acquire an equity interest in the spun-off entity.

(e) Whenever the number of shares of Common Stock subject to the Option is adjusted as herein provided, the purchase price per share of Common Stock issuable thereunder shall be adjusted by multiplying such purchase price immediately prior to such adjustment by a fraction, the numerator of which shall be the number of shares of Common Stock subject to the Option immediately prior to such adjustment, and the denominator of which shall be the number of shares of Common Stock subject to the Option immediately thereafter.

(f) For the purpose of this Section 12, the term "Common Stock" shall mean (i) the class of Company securities designated as the Common Stock at the date of this Stock Option and Grant Agreement, or (ii) any other class of equity interest resulting from successive changes or reclassifications of such shares consisting solely of changes in par value, or from par value to no par value, or from no par value to par value. In the event that at any time, as a result of an adjustment made pursuant to the second sentence of Section 12(a) above, the Employee shall become entitled to, upon exercise of the Option, any shares other than the Common Stock, thereafter the number of such other shares issuable on exercise of the Option and the exercise price per share of Common Stock issuable thereunder shall be subject to adjustment from time to time in a manner and on the terms as nearly equivalent as practicable to the provisions with respect to the shares contained in this Section 12 and the provisions of this Stock Option and Grant Agreement with respect to the shares of Common Stock issuable on exercise of the Option shall apply on like terms to any such other shares.

(g) In case of any consolidation of the Company or merger of the Company with another corporation as a result of which Common Stock is converted or modified or in case of any sale or conveyance to another corporation of the property, assets and business of the Company as an entirety or substantially as an entirety, the Company shall modify the Option so as to provide the Employee with an option for the kind and amount of shares and other securities and property that he would have owned or have been entitled to receive immediately after the happening of such consolidation, merger, sale or conveyance had the Option, immediately prior to such action, actually been exercised for shares and, if applicable, other securities of the Company subject to the Option. The provisions of this Section 12(g) shall similarly apply to successive consolidations, mergers, sales or conveyances.

(h) Notwithstanding anything to the contrary contained herein, the provisions of this Section 12 shall not apply to, and no adjustment is required to be made in respect of, any of the following: (i) the issuance of shares of Common Stock upon the exercise of any other rights, options or warrants that entitle the holder to subscribe for or purchase such shares (it being understood that the sole adjustment pursuant to this Section 12 in respect of the issuance of shares of Common Stock upon exercise of rights, options or warrants shall be made at the time of the issuance by the Company of such rights, options or warrants, or a change in the terms thereof); (ii) the issuance of shares of Common Stock to the Company's employees, directors or consultants pursuant to bona fide benefit plans or employment or consulting arrangements adopted by the Company's Board of Directors; (iii) the issuance of shares of Common Stock in a bona fide public offering; (iv) the issuance of shares of Common Stock pursuant to any dividend reinvestment or similar plan adopted by the Company's Board of Directors to the extent that the applicable discount from the current market price for shares issued under such plan does not exceed 5%; and (v) the issuance of shares of Common Stock in any arm's length transaction (including, without limitation, any acquisition, financing, private placement, or, except as provided in Section 12(g), merger or combination or consolidation), directly or indirectly, to any party.

(i) In the event the parties hereto cannot agree upon an appropriate and equitable adjustment to the Option, the services of an independent investment banker mutually acceptable to Employee and the Company shall (at the sole expense of the Company) be retained to determine an appropriate and equitable adjustment, and such determination shall be binding upon the parties.

(j) For purposes of this Stock Grant and Option Agreement, "Affiliate" of an entity or individual means any entity or individual, directly or indirectly, controlling, controlled by or under common control with such entity or individual.

13. Legal Fees. If any contest or dispute shall arise between the Company and the Employee regarding any provisions of this Stock Grant and Option Agreement, the Company shall reimburse the Employee for legal fees and expenses reasonably incurred by Employee in connection with such contest or dispute to the extent set forth in Section 8.1 of the Employment Agreement. The application of this Section 13 (and Section 8.1 of the Employment Agreement)

shall survive the termination of the Employment Agreement. Such reimbursement shall be made as soon as practicable following the resolution of such contest or dispute (whether or not appealed) to the extent the Company receives reasonable written evidence of such fees and expenses. Notwithstanding any determination or interpretation by the Committee, any dispute or controversy arising under or in connection with this Agreement, shall be settled exclusively by arbitration in Wilmington, Delaware in accordance with the Commercial Arbitration Rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction.

14. Construction. Except as would be in conflict with any specific provision herein, this Stock Option Grant and Agreement is made under and subject to the provisions of the 2003 Plan as in effect on the Grant Date and, except as would conflict with the provisions of this Stock Option Grant and Agreement, all of the provisions of the 2003 Plan as in effect on the Grant Date are hereby incorporated herein as provisions of this Stock Option Grant and Agreement. In the event of any such conflict, the terms of this Stock Option Grant and Agreement shall govern.

15. Governing Law. This Stock Option Grant and Agreement shall be governed by applicable federal law and otherwise by the laws of the State of Delaware.

16. Amendment or Modification; Waiver. No provision of this Agreement may be amended, modified or waived unless such amendment or modification is agreed to in writing, signed by the Employee and by a duly authorized officer of the Company, and such waiver is set forth in writing and signed by the party to be charged. No waiver by any party hereto of any breach by another party hereto of any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of a similar or dissimilar condition or provision at the same time, any prior time or any subsequent time.

IN WITNESS WHEREOF, the undersigned have executed this Stock Option Grant and Agreement as of the date first written above.

INTEGRA LIFESCIENCES HOLDINGS CORPORATION

By: /s/ Richard Caruso
---------------------------------------
Richard Caruso, Chairman

/s/ Stuart M. Essig
---------------------------------------
Stuart M. Essig

EXHIBIT 10.31

# INTEGRA LIFESCIENCES HOLDINGS CORPORATION
# CONTRACT STOCK / RESTRICTED UNITS AGREEMENT
# Pursuant to
# 2003 EQUITY INCENTIVE PLAN

AGREEMENT, dated as of July 27, 2004, by and between Integra LifeSciences Holdings Corporation, a Delaware corporation (the "Company"), and Stuart M. Essig ("Executive").

WHEREAS, the Company and Executive have entered into an Amended and Restated Employment Agreement (the "Employment Agreement"), dated as of July 27, 2004, pursuant to which Executive will continue to serve as President and Chief Executive Officer of the Company, on the terms and conditions set forth and described therein; and

WHEREAS, pursuant to the Employment Agreement, the Company has agreed to grant to Executive an aggregate of 750,000 (seven hundred fifty thousand) shares of contract stock in the form of restricted units (the "Units") representing an equal number of shares of restricted common stock of the Company, par value $.01 per share ("Common Stock"), on the terms set forth herein; and

WHEREAS, the grant of Units and restricted Common Stock hereunder is being made under the Integra LifeSciences Holdings Corporation 2003 Equity Incentive Plan (the "2003 Plan"), a copy of which is attached.

NOW, THEREFORE, the parties agree as follows:

1. Definitions. Capitalized terms not otherwise defined herein shall have the meaning set forth in the Employment Agreement, unless otherwise indicated.

2. Grant of Units. Pursuant to Section 3.2(c) of the Employment Agreement, Executive is hereby granted, as of July 27, 2004, deferred compensation in the form of 750,000 (seven hundred fifty thousand) Units pursuant to the terms of this Agreement and to the 2003 Plan.

3. Dividend Equivalents. Executive shall be paid, on a quarterly basis with respect to all outstanding Units (as such Units may be adjusted under Section 6), dividend equivalent amounts equal to the regular quarterly cash dividend payable to holders of Common Stock (to the extent regular quarterly cash dividends are paid) as if Executive were an actual shareholder with respect to the number of shares of Common Stock equal to his outstanding Units. Such dividend equivalents shall be paid on the same date as the regular quarterly cash dividend is paid by the Company in respect of the Common Stock.

4. Payments of Units.

(a) The shares of Common Stock underlying the Units (the "Unit Shares") shall be paid out to Executive on the first business day following the date Executive's

employment with the Company terminates; provided, however, that Executive shall have a one-time right to elect to defer the delivery of the Unit Shares by giving written notice to the Company (but in no event shall Executive defer delivery of the Unit Shares beyond June 30, 2029) and in no event shall Executive's deferral election be effective unless (i) made at least twelve months prior to the otherwise applicable distributing date and (ii) the deferred delivery date is at least five years (or such shorter period as may be allowed under applicable law without causing any immediate taxation or imposition of interest or penalties) beyond the scheduled delivery date. The Executive's right to defer delivery of the Unit Shares shall be permitted only if such election shall not cause constructive receipt of such shares under applicable law or otherwise directly result in any interest or penalties being imposed on Executive. If such right to elect to defer would cause Executive to be subject to immediate taxation or would result in any interest or penalties being imposed, such right shall be deemed automatically modified to the minimum extent necessary (as mutually agreed by the Company and the Executive) to avoid such immediate taxation or imposition of interest or penalties. In the event a Change in Control occurs, the timing of the payment of the Unit Shares shall be governed by the terms of the Employment Agreement. Notwithstanding any election by Executive to defer delivery of Unit Shares, in the event that Executive becomes subject to income taxation on any Units or Unit Shares prior to the then currently scheduled date (or dates, as applicable) of delivery, Executive shall receive an immediate distribution of all Unit Shares which are then subject to immediate taxation. The Company shall consult with Executive before making any such distribution of Unit Shares to confirm whether Executive intends to dispute any asserted recognition of taxation on Units of Unit Shares prior to the scheduled deferred delivery date.

(b) Any Unit Shares delivered shall be deposited in an account designated by Executive and maintained at a brokerage house selected by Executive. Any such Unit Shares shall be duly authorized, fully paid and non-assessable shares, listed with NASDAQ or the principal United States securities exchange on which the Common Stock is admitted to trading and registered on the Company Registration Statement, if registration is requested by Executive.

(c) Except as otherwise provided in this Agreement, Executive shall not be deemed to be a holder of any Common Stock pursuant to a Unit until the date of the issuance of a certificate to him for such shares and, except as otherwise provided in this Agreement, Executive shall not have any rights to dividends or any other rights of a shareholder with respect to the shares of Common Stock covered by a Unit until such shares of Common Stock have been issued to him, which issuance shall not be unreasonably delayed.

(d) The Company may require that Executive pay to the Company, or the Company may otherwise withhold, at the time of payment of the value of a Unit, any such amount as is required by law or regulation to be withheld for Federal, state or local income tax or any other taxes incurred by reason of the payment.

(e) Executive's right to receive payment of any amounts under this Agreement shall be an unfunded entitlement and shall be an unsecured claim against the general assets of the Company.

(f) After payment in accordance with this Section 4, the Unit Shares may not be sold, transferred or otherwise disposed of by Executive for a period of five days after receipt of such shares by Executive, except that no such restrictions shall apply in the case of a Change in Control or if Executive determines to sell (or instruct the Company to withhold) any Unit Shares in order to satisfy any obligations Executive may have with respect to any applicable tax withholding requirements on receipt of Unit Shares.

5. Representations. The Company represents and warrants that this Agreement has been authorized by all necessary action of the Company, has been approved by the Board and is a valid and binding agreement of the Company enforceable against it in accordance with its terms and that the Unit Shares will be issued pursuant to and in accordance with the 2003 Plan, will be listed with NASDAQ or the principal United States securities exchange on which the Common Stock is admitted to trading, and will be validly issued, fully paid and non-assessable shares. The Company further represents and warrants that the grant of Units under this Agreement has been approved by the Company's Compensation Committee, that the 2003 Plan has and will have sufficient shares available to effect the distribution of the Unit Shares, and that the Company will file a Hart Scott Rodino application with respect to Executive on a timely basis, if necessary, in connection with the acquisition of Unit Shares by Executive under this Agreement.

6. Changes in the Common Stock and Adjustment of Units.

(a) In the event the outstanding shares of the Common Stock shall be changed into an increased number of shares, through a share dividend or a split-up of shares, or into a decreased number of shares, through a combination of shares, then immediately after the record date for such change, the number of Units then subject to this Agreement shall be proportionately increased, in case of such share dividend or split-up of shares, or proportionately decreased, in case of such combination of shares. In the event the Company shall issue any of its shares of stock or other securities or property (other than Common Stock which is covered by the preceding sentence), in a reclassification of the Common Stock (including without limitation any such reclassification in connection with a consolidation or merger in which the Company is the continuing entity), the kind and number of Units subject to this Agreement immediately prior thereto shall be adjusted so that the Executive shall be entitled to receive the same kind and number of shares or other securities or property which the Executive would have owned or have been entitled to receive after the happening of any of the events described above, had he owned the shares of the Common Stock represented by the Units under this Agreement immediately prior to the happening of such event or any record date with respect thereto, which adjustment shall become effective immediately after the effective date of such event retroactive to the record date, if any, for such event.

(b) In the event the Company shall distribute to all holders of the Common Stock evidences of its indebtedness or assets (including leveraged recapitalizations with special cash distributions, but excluding regular quarterly cash dividends), then in each case the number of Units thereafter subject to this Agreement shall be determined by multiplying the number of Units theretofore subject to this Agreement by a fraction, (i) the numerator of which shall be the then current market price per share of Common Stock (as determined in paragraph (c) below) on the record date for such distribution, and (ii) the denominator of

which shall be the then current market price per share of the Common Stock less the then fair value (as mutually determined in good faith by the Board and the Executive) of the portion of the assets or evidences of indebtedness so distributed applicable to a share of Common Stock. Such adjustment shall be made whenever any such distribution is made, and shall become effective on the date of distribution retroactive to the record date for the determination of shareholders entitled to receive such distribution.

(c) For the purpose of any computation under paragraph (b) of this Section 6, the current market price per share of the Common Stock at any date shall be deemed to be the average of the daily Stock Prices (as defined herein) for 15 consecutive Trading Days (as defined herein) commencing 20 Trading Days before the date of such computation. "Stock Price" for each Trading Day shall be the "Fair Market Value" of the Common Stock (as defined in the Company Stock Option Plan, as in effect on the date of this Agreement) for such Trading Day. "Trading Day" shall be each Monday, Tuesday, Wednesday, Thursday and Friday, other than any day on which the Common Stock is not traded on the exchange or in the market which is the principal United States market for the Common Stock.

(d) For the purpose of this Section 6, the term "Common Stock" shall mean (i) the class of Company securities designated as the Common Stock at the date of this Agreement, or (ii) any other class of equity interest resulting from successive changes or reclassifications of such shares consisting solely of changes in par value, or from par value to no par value, or from no par value to par value. In the event that at any time, as a result of an adjustment made pursuant to the second sentence of Section 6(a) above, the Executive shall become entitled to Units representing any shares other than the Common Stock, thereafter the number of such other shares represented by a Unit shall be subject to adjustment from time to time in a manner and on the terms as nearly equivalent as practicable to the provisions with respect to the shares contained in this Section 6, and the provisions of this Agreement with respect to the shares of Common Stock represented by the Units shall apply on like terms to any such other shares.

(e) In case of any consolidation of the Company or merger of the Company with another corporation as a result of which Common Stock is converted or modified, or in case of any sale or conveyance to another corporation of the property, assets and business of the Company as an entirety or substantially as an entirety, the Company shall modify the Units so as to provide the Executive with Units reflecting the kind and amount of shares and other securities and property that he would have owned or have been entitled to receive immediately after the happening of such consolidation, merger, sale or conveyance had his Units immediately prior to such action actually been shares and, if applicable, other securities of the Company represented by those Units. The provisions of this Section 6(e) shall similarly apply to successive consolidations, mergers, sales or conveyances.

(f) If the Company distributes rights or warrants to all holders of its Common Stock entitling them to purchase shares of Common Stock at a price per share less than the current market price per share on the record date for the distribution, the Company shall distribute to Executive equivalent amounts of such rights or warrants as if Executive were an actual shareholder with respect to the number of shares of Common Stock equal to his outstanding Units. Such rights or warrants shall be exercisable at the same time, on the same terms, and for the same price as the rights or warrants distributed to holders of the Common Stock.

(g) In case any event shall occur as to which the provisions of this Section 6 are not applicable but the failure to make any adjustment would not fairly protect the rights represented by the Units in accordance with the essential intent and principles of this Section 6 then, in each such case, the Company shall make an adjustment, if any, on a basis consistent with the essential intent and principles established in this Section 6, necessary to preserve, without dilution, the rights represented by the Units. The Company will promptly notify the Executive of any such proposed adjustment.

(h) Notwithstanding anything to the contrary contained herein, the provisions of Section 6 shall not apply to, and no adjustment is required to be made in respect of, any of the following: (i) the issuance of shares of Common Stock upon the exercise of any other rights, options or warrants that entitle the holder to subscribe for or purchase such shares (it being understood that the sole adjustment pursuant to this Section 6 in respect of the issuance of shares of Common Stock upon exercise of rights, options or warrants shall be made at the time of the issuance by the Company of such rights, options or warrants, or a change in the terms thereof); (ii) the issuance of shares of Common Stock to the Company's employees, directors or consultants pursuant to bona fide benefit plans adopted by the Company's Board; (iii) the issuance of shares of Common Stock in a bona fide public offering pursuant to a firm commitment offering; (iv) the issuance of shares of Common Stock pursuant to any dividend reinvestment or similar plan adopted by the Company's Board to the extent that the applicable discount from the current market price for shares issued under such plan does not exceed 5%; and (v) the issuance of shares of Common Stock in any arm's length transaction, directly or indirectly, to any party.

(i) Notwithstanding anything in this Agreement to the contrary, in the event of a spin-off by the Company to its shareholders, Executive's participation in such spin-off with respect to the Units and the adjustment of the Units shall be determined in an appropriate and equitable manner, and it is the intention of the parties hereto that, to the extent practicable, such adjustment shall include an equity interest in the spin-off entity.

(j) In the event the parties hereto cannot agree upon an appropriate and equitable adjustment to the Units, the services of an independent investment banker mutually acceptable to Executive and the Company shall (at the sole expense of the Company) be retained to determine an appropriate and equitable adjustment, and such determination shall be binding upon the parties.

7. No Right to Employment. Nothing in this Agreement shall confer upon Executive the right to remain in employ of the Company or any subsidiary of the Company.

8. Nontransferability. This Agreement shall not be assignable or transferable by the Company (other than to successors of the Company) and this Agreement and the Units shall not be assignable or transferable by the Executive otherwise than by will or by the laws of descent and distribution, and the Units

may be paid out during the lifetime of the Executive only to him. More particularly, but without limiting the generality of the foregoing, the Units may not be assigned, transferred (except as provided in the preceding sentence), pledged, or hypothecated in any way (whether by operation of law or otherwise), and shall not be subject to execution, attachment or similar process. Any attempted assignment, transfer, pledge, hypothecation or other disposition of the Units contrary to the provisions of this Agreement, and any levy of any attachment or similar process upon the Units, shall be null and void and without effect.

9. Arbitration, Legal Fees and Expenses. If any contest or dispute shall arise between the Company and Executive regarding any provision of this Agreement, the Company shall reimburse Executive for all legal fees and expenses reasonably incurred by Executive in connection with such contest or dispute, pursuant to the provisions of Section 8.1 of the Employment Agreement. The application of this Section 9 (and Section 8.1 of the Employment Agreement) shall survive the termination of the Employment Agreement. Such reimbursement shall be made as soon as practicable following the resolution of such contest or dispute (whether or not appealed) to the extent the Company receives reasonable written evidence of such fees and expenses. Any dispute or controversy arising under or in connection with this Agreement, shall be settled exclusively by arbitration in Wilmington, Delaware in accordance with the Commercial Arbitration Rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction.

10. Entire Agreement. This Agreement and the Employment Agreement contain all the understandings between the parties hereto pertaining to the matters referred to herein, and supersede all undertakings and agreements, whether oral or in writing, previously entered into by them with respect thereto. The Executive represents that, in executing this Agreement, he does not rely and has not relied upon any representation or statement not set forth herein made by the Company with regard to the subject matter, basis or effect of this Agreement or otherwise.

11. Amendment or Modification; Waiver. No provision of this Agreement may be amended, modified or waived unless such amendment or modification is agreed to in writing, signed by the Executive and by a duly authorized officer of the Company, and such waiver is set forth in writing and signed by the party to be charged. No waiver by any party hereto of any breach by another party hereto of any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of a similar or dissimilar condition or provision at the same time, any prior time or any subsequent time.

12. Notices. Any notice to be given hereunder shall be in writing and shall be deemed given when delivered personally, sent by courier or telecopy or registered or certified mail, postage prepaid, return receipt requested, addressed to the party concerned at the address indicated below or to such other address as such party may subsequently give notice of hereunder in writing:

To the Executive:

Stuart M. Essig<br>
26 Coniston Court<br>
Princeton, NJ 08540<br>
Facsimile: 609-924-7264

To the Company:

Integra LifeSciences Holdings Corporation
311 Enterprise Drive
Plainsboro, NJ 08536
Attention: Chairman
Facsimile: 609-275-9006

(with a copy to the Company's General Counsel)

Any notice delivered personally or by courier under this Section 12 shall be deemed given on the date delivered and any notice sent by telecopy or registered or certified mail, postage prepaid, return receipt requested, shall be deemed given on the date telecopied or mailed.

13. Severability. If any provision of this Agreement or the application of any such provision to any party or circumstances shall be determined by any court of competent jurisdiction to be invalid and unenforceable to any extent, the remainder of this Agreement or the application of such provision to such person or circumstances, other than those to which it is so determined to be invalid and unenforceable, shall not be affected thereby, and each provision hereof shall be validated and shall be enforced to the fullest extent permitted by law.

14. Noncontravention. The Company represents that the Company is not prevented from entering into, or performing, this Agreement by the terms of any law, order, rule or regulation, its certificate of incorporation or by-laws, or any agreement to which it is a party.

15. Survivorship. The respective rights and obligations of the parties hereunder shall survive any termination of this Agreement or Executive's employment to the extent necessary for the intended preservation of such rights and obligations.

16. Successors. This Agreement shall inure to the benefit of and be binding upon each successor of the Company, and upon the Executive's beneficiaries, legal representatives or estate, as the case may be.

17. Governing Law. This agreement will be governed by and construed in accordance with the laws of the State of Delaware, without regard to its conflicts of laws principles.

18. Headings. All descriptive headings of sections and paragraphs in this Agreement are for convenience of reference only, and they form no part of this Agreement and shall not affect its interpretation.

19. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Contract Stock / Restricted Units Agreement as of the date first above written.

INTEGRA LIFESCIENCES HOLDINGS CORPORATION

By: /s/ Richard Caruso
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Richard Caruso, Chairman

/s/ Stuart M. Essig
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Stuart M. Essig

EXHIBIT 10.32

[FORM OF OPTION AGREEMENT WITH STUART ESSIG]

INTEGRA LIFESCIENCES HOLDINGS CORPORATION
STOCK OPTION GRANT AND AGREEMENT
Pursuant to
2003 EQUITY INCENTIVE PLAN

STOCK OPTION GRANT AND AGREEMENT made as of the ____ day of [____], 200_ (the "Grant Date"), between INTEGRA LIFESCIENCES HOLDINGS CORPORATION, a Delaware corporation (the "Company"), and STUART M. ESSIG, an employee of the Company (the "Employee").

WHEREAS, the Company desires to afford the Employee an opportunity to purchase shares of common stock of the Company ("Common Stock"), par value $.01 per share, as hereinafter provided, under the Integra LifeSciences Holdings Corporation 2003 Equity Incentive Plan (the "2003 Plan"), a copy of which is attached.

NOW THEREFORE, in consideration of the mutual covenants hereinafter set forth and for other good and valuable consideration the legal sufficiency of which is hereby acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

1. Grant of Option. Pursuant to Section 3.2(b)(i)(B) of the Amended and Restated Employment Agreement by and between the Employee and the Company dated as of July 27, 2004 (the "Employment Agreement"), the Company hereby grants to the Employee a non-qualified stock option (the "Option") to purchase all or any part of an aggregate of [______] shares of Common Stock.

2. Purchase Price. The purchase price per share of the shares of Common Stock covered by the Option shall be $[FAIR MARKET VALUE ON THE DATE OF GRANT]. It is the determination of the Company's Compensation Committee (the "Committee") that on the Grant Date the purchase price per share was not less than the greater of one hundred percent (100%) of the fair market value of the Common Stock, or the par value thereof.

3. Term. Unless earlier terminated pursuant to any provision of this Stock Option Grant and Agreement or the Employment Agreement, this Option shall expire on [TENTH ANNIVERSARY OF DATE OF GRANT] (the "Expiration Date"), which date is not more than ten (10) years from the Grant Date. Notwithstanding anything herein to the contrary, this Option shall not be exercisable after the Expiration Date.

4. Exercise of Option. The Committee, using its authority and discretion under Sections 3(b) and 7.1 of the 2003 Plan to set the terms of Options granted under the 2003 Plan, has determined that this Option, subject to law and regulation, shall vest and become exercisable in such installments and on such dates, as follows:

This Option shall vest and become exercisable with respect to [1/4th OF THE TOTAL SHARES GRANTED] shares on the first anniversary of the date hereof. Thereafter, this Option shall vest and become exercisable with respect to 1/36th of the remaining shares on the first business day of each following month. Except as provided in Section 8(i) hereof, this Option shall vest and become exercisable in its entirety, and shall remain exercisable until the Expiration Date, (i) upon the occurrence of a "Change in Control" (as defined in the Employment Agreement), or (ii) upon the receipt of a bona fide two-tier tender offer with respect to the outstanding shares of Common Stock.

Once the Option becomes exercisable in accordance with the foregoing, it shall remain exercisable, subject to the provisions contained in this Stock Option Grant and Agreement, until the expiration of the term of this Option as set forth in Paragraph 3 or until other termination of the Option as set forth in this Stock Option Grant and Agreement.

5. Method of Exercising Option. Subject to the terms and conditions of this Stock Option Grant and Agreement, the Option may be exercised in whole or in part by written notice to the Company, at its principal office, which is located at 311 Enterprise Drive, Plainsboro, New Jersey 08536. Such notice shall state the election to exercise the Option, and the number of shares with respect to which it is being exercised, shall be signed by the person or persons so exercising the Option; shall, unless the Company otherwise notifies the Employee, be accompanied by the investment certificate referred to in Section 6; and shall be accompanied by payment of the full Option price of such shares.

The Option price shall be paid to the Company in: (i) cash; (ii) cash equivalent; (iii) Common Stock of the Company, in accordance with Section 7.1(f)(ii) of the 2003 Plan (as in effect on the date of this Stock Option Grant and Agreement); (iv) any combination of (i)-(iii); or (v) by delivering a properly executed notice of exercise of the Option in accordance with Section 7.1(f)(iii) of the 2003 Plan (as in effect on the date of this Stock Option Grant and Agreement).

Upon receipt of such notice and payment, the Company, as promptly as practicable, shall deliver or cause to be delivered a certificate or certificates representing the shares with respect to which the Option is so exercised. Such certificate(s) shall be registered in the name of the person or persons so exercising the Option (or, if the Option is exercised by the Employee and if the Employee so requests in the notice exercising the Option, shall be registered in the name of the Employee and the Employee's spouse, jointly, with right of survivorship) and shall be delivered as provided above to or upon the written order of the person or persons exercising the Option. In the event the Option is exercised by any person or persons after the legal disability or death of the Employee, such notice shall be accompanied by appropriate proof of the right of such person or persons to exercise the Option. All shares that are purchased upon the exercise of the Option as provided herein shall be fully paid and not assessable by the Company.

6. Shares to be Purchased for Investment. Unless the Company has theretofore notified the Employee that a registration statement covering the shares to be acquired upon the exercise of the Option has become effective under the Securities Act of 1933 and the Company has not thereafter notified the Employee that such registration statement is no longer effective, it shall be a condition to any exercise of this Option that the shares acquired upon such exercise be acquired for investment and not with a view to distribution, and the person effecting such exercise shall submit to the Company a certificate of such investment intent, together with such other evidence supporting the same as the Company may request. Notwithstanding the foregoing, upon the written request of Employee, the Company shall provide the Employee with a shelf registration pursuant to a registration statement subject to the terms set forth in Exhibit B to the Employment Agreement. The Company shall be entitled to delay the transferability of the shares issued upon any such exercise to the extent necessary to avoid a risk of violation of the Securities Act of 1933 (or of any rules or regulations promulgated thereunder) or of any state laws or regulations. Such restrictions may, at the option of the Company, be noted or set forth in full on the share certificates. If any law or regulation requires the Company to take any additional action regarding the Common Stock before the Company issues certificates for the Common Stock subject to this Option or before such Common Stock may be transferred by the Employee, the Company shall use its commercially reasonable best efforts to resolve such problem.

7. Transferability. This Option is not assignable or transferable, in whole or in part, by the Employee other than by will or by the laws of descent and distribution, and during the lifetime of the Employee the Option shall be exercisable only by the Employee or by his/her guardian or legal representative.

8. Termination of Employment. If the Employee's employment with the Company and all Related Corporations, as defined in the 2003 Plan, is terminated for any reason other than death or disability prior to the Expiration Date of this Option as set forth in Paragraph 3, this Option shall vest and become exercisable in the following manner:

(i) Termination for Cause or Voluntary Termination Without Good Reason. If the Employee is terminated for "Cause", as defined in Section 4.3 of the Employment Agreement, or if the Employee voluntarily leaves his employment with the Company (other than for "Good Reason", as defined in Section 4.4 of the Employment Agreement, or "Disability", as defined in Section 4.2 of the Employment Agreement) prior to December 31, 2009, then the portion of this Option that is vested on the date of termination shall be exercisable until the Expiration Date and the non-vested portion of this Option shall terminate on the date of termination.

(ii) Termination without Cause or by Employee for Good Reason. If Employee is terminated without "Cause" or terminates employment for "Good Reason", then this Option shall become immediately vested and exercisable and shall remain exercisable in full until the Expiration Date.

(iii) Termination After December 31, 2009. If the Employee's employment terminates for any reason following December 31, 2009 (including if the Employment Agreement is not renewed following December 31, 2009), then this Option shall remain exercisable in full until the Expiration Date.

9. Disability. If the Employee is terminated for Disability during his employment and prior to the Expiration Date of this Option as set forth in Section 3, the vested portion of this Option shall be exercisable until the later of (i) one year from the date of termination or (ii) December 31, 2009, but in no event beyond the Expiration Date, and the non-vested portion of this Option shall terminate on the date of termination.

10. Death. If the Employee dies during his employment and prior to the Expiration Date, or if the Employee dies during any period following termination of employment but while this Option is still exercisable, then the vested portion of this Option shall be exercisable by the Employee's estate, personal representative or beneficiary who acquired the right to exercise this Option by bequest or inheritance or by reason of the Employee's death at any time prior to the later of (i) December 31, 2009 or (ii) one (1) year after the Employee's death, but in no event beyond the Expiration Date, and the non-vested portion of this Option shall terminate on the date of Employee's death.

11. Withholding of Taxes. The obligation of the Company to deliver shares of Common Stock upon the exercise of the Option shall be subject to applicable federal, state and local tax withholding requirements. If the exercise of any Option is subject to the withholding requirements of applicable federal, state or local tax laws, the Committee, in its discretion, may permit the Employee, subject to the provisions of the 2003 Plan (as in effect on the date of this Stock Option Grant and Agreement) and such additional withholding rules (the "Withholding Rules") as shall be adopted by the Committee, to satisfy the withholding tax, in whole or in part, by electing to have the Company withhold (or by returning to the Company) shares of Common Stock, which shares shall be valued, for this purpose, at their fair market value on the date of exercise of the Option (or, if later, the date on which the Employee recognizes ordinary income with respect to such exercise). An election to use shares of Common Stock to satisfy tax withholding requirements must be made in compliance with and subject to the Withholding Rules. The Committee may not withhold shares in excess of the number necessary to satisfy the minimum tax withholding requirements.

12. Adjustment of and Changes in the Common Stock.

(a) In the event the outstanding shares of the Common Stock shall be changed into an increased number of shares, through a share dividend or

a split-up of shares, or into a decreased number of shares, through a combination of shares, then immediately after the record date for such change, the number of shares of Common Stock then subject to the Option shall be proportionately increased, in case of such share dividend or split-up of shares, or proportionately decreased, in case of such combination of shares. In the event the Company shall issue any of its shares of Common Stock or other securities or property (other than common stock which is covered by the preceding sentence), in a reclassification of the Common Stock (including without limitation any such reclassification in connection with a consolidation or merger in which the Company is the continuing entity), the Option shall be adjusted so that the Employee shall be entitled to receive upon exercise of the Option the same kind and number of shares or other securities or property which the Employee would have owned or have been entitled to receive after the happening of any of the events described above, had he owned the shares of the Common Stock subject to the Option immediately prior to the happening of such event or any record date with respect thereto, which adjustment shall become effective immediately after the effective date of such event retroactive to the record date, if any, for such event.

(b) In the event the Company shall distribute to all holders of the Common Stock evidences of its indebtedness or assets (including leveraged recapitalizations with special cash distributions), but excluding regular quarterly cash dividends, then in each case the number of shares of Common Stock thereafter subject to the Option shall be determined by multiplying the number of shares theretofore subject to the Option by a fraction, (i) the numerator of which shall be the then current market price per share of Common Stock (as determined in paragraph (c) below) on the record date for such distribution, and (ii) the denominator of which shall be the then current market price per share of the Common Stock less the then fair value (as mutually determined in good faith by the Board of Directors of the Company (the "Board") and the Employee) of the portion of the assets or evidences of indebtedness so distributed applicable to a share of Common Stock. Such adjustment shall be made whenever any such distribution is made, and shall become effective on the date of distribution retroactive to the record date for the determination of shareholders entitled to receive such distribution.

(c) For the purpose of any computation under paragraph (b) of this Section 12, the current market price per share of the Common Stock at any date shall be deemed to be the average of the daily Stock Prices for 15 consecutive Trading Days commencing 20 Trading Days before the date of such computation. "Stock Price" for each Trading Day shall be the "Fair Market Value" of the Common Stock (as defined in the 2003 Plan, as in effect on the date of this Stock Option Grant and Agreement) for such Trading Day. "Trading Day" shall be each Monday, Tuesday, Wednesday, Thursday and Friday, other than any day on which the Common Stock is not traded on the exchange or in the market which is the principal United States market for the Common Stock.

(d) Notwithstanding anything in this Agreement to the contrary, in the event of a spin-off by the Company to its shareholders, the adjustment of the Option shall be determined in an appropriate and equitable manner, and it is the intention of the parties hereto that, to the extent practicable, such adjustment shall include an option grant to acquire an equity interest in the spun-off entity.

(e) Whenever the number of shares of Common Stock subject to the Option is adjusted as herein provided, the purchase price per share of Common Stock issuable thereunder shall be adjusted by multiplying such purchase price immediately prior to such adjustment by a fraction, the numerator of which shall be the number of shares of Common Stock subject to the Option immediately prior to such adjustment, and the denominator of which shall be the number of shares of Common Stock subject to the Option immediately thereafter.

(f) For the purpose of this Section 12, the term "Common Stock" shall mean (i) the class of Company securities designated as the Common Stock at the date of this Stock Option and Grant Agreement, or (ii) any other class of equity interest resulting from successive changes or reclassifications of such shares consisting solely of changes in par value, or from par value to no par value, or from no par value to par value. In the event that at any time, as a result of an adjustment made pursuant to the second sentence of Section 12(a) above, the Employee shall become entitled to, upon exercise of the Option, any shares other than the Common Stock, thereafter the number of such other shares issuable on exercise of the Option and the exercise price per share of Common Stock issuable thereunder shall be subject to adjustment from time to time in a manner and on the terms as nearly equivalent as practicable to the provisions with respect to the shares contained in this Section 12 and the provisions of this Stock Option and Grant Agreement with respect to the shares of Common Stock issuable on exercise of the Option shall apply on like terms to any such other shares.

(g) In case of any consolidation of the Company or merger of the Company with another corporation as a result of which Common Stock is converted or modified or in case of any sale or conveyance to another corporation of the property, assets and business of the Company as an entirety or substantially as an entirety, the Company shall modify the Option so as to provide the Employee with an option for the kind and amount of shares and other securities and property that he would have owned or have been entitled to receive immediately after the happening of such consolidation, merger, sale or conveyance had the Option, immediately prior to such action, actually been exercised for shares and, if applicable, other securities of the Company subject to the Option. The provisions of this Section 12(g) shall similarly apply to successive consolidations, mergers, sales or conveyances.

(h) Notwithstanding anything to the contrary contained herein, the provisions of this Section 12 shall not apply to, and no adjustment is required to be made in respect of, any of the following: (i) the issuance of shares of Common Stock upon the exercise of any other rights, options or warrants that entitle the holder to subscribe for or purchase such shares (it being understood that the sole adjustment pursuant to this Section 12 in respect of the issuance of shares of Common Stock upon exercise of rights, options or warrants shall be made at the time of the issuance by the Company of such rights, options or warrants, or a change in the terms thereof); (ii) the issuance of shares of Common Stock to the Company's employees, directors or consultants pursuant to bona fide benefit plans or employment or consulting arrangements adopted by the Company's Board of Directors; (iii) the issuance of shares of Common Stock in a bona fide public offering; (iv) the issuance of

shares of Common Stock pursuant to any dividend reinvestment or similar plan adopted by the Company's Board of Directors to the extent that the applicable discount from the current market price for shares issued under such plan does not exceed 5%; and (v) the issuance of shares of Common Stock in any arm's length transaction (including, without limitation, any acquisition, financing, private placement, or, except as provided in Section 12(g), merger or combination or consolidation), directly or indirectly, to any party.

(i) In the event the parties hereto cannot agree upon an appropriate and equitable adjustment to the Option, the services of an independent investment banker mutually acceptable to Employee and the Company shall (at the sole expense of the Company) be retained to determine an appropriate and equitable adjustment, and such determination shall be binding upon the parties.

(j) For purposes of this Stock Grant and Option Agreement, "Affiliate" of an entity or individual means any entity or individual, directly or indirectly, controlling, controlled by or under common control with such entity or individual.

13. Legal Fees. If any contest or dispute shall arise between the Company and the Employee regarding any provisions of this Stock Grant and Option Agreement, the Company shall reimburse the Employee for legal fees and expenses reasonably incurred by Employee in connection with such contest or dispute to the extent set forth in Section 8.1 of the Employment Agreement. The application of this Section 13 (and Section 8.1 of the Employment Agreement) shall survive the termination of the Employment Agreement. Such reimbursement shall be made as soon as practicable following the resolution of such contest or dispute (whether or not appealed) to the extent the Company receives reasonable written evidence of such fees and expenses. Notwithstanding any determination or interpretation by the Committee, any dispute or controversy arising under or in connection with this Agreement, shall be settled exclusively by arbitration in Wilmington, Delaware in accordance with the Commercial Arbitration Rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction.

14. Construction. Except as would be in conflict with any specific provision herein, this Stock Option Grant and Agreement is made under and subject to the provisions of the 2003 Plan as in effect on the Grant Date and, except as would conflict with the provisions of this Stock Option Grant and Agreement, all of the provisions of the 2003 Plan as in effect on the Grant Date are hereby incorporated herein as provisions of this Stock Option Grant and Agreement. In the event of any such conflict, the terms of this Stock Option Grant and Agreement shall govern.

15. Governing Law. This Stock Option Grant and Agreement shall be governed by applicable federal law and otherwise by the laws of the State of Delaware.

16. Amendment or Modification: Waiver. No provision of this Agreement may be amended, modified or waived unless such amendment or modification is agreed to in writing, signed by the Employee and by a duly authorized officer of the Company, and such waiver is set forth in writing and signed by the party to be charged. No waiver by any party hereto of any breach by another party hereto of any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of a similar or dissimilar condition or provision at the same time, any prior time or any subsequent time.

17. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the undersigned have executed this Stock Option Grant and Agreement as of the date first written above.

INTEGRA LIFESCIENCES HOLDINGS CORPORATION

By: ____________________________

____________________________
STUART M. ESSIG

EXHIBIT 10.33

# SHARE PURCHASE AGREEMENT

DATED AS OF NOVEMBER 10, 2004

AMONG

INTEGRA LIFESCIENCES CORPORATION

AND

MR. ERIC FOURCAULT
MR. THEO KNEVELS
MR. JEAN-CHRISTOPHE GIET
MR. BERTRAND GAUNEAU

SHARE PURCHASE AGREEMENT

This SHARE PURCHASE AGREEMENT (the "Agreement") is made and entered into on November 10, 2004:

Between:

INTEGRA LIFESCIENCES CORPORATION, a Delaware (USA) corporation located at 311 Enterprise Drive, Plainsboro, NJ 08536, United States of America ("Integra"), or any subsidiary of Integra that it may designate for such purpose, Integra or such subsidiary being duly represented by John B. Henneman, III.

(hereinafter referred to together as the "Purchaser")

ON THE ONE HAND

and:

1. Eric Fourcault, born on January 27, 1967 in Rueil Malmaison (France), residing at 8 Cours d'Herbouville 69004 Lyon, France (hereinafter referred to as "Fourcault");

2. Theo Knevels, born on August 26, 1959 in Neerpelt (Belgium), residing at Vilvoordse Steenweg 426, Grimbergen 1850, Belgium (hereinafter referred to as "Knevels");

3. Jean-Christophe Giet, born on December 3, 1963, in Lyon (France), residing at 1 bis Boulevard des Belges 69006 Lyon, France (hereinafter referred to as "Giet");

4. Bertrand Gauneau, born on June 6, 1967, in Paris, residing at 60 rue de la Madeleine 69007 Lyon, France (hereinafter referred to as "Gauneau").

ON THE OTHER HAND

(hereinafter collectively referred to as the "Sellers" and individually as a "Seller", it being understood and agreed that Fourcault, Knevels and Giet are acting jointly and severally (conjointement et solidairement) subject to the terms of Section 7.1(b)).

The Sellers and the Purchaser are hereinafter collectively referred to as the "Parties" and individually as a "Party".

PREAMBLE

WHEREAS, the Purchaser desires to buy all of the issued and outstanding shares of NEWDEAL TECHNOLOGIES, a societe anonyme organized under the laws of France, with a capital of Euros 75,000, having its registered office at 10, Place d'Helvetie 69006 Lyon, France, registered with the Registry of Commerce and Companies in Lyon under number 440 570 323 (hereinafter referred to as the "Company");

WHEREAS, the Company holds 99,9% of all of the issued and outstanding shares of (a) SURFIX TECHNOLOGIES, a societe anonyme organized under the laws of France, with a capital of Euros 120,000, having its registered office at 7, avenue Jules Verne, Parc Tertiaire des Gresillieres 44230 Saint Sebastien sur Loire, France, registered with the Registry of Commerce and Companies in Nantes under number 392 424 396 (hereinafter referred to as "Surfix"), and (b) NEWDEAL, a societe anonyme organized under the laws of France, with a capital of Euros 1,000,000, having its registered office at 10, Place d'Helvetie 69006 Lyon, France, registered with the Registry of Commerce and Companies in Lyon under number 412 111 510 (hereinafter referred to as "Newdeal France"), which in turns holds (i) 99,9% of all of the issued and outstanding shares of ND SERVICE, organized under the laws of Belgium, with a capital of Euros370.000, having its registered office at Vilvoordse Steenweg 422, Grimbergen 1850, Belgium, registered with the Registry of Commerce and Companies in Brusselsunder number639383 (hereinafter referred to as "Newdeal Belgium"), and (ii) 100% of all of the issued and outstanding shares of NEWDEAL Incorporated, a Texas corporation, having its principal place of business at 2317 Brassington, Plano TX 75075 (hereinafter referred to as "Newdeal USA") (collectively referred to as the "Subsidiaries" and, together with the Company, as the "Companies").

WHEREAS, the Company, directly or indirectly through one or more of its Subsidiaries, designs, manufactures (through arrangements with third parties), markets and sells certain implants and other medical devices, and in particular foot-extremities, ankle surgery devices, osteosynthesis plates and screws for use in the tibia, femur, and humerus, and certain related spare parts and sundries (the "Products") and markets, distributes and sells the Products throughout the world (all of the foregoing, the "Business");

WHEREAS, the Sellers are, or immediately prior to the Closing (as defined below) will be, the owners of the Company Shares allocated as indicated in Exhibit 4.5.(a) hereto; and

WHEREAS, the Purchaser desires to purchase all of the Company Shares from the Sellers, and the Sellers desire to sell the Company Shares owned by them to the Purchaser, all upon the terms and conditions hereinafter set forth, and in particular subject to the Company being, directly or indirectly, the holder of 100% of all of the issued and outstanding shares of each of the Subsidiaries;

NOW, THEREFORE, in consideration of the premises, the mutual covenants, agreements, representations, and warranties herein contained, and other good and valuable consideration, the receipt and legal sufficiency of which are hereby acknowledged, the Parties hereto, intending to be legally bound, hereby agree as follows:

1. Definitions. The following terms shall have the following meanings ascribed to them:

1.1. "Adjustment Statement" is defined in Section 2.5.1(a).

1.2 "Anniversary Date" is defined in Section 2.3(b)

1.3 "Anniversary Payment" is defined in Section 2.3(b)

1.4 "Acquisition Price" is defined in Section 2.2

1.5 "Base Working Capital" shall mean three million nine hundred thirty three thousand five hundred forty six (3,933,546) Euros, equal to, as of June 30, 2004, (i) the current assets of the Companies (excluding cash and cash equivalents), less (ii) the operating liabilities of the Companies, calculated in the manner set forth in detail on Exhibit 2

1.6. "Business" shall have the meaning ascribed to it in the Preamble of this Agreement.

1.7. "Cap" is defined in Section 7.2(b).

1.8. "Closing" is defined in Section 3.1.

1.9. "Closing Balance Sheet" is defined in Section 2.5.1(a).

1.10. "Closing Date" is defined in Section 3.1.

1.11 "Closing Working Capital" shall mean an amount, calculated in all respects in the same manner as the calculation of Base Working Capital, equal to (i) the current assets of the Companies (excluding cash and cash equivalents) as of the end of the day on the Closing Date, less (ii) the operating liabilities of the Companies as of the end of the day on the Closing Date, and all as finally determined pursuant to Section 2.5.

1.12. "Company" shall have the meaning ascribed to it in the Preamble of this Agreement.

1.13. "Company Intellectual Property Rights" is defined in Section 4.22(b).

1.14. "Company Shares" shall mean 100 % (one hundred percent) of the stated capital of the Company, i.e. seventy five thousand (75,000 shares) of the Company.

1.15. "Companies" means the Company and its Subsidiaries collectively.

1.16. "Confidential Information" is defined in Section 4.22(n).

1.17. "Contract" means, whether written or oral, any commitment, agreement, arrangement, lease, franchise, permit, license, obligation, mortgage, instrument, Distribution Agreement or other document to which any of the Sellers or any of the Companies is a party.

1.18. "Control" is defined in Section 4.1.

1.19. "Damages" is defined in Section 7.1(a).

1.20 "Deductible"is defined in Section 7.2(a)

1.21. "Demonstration Inventory" means any Products held by any of the Companies, Distributors or hospitals on behalf of any of the Companies for purposes of demonstration, or training and that are not new and saleable.

1.22. "Distribution Agreement" means any agreement, whether written or oral, that any of the Companies or any of the Sellers, acting on behalf of any of the Companies or the Business, has with any Person or entity regarding the distribution, offer for sale, detailing, re-selling, wholesaling or representation of the Products anywhere in the world.

1.23. "Distributor" means any Person or entity that is a party to a Distribution Agreement.

1.24 "Estimated Post-Closing Adjustment" means the amount reported by the Sellers to the Purchaser not later than ten (10) days prior to the Closing Date as their good faith estimate of the amount of the Post-Closing Adjustment with supporting documentation.

1.25. "Final Adjustment Statement" is defined in Sections 2.5.1 and 2.5.2.

1.26. "Final Closing Balance Sheet" is defined in Sections 2.5.1 and 2.5.2.

1.27. "Financial Statements" means (i) the audited financial statements (i.e., balance sheet (bilan) and statement of income (compte de resultat)) of (a) the Company for the year ended December 31, 2003, (b) Surfix for the year ended December 31, 2003, (c) Newdeal France for the year ended June 30, 2003, and (d)Newdeal France for the six months ended December 31, 2003; (ii) the non-audited financial statements (i.e., balance sheet (bilan) and statement of income (compte de resultat)) of (a) Newdeal USA for the year ended December 31, 2003, (b) the Company for the six months ended June 30, 2004, (c) Surfix for the six months ended June 30, 2004, (d) Newdeal France for the six months ended June 30, 2004, (e) Newdeal Belgium for the six months ended June 30, 2004, (f) Newdeal USA for the six months ended June 30, 2004, (g) Newdeal Belgium for the year ended June 30, 2003 and (h) Newdeal Belgium for the six months ended December 31, 2003; and (iii) the non-audited pro forma consolidated financial statements (i.e., balance sheet (bilan) and statement of income(compte de resultat)) of the Company for the six months ended June 30, 2004.

1.28. "Local GAAP", for each Company, means generally accepted accounting principles (Principes Comptables Generalement Admis), in the country in which such Company is incorporated, consistently applied.

1.29. "Full Liability Matters" means any matter that is not subject to the Threshold, the Deductible, or the Cap pursuant to Section 7.2 hereof.

1.30. "Government Approvals" means authorizations, licenses or approvals issued by any regulatory agency and including but not limited to establishment licenses, authorizations or approvals relating to product registration, or manufacturing, sales or marketing.

1.31. "Governmental Authority" means any court, arbitration tribunal, administrative agency or commission or other governmental or regulatory authority or agency in any country or political subdivision or jurisdiction thereof.

1.32. "Independent Accounting Firm" is defined in Section 2.5.2.

1.33. "In-Licensed Intellectual Property Rights" is defined in Section 4.22(i).

1.34. "Integra" shall have the meaning ascribed to it on the first page of this Agreement.

1.35. "Intellectual Property Rights" is defined in Section 4.22(a).

1.36. "Interim Balance Sheet" means the non-audited balance sheet of the Companies as at June 30, 2004 in the form attached hereto as Exhibit 3.

1.37. "Inventory" means raw materials, parts, supplies, work-in-process, finished Products that are reflected on a balance sheet less applicable reserves.

1.38. "Lien" means any mortgage, lien, claim, charge, restriction, right, option, conditional or installment sales agreement, pledge, restriction or limitation of use, easement or other claim of ownership or use, or other encumbrance of any kind affecting the Sellers or any of the Companies.

1.39. "Material Adverse Effect" means any change, effect, condition, factor or circumstance that would have a material detrimental effect on the condition (financial or otherwise), results of operation, cash flow, assets, liabilities, properties, business, or prospects of any of the Companies or the Business.

1.40. "Person" is defined in Section 4.1.

1.41. "Post-Closing Adjustment" shall mean (i) the Closing Working Capital, less (ii) the Base Working Capital, plus (iii) cash and cash equivalents of the Companies on the Closing Date, less (iv) financial indebtedness of the Companies on the Closing Date. For the purposes of calculating the Post-Closing Adjustment, cash and cash equivalents and financial indebtedness of the Companies on the Closing Date shall be calculated in all respects in the same manner as calculated as of June 30, 2004 on Exhibit 4

1.42. "Products" shall have the meaning ascribed to it in the Preamble of this Agreement.

1.43. "Purchase Price" shall have the meaning ascribed to it in Section 2.2.

1.44. "Purchaser" shall have the meaning ascribed to it on the first page of this Agreement.

1.45. "Purchaser Indemnified Parties" is defined in Section 7.1.

1.46. "Reserve" is defined in Section 2.3(a)

1.47. "Seller" or "Sellers" shall have the meaning ascribed to it on the first page of this Agreement.

1.48. "Subsidiary" or "Subsidiaries" means, collectively or individually, as the case may be, Newdeal France, Surfix, Newdeal Belgium and Newdeal USA.

1.49. "Tax" is defined in Section 4.10(c).

1.50. "Taxable" is defined in Section 4.10(c).

1.51. "Tax Authority" is defined in Section 4.10(c).

1.52. "Tax Returns" is defined in Section 4.10(a).

2. Purchase and Sale of the Company Shares.

2.1 Transaction.

Upon Closing, subject to the conditions set forth in this Agreement, each Seller agrees to sell, transfer and deliver his Company Shares in the amount he holds as set forth in Exhibit 4.5(a) attached hereto, to the Purchaser, which agrees to purchase the Company Shares, according to the terms and conditions of this Agreement.

The Company Shares shall be transferred free and clear of any Lien and are freely transferable without any contractual, statutory or judicial restriction.

The Purchaser shall not be obliged to complete the purchase of any of the Company Shares unless the transfer of all of the Company Shares is completed simultaneously.

As of the Closing Date, as defined hereafter, the Purchaser shall have the possession, use and ownership of all the Company Shares and of all rights now and hereafter attaching or accruing thereto, including rights pertaining to dividends payable with respect to the Company Shares for all periods after the fiscal year ended on December 31, 2003.

2.2 Purchase Price.

The total consideration for the Company Shares transferred upon Closing and the covenants and agreements set forth herein shall be equal to thirty eight million five hundred thousand Euro (EUR 38,500,000) (the "Acquisition Price") plus the amount of the Post-Closing Adjustment (collectively, the "Purchase Price").

2.3. Payment of the Purchase Price.

The Purchase Price shall be paid as follows:

(a) On the Closing Date, the Purchaser shall pay to Sellers by immediately available funds an amount equal to (i) the Acquisition Price, less (ii) one million two hundred and fifty thousand Euro (EUR 1,250,000) (the "Reserve"), plus (iii) the Estimated Post Closing Adjustment (such payment, in the aggregate, the "Closing Date Payment". Delivery of immediately available funds constituting the Closing Date Payment shall fully discharge the Purchaser's Closing Date Payment obligation. Such funds may be paid by certified check or by wire transfer to a single account designated by the Sellers. The Purchaser shall inform the Sellers of the choice of payment method no later than December 15, 2004.

(b) On the first anniversary of the Closing Date (the "Anniversary Date"), the Purchaser shall pay to Sellers by immediately available funds an amount equal to (i) the Reserve, less (ii) the Estimated Post Closing Adjustment, plus (iii) the Post Closing Adjustment as finally determined pursuant to the Final Adjustment Statement defined in Section 2.5, less (iv) amounts claimed by Purchaser pursuant to Section 7.3(b), less (v) twenty-five percent (25%) of the Reserve for each Seller that shall have resigned his employment with the Company prior to the Anniversary Date (such payment, the "Anniversary Payment"), provided, however, that in the event Purchaser shall terminate the employment of any Seller without good cause prior to the Anniversary Date, the Purchaser shall pay the Anniversary Payment to Sellers in immediately available funds within ten (10) business days of such termination.

2.4 Apportionment of the Purchase Price

The Purchase Price shall be apportioned among the Sellers as set forth in Exhibit 5 attached hereto.

2.5 Post-Closing Adjustment.

2.5.1 Closing Balance Sheet and Adjustment Statement.

(a) Within ninety (90) days after the Closing Date, the Purchaser shall, in cooperation with the CCC accounting firm, prepare and deliver to Sellers: (i) a balance sheet of the Companies as of the Closing Date prepared in the same manner as the Interim Balance Sheet (the "Closing Balance Sheet"), (ii) a statement in the form attached hereto as Exhibit 6, displaying the calculation of Closing Working Capital made in all respects in the same manner as the calculation of the Base Working Capital, and the calculation of the Post Closing Adjustment (the "Adjustment Statement").

(b) Sellers shall have thirty (30) days following delivery to them of the Closing Balance Sheet and the Adjustment Statement during which to notify Purchaser of any dispute of any item contained in such Closing

Balance Sheet or the Adjustment Statement, which notice shall set forth in reasonable detail the basis for such dispute. Purchaser shall provide Sellers with reasonable access to its books and records so that Sellers may examine the basis for the Closing Balance Sheet and the Adjustment Statement. If Sellers fail to notify Purchaser of any such dispute within such thirty (30) day period or notify Purchaser that they are in agreement with the Closing Balance Sheet and the Adjustment Statement, the Closing Balance Sheet delivered to Sellers shall be deemed to be the "Final Closing Balance Sheet" and the Adjustment Statement shall be deemed the "Final Adjustment Statement", which shall each be deemed to have been delivered to the Sellers on the later of the date of (i) the notification of agreement by the Sellers, and (ii) the expiration of the thirty(30)-day period referred to hereabove. In the event that Sellers shall so notify Purchaser of a dispute, Purchaser and Sellers shall cooperate in good faith to resolve such dispute as promptly as possible.

2.5.2 Resolution of Disputes.

If Purchaser and Sellers are unable to resolve any dispute with respect to any item contained in the Closing Balance Sheet or the Adjustment Statement within sixty (60) days of the delivery of the notice of a dispute as referred to in Section 2.5.1. hereabove, such dispute shall be resolved by the Lyon office of BDO Gendrot (the "Independent Accounting Firm") acting as an expert pursuant to Article 1592 of the Civil Code. The Independent Accounting Firm shall make its determination as promptly as practicable and such determination shall be final and binding on the Parties and shall not be subject to court proceedings pursuant to Section 7.3. Any expenses relating to the engagement of the Independent Accounting Firm shall be shared equally between Purchaser, on the one hand, and Sellers collectively, on the other hand. The Closing Balance Sheet, as modified by resolution of any disputes between Purchaser and Sellers or by the Independent Accounting Firm, shall be the "Final Closing Balance Sheet," and the Adjustment Statement, as modified by resolution of any disputes between Purchaser and Sellers or by the Independent Accounting Firm, shall be the "Final Adjustment Statement."

3. Closing.

3.1 Conditions Precedent to Closing; Closing.

(a) The closing (the "Closing") shall take place at the offices of Kahn & Associes, Paris, France, on January 3, 2005, or at such other date and place as the Purchaser and the Sellers may agree in writing (the "Closing Date") All transactions and actions, including, without limitation, the deliveries by the Sellers as provided under Section 3.2, to be taken at the Closing shall be deemed to take place

simultaneously and effective on the Closing Date; provided that no transaction and deliveries of any document shall be deemed complete until all transactions and deliveries of documents are complete. In the event that the Closing shall not have taken place by midnight, Paris time, on the Closing Date, this Agreement shall terminate unless the parties mutually agree otherwise.

(b) Closing Conditions.

In addition to the Closing deliveries by the Sellers as provided under Section 3.2, and the covenants of the Parties as set out herein, the Parties' obligation to consumate this transaction shall be subject to (i) all of the representations and warranties provided for hereunder being true and correct on the Closing Date, (ii) the absence of any Material Adverse Effect in the Business arising on or after the date hereof, and (iii) the absence of the institution or threat of any action by any Governmental Authority or other person or entity which challenges, seeks damages in connection with, or seeks to restrain, any of the transactions contemplated by this Agreement. It is specified that neither (a) a drop in United States revenues, even if substantial or (b) a drop in the value of the United States dollar against the euro will not be deemed to constitute a Material Adverse Effect.

3.2 Documents To Be Delivered to the Purchaser by the Sellers.

At the Closing, the Sellers will deliver to the Purchaser or will cause to be delivered to the Purchaser:

(a) The share transfer forms (ordres de mouvements de titres) in respect of the seventy five thousand (75,000) Company Shares (and all voting and other rights attached thereto);

(b) Stock transfer ledgers and shareholder accounts for all of the issued and outstanding shares of Newdeal France and Surfix;

(c) Written evidence of the ownership by Newdeal France of all of the issued and outstanding shares of Newdeal Belgium and Newdeal USA;

(d) A certificate, in form and substance reasonably acceptable to the Purchaser, executed by the Sellers, dated the Closing Date, and certifying that

(i) all representations and warranties in this Agreement are true and correct as of the Closing Date,

(ii) they have not breached any covenant in this Agreement, and

(iii) attached thereto is a true and complete copy of the Articles of Incorporation (statuts) and of the registration certificate (extrait K-bis) of the Company, as in effect as of the Closing Date;

(e) Unconditional resignation effective as of the Closing Date of all the directors (administrateurs) and other officers (mandataires sociaux) of the Companies, with a written acknowledgment from each that he/she has no claim whatsoever against the Companies whether in respect of compensation or damages or the payment of any other sum or sums for loss of office or otherwise;

(f) Proof of the termination of all powers of attorney and delegation of powers (delegations de pouvoir and delegations de signature) granted by the Companies;

(g) All of the Companies' share registry and records of directors and shareholders' meetings all duly completed and up to date;

(h) Consents of all third parties which are required on the part of the Companies or the Sellers as a result of the consummation of the transactions contemplated by this Agreement;

(i) A certified copy of the resolutions of the Board of Directors of the Company approving the Purchaser as new shareholder of the Company;

(j) Resignation letters from such statutory auditors acting for any of the Companies who have resigned if any;

(k) A signed original of a guarantee (cautionnement) granted to the benefit of the Purchaser and the Companies by a bank of international rank to secure the indemnification obligations of each of the Sellers as set out in Section 7 hereof, substantially in the form as set out in Schedule 3.2(k) hereto; and

(l) Such opinions of legal counsel to the Sellers or any of the Companies as the Purchaser may request;

(m) A certified copy of the minutes of the Company Board of Directors' meeting convening a shareholders' meeting on the Closing Date for the purpose of appointing the successors of the members of the Board of Directors and the statutory auditors;

(n) Certified copies of the minutes of the respective corporate bodies' meetings of each of the Subsidiaries convening a shareholders' meeting on the Closing Date for the purpose of appointing the successors of the respective corporate officers of the Subsidiaries and the statutory auditors;

(o) Employment Agreements between one of the Companies, on the one hand, and each of Fourcault, Knevels and Giet which will provide for their current salary and benefits and other customary terms, it being understood such contracts will not provide for any contractual severance payments or notice period longer than provided by the applicable collective bargaining agreement;

(p) Complete copies of all employment agreements with all employees of the Companies;

(q) Any form or document which may be required by any Tax Authority to relieve Purchaser of any obligation to withhold any portion of the Purchase Price payable to Sellers pursuant to this Agreement including IRS form W8 BEN; and

(r) The releases of the pledges on the shares of Surfix and Newdeal France; provided that complete compliance with this Section 3.2 by the Sellers, as well as the truthfulness and accuracy of the certificate delivered pursuant to Section 3.2(d), shall be conditions to the Purchaser's obligations under Sections 2 and 3.3.

3.3. Documents to be Delivered by the Purchaser.

At the Closing, the Purchaser will deliver to the Sellers or cause to be delivered to the Sellers, the following:

(a) Against receipt of the Sellers' share transfer forms in accordance with Sections 3.2(a) hereof, certified checks totalling in the aggregate the

amount of the Closing Date Payment or written confirmation of receipt of the funds constituting the Acquisition Price by the Sellers' bank;

(b) A copy of the shareholder meeting minutes of the Purchaser authorizing the purchase of the Company Shares;

(c) Documents supporting the fifty thousand (50,000) stock option grants for purchase of shares of Integra Life Sciences Holdings Corporation, which documents shall have the same terms and conditions as stock options granted to Purchaser's employees having the rank of Vice President (which includes a strike price of fair market value when granted, vesting over four years (25% at the end of the first year, and then ratably per month for the following three years) and a term of expiration of six years. Such terms and conditions may be modified, and restrictions added, in order to optimize tax and social-charge treatment under applicable French and Belgian law;

(d) the Employment Agreements referred to in Section 3.2(o); and

(e) A closing certificate duly executed by the Purchaser.

4. Representations and Warranties by the Sellers.

The Sellers represent and warrant to the Purchaser that on the date hereof and as of the Closing Date:

4.1 Organization.

The Company is a corporation duly incorporated and validly existing under the laws of France. Except for the Subsidiaries as set forth in Schedule 4.1, the Company has never had and presently has no equity interests or investments in, and does not exercise any control over, whether direct or indirect, in law or in fact, any Person (as defined below), and has not been and is not a member of any joint venture or partnership. The Company has not agreed to acquire any such interest or to become a member of any joint venture or partnership. The Company does not serve as director in law or in fact in any Person. The verb "control", as used in this Agreement, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of any such company or entity, and the term "Person" as used in this Agreement shall mean an individual, trust, estate, partnership, firm, business, corporation, limited or unlimited liability company or other juridical entity, enterprise or association, existing in law or in fact. Each of the Subsidiaries is a corporation duly incorporated and validly existing under the laws of the jurisdiction of its incorporation. Each of the

Companies has all requisite corporate authority to own or lease and to operate its properties and to carry on its business as now being conducted. Each of the Companies is authorized to do business in each jurisdiction where it is required to be authorized as a result of the conduct of its business.

4.2 Authority.

Each of the Sellers has the right, power and authority to execute and deliver this Agreement and the other agreements and documents contemplated by this Agreement and to carry its obligations hereunder and thereunder. Except as set forth in Schedule 4.2, the consummation of the transactions contemplated thereby have been duly authorized by the Board of Directors of the Company and no other proceeding, authorization or approval on the part of any of the Sellers or any of the Companies is necessary to authorize the execution and delivery of this Agreement or the performance by each of the Sellers or each of the Companies of any of the transactions contemplated hereby or thereby. This Agreement has been duly executed by each of the Sellers, and any documents to which each of the Companies is a party have been duly executed by the respective Companies, and when executed and delivered by all required parties hereto and thereto, will be legal, valid, and binding obligations of each of the Sellers and each of the Companies enforceable against each of the Sellers and each of the Companies in accordance with their respective terms, subject to applicable bankruptcy, insolvency, moratorium, fraudulent conveyance and other similar laws of general application affecting the rights of creditors.

4.3 Approvals.

No consent, approval, order, or authorization of, or notification, registration, declaration, or filing with, any French or Belgian Governmental Authority, or to the knowledge of the Sellers, any other Governmental Authority. No consent of any third party is required in connection with the execution and delivery of this Agreement by any of the Sellers or any of the Companies or the consummation of the transactions contemplated hereby.

4.4 Non-Contravention.

The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby do not and will not:

(a) violate any provision of the by-laws the certificate of incorporation or any other governing or constitutional documents of any of the Companies;

(b) except as set forth in Schedule 4.4(b), violate any provision of, or result in the breach or the acceleration of, or entitle any party to terminate or accelerate (whether after the giving of notice or lapse of time or both), any Contract to which any of the Companies is a party or by which the Business or any of the assets necessary to conduct the Business, to manufacture the Products or to cause the Products to be manufactured by a party other than any of the Sellers or their affiliates, is bound;

(c) violate any Lien or result in the imposition of any Lien upon any property of any of the Companies or Sellers; or

(d) violate or conflict with any other material restriction or any law, ordinance, rule, order, arbitration award, judgment, or decree to which any of the Companies or any of the Sellers, or any property of them, is subject.

4.5. Capital Stock; Title to Shares; Subsidiaries.

(a) The Company's authorized share capital consists of seventy five thousand (75,000) shares, and the only issued shares of the Company are the Company Shares which are owned by the Sellers in the amounts set forth opposite their respective names in Schedule 4.5 (a) hereto. The Company Shares are duly authorized, validly issued, and fully paid. The Sellers own the Company Shares free and clear of all Liens. Each of the Sellers has the all the rights, powers and authority to sell all of its shares as provided herein, and upon such sale, the Purchaser will receive good and valid title to all of the Company Shares, free and clear of all Liens. The Company share ledger registry (registre des mouvements de titres) will be in proper form for transfer when delivered to the Purchaser at the Closing.

(b) Schedule 4.5 (b) lists each of the Subsidiaries' respective (i) jurisdiction and date of incorporation, (ii) share capital, (iii) number of shares issued as of the date hereof, and (iv) shareholders, directors and officers (mandataires sociaux). The information indicated in Schedule 4.5 (b) is true and accurate. All shares of all Companies are duly authorized, validly issued, and fully paid and free and clear of all Liens except as set forth on Schedule 4.5(b). Each of the Subsidiaries' share ledger registries (registres des mouvements de titres) or local equivalent will be in proper form when delivered to the Purchaser at the Closing.

(c) There are no outstanding subscriptions, options, conversion rights, warrants, or other agreements or commitments of any nature whatsoever (either firm or conditional) obligating any of the Companies to issue, deliver, sell, or cause to be issued, delivered, or sold, any additional shares of capital stock of any of the Companies, or obligating any of the Companies to grant, extend, or enter into any such agreement or commitment. There are no rights of first refusal, pre-emptive rights, or other similar agreements obligating any of the Companies or any of the Sellers to offer any shares of its capital stock to any person and none of the Companies' shares (and in particular the Company Shares) were issued in violation of any pre-emptive or similar rights. There are no dividends due to be paid or in arrears with respect to any of the Companies' shares, except as set forth in the last paragraph of Schedule 4.9(b).

4.6. Financial Statements.

Attached hereto as Schedule 4.6 are true, complete and correct copies of the Financial Statements. All of the Financial Statements are true, correct and complete in all material respects, are in accordance with the books and records of each of the Companies, have been prepared in accordance with Local GAAP, consistently applied throughout the periods indicated, and present fairly the financial position of the Companies at the dates indicated and the results of operations of the Companies for the periods indicated.

4.7. Undisclosed Liabilities.

None of the Companies nor any of the Sellers, acting on behalf of the Business or any of the Companies, has incurred any liability or obligation (absolute, accrued, contingent, or otherwise) of any nature (other than contractual liabilities and contractual obligations incurred in the ordinary course of business) that has not been properly reflected or reserved against in the Financial Statements or described on Schedule 4.7.

4.8. Business ("Fonds de Commerce") - Business Difficulties.

(a) The respective businesses ("fonds de commerce") of each of the Companies and the Business have been operated in a normal manner, in accordance with applicable laws and regulations, so as to maintain its activities and safeguard its existence. Except to the extent specifically set forth in Schedule 4.8,each of the Companies has full ownership of its respective business, which is not the subject of any Liens, pledges or third party rights, nor of any claims or actions of any nature whatsoever. Each of the Companies owns or has the right to use all tangible and intangible assets that are necessary to the conduct of its respective business as currently conducted or as proposed to be conducted.

(b) None of the Companies is currently nor has been in the past, the subject of any proceeding with a view to the prevention or resolution of business difficulties (or any similar actions), or of a judgement of dissolution, and there do not exist any reasons justifying such a procedure or judgement concerning any of the Companies. None of the Companies is insolvent, or undergoing a period of difficulties ("periode suspecte"), or has declared, or is in a situation to declare, any discontinuance of payments ("cessation de paiements"), as these terms are used in French bankruptcy law.

4.9 Conduct in the Ordinary Course; Absence of Certain Changes.

Since December 31, 2003, the respective businesses of each of the Companies has been conducted in the ordinary course thereof and each of the Sellers and of the Companies have used reasonable commercial efforts to preserve intact the organization of the businesses and the goodwill of the customers, suppliers and others having a business relation with each of the Companies and their respective businesses. Since December 31, 2003, there has been no Material Adverse Effect, and none of the Companies has, and none of the Sellers, with respect to the Companies and their respective businesses, has:

(a) except as set forth in Schedule 4.9(a), issued or sold any shares, notes, bonds or other securities, or any option to purchase the same, or entered into any agreement with respect thereto;

(b) except as set forth in Schedule 4.9(a) and (b), declared, set aside, or made any dividend or other distribution on its share capital or redeemed, purchased, or acquired any shares thereof, or entered into any agreement in respect of the foregoing;

(c) except as set forth in Schedule 4.9 (c), amended its by-laws, its certificate of incorporation or any other governing provisions;

(d) except as set forth in Schedule 4.9(a) and (b),other than in the ordinary course of business (i) purchased, sold, assigned, licensed, leased or transferred any tangible or intangible assets or property (including but not limited to securities, cash and cash equivalents); (ii) mortgaged, pledged, granted, or suffered to exist any Lien on any tangible or intangible assets or properties, except for Liens for Taxes not yet due; or (iii) waived any rights of value or canceled any debts or claims;

(e) incurred any obligation or liability (absolute or contingent), except current liabilities and obligations incurred in the ordinary course of business, or paid any liability or obligation (absolute or contingent) other than current liabilities and obligations incurred in the ordinary course of business, consistent with past practice;

(f) except as set forth on Schedule 4.9(f), increased, or become obligated to increase, the compensation or other benefits payable to any director, manager, officer, employee, consultant or agent of any of the Companies or any relative of any such person, or paid any bonus, granted any severance or termination pay, or entered into any employment agreement or other agreement (written or oral) with any such person or relative or hired anyone;

(g) incurred any damage, destruction, or similar loss, whether or not covered by insurance, affecting the business or properties of any of the Companies which will not, in the aggregate, exceed one hundred thousand(100,000) Euros;

(h) entered into any transaction other than in the ordinary course of business and consistent with past practice including, without limitation, entering into a Contract with a customer on terms which reflect a discount of more than five (5%) percent of the customary rates for the product or service covered by such Contract;

(i) made or instituted any unusual or new methods of manufacture, purchase, sale, distribution, shipment or delivery, lease, management, accounting or operation, or shipped or delivered any quantity of Products in excess of normal shipment or delivery levels;

(j) except as set forth in Schedule 4.9 (j), made any capital expenditure or commitment for any capital expenditure in excess of twenty thousand (20,000) Euros in the aggregate;

(k) except as set forth in Schedule 4.9 (k), commenced or settled any litigation that, if adversely determined, could restrict the operations of any of the Companies or would have a Material Adverse Effect;

(l) suffered any strike or other labor trouble affecting its business, operations, or prospects;

(m) except as set forth in Schedule 4.9(m), made or permitted any material amendment or termination of any material Contract to which it is a party other than in the ordinary course of business consistent with past practice;

(n) except as set forth in Schedule 4.9(n), made any change in its accounting methods or practices;

(o) abandoned or disposed of any Intellectual Property Rights, other than in the ordinary course of business consistent with past practice;

(p) except as set forth in Schedule 4.9(p), suffered any loss of employees or customers that affects the Companies' respective businesses, operations or prospects; and

(q) except as set forth on Schedule 4.9(q), incurred, accrued or paid any fees to professional advisors, including but not limited to attorneys, accountants, banks, finders or brokers, in connection with the transactions contemplated by this Agreement or any sale of any of the Companies' assets.

4.10. Tax Returns, Taxes.

(a) All Tax returns, statements, reports and forms (including without limitation estimated Tax returns and reports and information returns and reports) required to be filed with any Tax Authority with respect to any Taxable period ending on or before the Closing, by or on behalf of any of the Companies (collectively, the "Tax Returns"), have been or will be properly completed and filed when due (including any extensions of such due date on or before the Closing date), and all amounts shown to be due thereon on or before the Closing have been or will be paid on or before such date. The Financial Statements fully accrue all actual and contingent liabilities for all unpaid Taxes with respect to all periods (or portions of such periods) through June 30,2004, and none of the Companies has or will incur any Tax liability in excess of the amount reflected on the Financial Statements (whether or not reflected as payable on any Tax Return that has been filed) with respect to such periods (or portions of such periods). All information set forth in the notes to the Financial Statements relating to Tax matters is true, complete and accurate in all respects. None of the Companies has or, to the Sellers' knowledge, will incur any Tax liability for periods (or portions of periods) after June 30, 2004 through the Closing Date other than in the ordinary course of business. Each of the Companies has withheld and paid to the applicable financial institution or Tax Authority all amounts required to be withheld except as set forth on Schedule 4.10(a). None of the Companies has been granted any extension or waiver of the limitation period applicable to any Tax Returns.

(b) Except as set forth on Schedule 4.10(b), there is no claim, audit, action, suit, proceeding, or investigation now pending or to the Sellers' knowledge, threatened against or with respect to any of the Companies in respect of any Tax or assessment. No notice of deficiency or similar document of any Tax Authority has been received by the any of the Companies, and there are no liabilities for Taxes (including liabilities for interest, additions to Tax and penalties thereon and related expenses) with respect to the issues that have been raised (and are currently pending) by any Tax Authority that could, if determined adversely to any of the Companies, adversely affect the liability of any of the Companies for Taxes.

(c) The Sellers have previously provided or made available to the Purchaser true and correct copies of all Tax Returns filed through the date of this Agreement. Each of the Sellers will make available to the Purchaser all Tax Returns filed after the date of this Agreement, all work papers with respect to Tax Returns, all Tax opinions and memoranda with respect to Taxes owed or potentially owed by any of the Companies, and all other Tax data and documents reasonably requested by the Purchaser. For purposes of this Agreement, the following terms have the following meanings: "Tax" (and, with correlative meaning, "Taxes" and "Taxable") means any and all taxes including, without limitation, (i) any net income, alternative or add-on minimum tax, gross income, gross

receipts, sales, use, ad valorem, transfer, franchise, profits, business (taxe professionnelle) value added, net worth, license, withholding, payroll, employment, excise, severance, stamp, occupation, premium, property, environmental or windfall profit tax, custom, duty or other tax, social contributions, including without limitation social security contributions, Contribution Sociale Generalisee ("CSG"), Contribution Au Remboursement de la Dette Sociale ("CRDS"), contributions paid to unemployment insurance agencies ("ASSEDIC"), contributions to voluntary additional or supplementary retirements plans, contributions to voluntary medical, life and disability plans, and any other taxes, withholding or contributions assessed in whole or in part on wages or salaries, governmental fee or other like assessment or charge of any kind whatsoever, together with any interest or any penalty, addition to tax or additional amount imposed by any governmental entity responsible for the imposition of any such tax (domestic or foreign) (a "Tax Authority"), (ii) any liability for the payment of any amounts of the type described in (i) as a result of being a member of an affiliated, consolidated, combined or unitary group for any Taxable period or as the result of being a transferee or successor and (iii) any liability for the payment of any amounts of the type described in (i) or (ii) as a result of any express or implied obligation to indemnify any other person.

(d) None of the Companies is and has ever been a member of a tax consolidation group (integration fiscale), and no relief from or against or in respect of any taxes has been claimed and/or given to any of the Companies which could or might be effectively withdrawn, postponed, restricted, claimed back or otherwise lost. Except as set forth in Schedule 4.10 (d), none of the Companies has entered into any Contract giving rise to or has otherwise incurred any costs or payments which are not or may not be Tax deductible, or which deduction may be challenged in whole or part by the Tax Authorities.

(e) The payment of the Acquisition Price is not subject to any Tax withholding requirements.

4.11. Title to and Condition of the Assets of the Companies.

(a) (1) Each of the Companies owns or leases all of the tangible assets and properties used or held by it in connection with the Business as presently being conducted, and all of such owned assets and properties are reflected in the Financial Statements.

(2) Each of the Companies has good title to all assets owned by it, free and clear of all Liens except as set forth on Schedule 4.8,

(3) Each of the Companies possesses all rights of an ordinary lessee in connection with all assets leased by it, free and clear of all Liens, and all lease agreements to which each of the Companies is a party are valid, and in full force and effect, and

(4) All of the tangible personal property owned or leased by each of the Companies is in good operating condition and repair, subject only to the ordinary wear and tear. No property or asset owned by any of the Companies is in violation of any applicable ordinance, regulation, or building, zoning, environmental or other law in respect thereof, and to the Sellers' knowledge, no property or asset leased by any of the Companies is in violation of any applicable ordinance, regulation, or building, zoning, environmental or other law in respect thereof.

(b) All accounts receivable of each of the Companies represent sales actually made or services actually performed in the ordinary and usual course of each of the Companies' business consistent with past practice. Except as set forth in Schedule 4.11 (b), each account receivable of each of the Companies is valid and collectible, and will be collected, in full net of any respective reserves shown on the Financial Statements (which reserves are adequate and calculated consistent with past practice) within one hundred eighty (180) days after the day on which it first became due and payable. There is no contest, claim or right of set-off contained in any agreement (written or otherwise) asserted by any account debtor relating to the amount or validity of any account receivable of any of the Companies or any note evidencing the same. The Sellers shall have the right to repurchase from the Companies, any receivable not collected within one hundred eighty (180) days after the day on which it first became due and payable for a price equal to the net book value of such receivables on the Closing Date.

(c) Each of the Companies has full ownership of all of the receivables appearing in its books and holds the originals of all such receivables and the documents related thereto. Such receivables are legally valid and binding against the relevant debtor for the full amount of such receivables and there is no obstacle to their being recognized as such by a court.

(d) None of the Companies has pledged or factored any of its receivables, and no third party holds any interest in these receivables.

(e) the inventory reflected on the Financial Statements and those inventories owned by each of the Companies are in good, merchantable, usable and working condition. Except as set forth in Schedule 4.11 (e), there are no obsolete or discontinued items reflected in the Financial Statements and each of the Companies has the proper amount of inventories to conduct its business consistent with past practice.

4.12. Real Estate.

Except as set forth on Schedule 4.12, none of the Companies owns any real estate. Schedule 4.12 hereto sets forth list of all real estate leased by each of the Companies for which all leases have been provided to the Purchaser. None of the Companies has received any notice (oral or written) from any Governmental Authority which restricts the use of any of the real estate described in Schedule 4.12 hereto. None of the Companies has received any notice (oral or written) from any of the Persons whose real estate it uses in connection with its activities. There is no Lien with respect to any of the real estate described in Schedule 4.12 hereto.

4.13. Material Contracts.

(a) All material Contracts to which any of the Companies is a party is listed in Schedule 4.13(a), and true and complete copies thereof (with any amendments, sideletters, or waivers) have been delivered to the Purchaser. Schedule 4.13(a) shall be organized in subsections to match those set forth in this Section 4.1.3; provided, certain Contracts entered into in the ordinary course with suppliers, consistent with past practice that do not fall within any of the specific subsections of Section 4.13(a), are not included on Schedule 4.13(a). None of the Companies and/or the Business is (are) a party to or subject to:

(i) Except as set forth in Schedule 4.13(a)(i), any union Contract or any employment or consulting Contract with any director, officer, agent, consultant or affiliate, including any employment Contract or offer letter providing for any payments to be made in connection with the consummation of the transactions contemplated hereby;

(ii) Except as set forth in Schedule 4.13(a)(ii), any OEM Contract, end-user agreement, source code license, volume purchase Contract or other similar Contract currently in effect, or joint venture Contract or arrangement or any other Contract which has involved or is expected to involve a sharing of profits with other persons or provides or may provide for payments of more than twenty thousand (20,000) Euro per annum;

(iii) Except as set forth in Schedule 4.13(a)(iii), any indebtedness or any instrument evidencing or related in any way to indebtedness incurred in the acquisition of companies or other entities;

(iv) Except as set forth in Schedule 4.13(a)(iv), any Contract for the licensing of intellectual property, either as licensee or licensor, other than standard license agreements entered into in the ordinary course of business relating to "off-the-shelf" software for the Companies' internal business purposes;

(v) Except as set forth in Schedule 4.13(a)(v), any Contract containing covenants purporting to limit the freedom of any of the Companies to compete in any line of business in any geographic area;

(vi) Except as set forth in Schedule 4.13(a)(vi), any Contract restricting others from freely engaging in business in competition with any of the Companies anywhere in the world ;

(vii) Except as set forth in Schedule 4.13(a)(vii), any Contract relating to capital expenditures in excess of twenty thousand (20,000) Euro

(viii) Except as set forth in Schedule 4.13(a)(viii), any Contract relating to the disposition or acquisition by any of the Companies of any stock, assets in excess of twenty thousand (20,000) Euro or, subject to Section 4.22(e), any of the Companies' Intellectual Property Rights;

(ix) Except as set forth in Schedule 4.13 (a)(ix), any Contract providing for minimum payment or resale obligations, ongoing support or research and development obligations, or warranty obligations on the part of any of the Companies, except arrangements entered into in the ordinary course of business;

(x) Except as set forth in Schedule 4.4(b)(2), any Contract with any Governmental Authority;

(xi) Except as set forth in Schedule 4.13(a)(xi), any Contract requiring a commitment of any of the Companies' resources or personnel to market, distribute or license third-party products or technology, whether on a best-efforts basis or otherwise;

(xii) Except as set forth in Schedule 4.13(a)(xii), any other Contract which, if breached, would have a Material Adverse Effect on any of the Companies or the Business;

(xiii) Except as set forth in Schedule 4.13(a)(xiii), any Contract with customers having a remaining term of no more than six (6) months;

(xiv) Except as set forth in Schedule 4.13(a)(xiv), any manufacturing Contract;

(xv) Except as set forth in Schedule 4.13(a)(xv), any Distribution Agreement;

(xvi) Except as set forth in Schedule 4.13(a)(xvi), any consignment agreement;

(xvii) Except as set forth in Schedule 4.13(a)(xvii), any Contract with any group purchasing organization, hospital, distributor or surgeon;

(xviii) Any Contract entered into other than in the ordinary course;

(xix) Any Contract with any Person or Governmental Authority in or representing any of the following countries: Cuba, Iran, North Korea, Burma (Myanmar), Sudan, Liberia, Syria, and Zimbabwe;

(xx) Except as set forth in Schedule 4.13(a)(xx), any agreement with any of the Sellers or any Person controlled by or controlling or under common control with any of the Sellers; or

(xxi) Except as set forth in Schedule 4.13(a)(xxi), any Contract with any supplier with respect to any of the Companies or the Business.

(b) Except as set forth in Schedule 4.13(b), the Contracts to which any of the Companies is a party are each valid and in full force and effect, and all parties to the Contracts have performed all obligations required to be performed by them to date, and none of the Companies nor, any other party thereto is in default thereunder. Notwithstanding the foregoing, (i) the Companies anticipate terminating the agreement for distribution in the United States and Canada, and (ii) the Companies have taken no action to extend the term of the United States distribution agreement beyond February 15, 2005.

(c) Except as set forth in Schedule 4.13(c), none of the Companies is a party to any Contract that would reasonably be expected to have a Material Adverse Effect.

(d) To the Sellers' knowledge, all of the Companies' current Contracts or arrangements with the Companies' customers and clients are in full compliance with any applicable laws and regulations and are valid and fully enforceable in all their terms against the Companies' customers and clients, including but not limited to, terms relating to the limitation of the Companies' liability, or consumer protection, health and medical, and competition laws in the jurisdictions in which each of the Companies does business or its products are sold or used. None of the Companies' expired or terminated Contracts with customers shall result in any liability of any of the Companies to customers and clients or former customers and clients resulting from the non-conformity of such Contracts with applicable laws regarding consumer protection and competition laws.

(e) Except as set forth in Schedule 4.13(e), none of the Companies is a party to any commercial agency agreements or relationships ("contrat d'agence commerciale') within the meaning of French law n(degree)91-593, dated June 25, 1991, or to any agreement or relationship which could be qualified as such.

4.14. Litigation.

(a) There are no actions, suits, proceedings, investigations, or inquiries pending or, to the best of the Sellers' knowledge, threatened, against or affecting any of the Companies at law or in equity in any court or before any other Governmental Authority of France, Belgium, European Union, the United States of America or any subdivision thereof or the other government of any other country or territory, including, but not limited to, any action that reasonably could be expected to impair any of the Sellers' right or ability to execute and deliver this Agreement or consummate the transactions contemplated hereby or thereby.

(b) There are no claims, of whatever nature, brought against any of the Companies (or any party that might have legal recourse against any of the Companies) by any of the Companies' customers and clients, including but not limited to as regards the Companies' liability for the performance of services or in connection with Products or any of the Companies services, and to the best of the Sellers' knowledge, after due inquiry, there are no claims, of whatever nature, threatened to be brought against any of the Companies, or affecting it, by any of the Companies' respective customers and clients including but not limited to as regards any of the Companies' liability for the performance of services or in connection with Products or any of the Companies services. Except as set forth on Schedule 4.14(b), there are no claims against Sellers or, any of the Companies for termination or breach of a Distribution Agreement.

(c) None of the Companies is in default in respect of any judgment, order, writ, injunction, or decree of any court or any Governmental Authority anywhere in the world.

4.15. Certain Relationships.

Except as set forth in Schedule 4.15, no Seller or any of the Companies has received any written notice that any customer or distributor of, or supplier, manufacturer or licensor to, or group purchasing organization or hospital contracting with any of the Companies has taken any action or threatened to take any action which will have or reasonably could be expected to have a Material Adverse Effect.

4.16. Employee Matters.

(a) Schedule 4.16(a) contains a true, correct and complete list of the name, title, date of hire and current monthly compensation, base salary or hourly remuneration rate of each person employed by each of the Companies on the Closing Date (including persons employed as trainees) and any independent contractors, consultants or agents engaged by each of the Companies, together with a statement of the full amount and nature of any other remuneration, whether in cash or kind, paid to each such person since July 1, 2004 other than as relates to use of company cars (see Schedule 4.7) as well as any bonuses paid to them in 2003 or 2004 (except for bonuses based on qualitative or quantitative performance). All bonuses in respect of 2004 shall either be paid prior to the Closing or accrued on the Closing Balance Sheet.

(b) The Companies:

(i) are in compliance with all applicable laws and collective bargaining agreements regarding employment and employment practices (including, without limitation, the laws requiring persons to have work permits), terms and condition of employment and wages and hours (including but not limited to minimal wages and overtime regulations), discrimination in employment, election of employee representatives, information with employee representatives, calculation and accruals of vacations and of other accruals, wages and hours, occupational safety, health and employment practices; and

(ii) have not engaged in any unfair labor practice. Except as set forth on Schedule 4.16(b)(ii) and except as accrued for in the Financial Statements, none of the Companies is liable for any unpaid wages, vacation pay, bonuses, or commissions, or for any material Tax, penalty, assessment or forfeiture for failure to comply with any employer/employee matter.

(c) Except as set forth in Schedule 4.16(b)(ii) each of the Companies has verified that all individuals providing services to it have properly registered with the applicable authorities as independent contractors. None of the Companies has liabilities as to any Taxes with respect to such independent contractors.

(d) Except to the extent specifically set forth on Schedule 4.16(d), none of the Companies has made any commitment in connection with retirement or health insurance schemes, insofar as the staff concerned are entitled to receive advantages in addition to those provided for by law or the applicable collective bargaining agreements as a result of such commitments.

(e) None of the Companies has any remaining liabilities or obligations, including, without limitation, obligations of compensation for loss of employment, vis-a-vis former employees or corporate officers.

(f) None of the Companies is the subject of, or has been threatened with any particular proceedings by the Labor Inspectorate ("Inspection du Travail") or any similar agency outside France for failure to comply with labor legislation.

(g) None of the Sellers nor any of the Companies has undertaken to grant any benefits, compensation or other payments of any kind to any employees or corporate officers of any of the Companies as a result of the completion of the sale of the Company Shares to the Purchaser; nor has any of the Sellers entered into a Contract with any employee or officer of any of the Companies relating to any sale of the Company Shares.

(h) None of the current senior executives or management staff of any of the Companies has resigned, or has made known his or her intention to resign.

(i) No unfair labor practice complaint or other complaint, litigation or claim against or otherwise involving any of the Companies relating to employment or labor is pending in any court or before any Governmental Authority and, to the best knowledge of the Sellers, there is no basis for such a complaint, litigation or claim.

(j) Except as listed on Schedule 4.16,

(i) except as set forth in Schedule 4.16(j)(i) and in Schedule 4.16(d) , none of the Companies is or has been a party to any collective bargaining agreement or has not established, maintained or contributed to any employee pension plan, and none of the Sellers, with respect to the Business, is or has been a party to any collective bargaining agreement or has not established, maintained or contributed to any employee pension plan;

(ii) except as set forth in Schedule 4.16(j)(ii), there is no labor strike, dispute, slowdown or stoppage actually pending or threatened against or involving any of the Companies or affecting the Business;

(iii) except as set forth in Schedule 4.16(j)(iii), no factory council, labor union or representation question exists respecting the employees of any of the Companies or employees of any of the Sellers who work on matters involving, or related to, the Business;

(iv) no grievance question exists which might have a Material Adverse Effect; and

(v) except as set forth in Schedule 4.16(j)(v) none of the arrangements in effect prior to the Closing Date regarding the provision of services by any of the directors, managers or officers of any of the Companies contravened any applicable law.

(k) none of the Companies has any obligation to pay salary or benefits, or to otherwise treat as an employee, any person other than those listed on Schedule 4.16(a).

4.17. Insurance.

Each of the Companies maintains adequate insurance against risks for the Business. All of the Companies' insurance policies covering such risks are listed on Schedule 4.17 hereto, such policies are in full force and effect, all premiums due thereon have been paid, and each of the Companies has complied in all respects with the provisions of such policies. Schedule 4.17 includes a description of all claims experience of each of the Companies during the past three years under all of the insurance policies listed on Schedule 4.17, including but not limited to settled and outstanding claims under all such policies in respect of general liability and workers' compensation claims.

4.18 Product warranty and product liability claims.

No product manufactured, sold, distributed or delivered by or on behalf of any of the Companies is subject to any warranty, guaranty, right of return or other indemnity other than the respective Company's applicable standard terms and conditions of sale, which are consistent with customary industry practice. All product liability insurance listed in Schedule 4.17 is on a claims-made basis. With respect to liabilities related to warranty claims, each of the Companies has established an adequate reserve therefor in conformity with Local GAAP and such Company's past custom and practice. None of the Companies has, or to the Sellers' knowledge will have, any liability for warranty claims in excess of the reserve so established with respect to any Products sold prior to the Closing Date.

4.19 Inventory.

All Inventory reflected on the Financial Statements and all other inventory acquired by any of the Companies since December 31, 2001 was acquired in the ordinary course of business and in a manner consistent with each of the Companies' regular inventory practices. Except for Demonstration Inventory, all such Inventory is in good and saleable condition. Except as set forth on Schedule 4.19 and except for Demonstration Inventory, none of the Companies' Inventory is held by any Person on consignment or is located outside of any of the Companies' facilities. With respect to all inventory on consignment, Schedule 4.19 sets forth (i) for Newdeal France, as of October 29, 2004, the amount of inventory on consignment broken down by French region, (ii) for Newdeal Belgium, as of October 29, 2004, the total amount of inventory on consignment (at Newdeal Belgium's cost) and as of June 30, 2004 the amount of

inventory on consignment by customer, and (iii) for Surfix, as of October 29, 2004, the amount of inventory on consignment, broken down by distributor. Adequate reserves have been established on Financial Statements and on each of the Companies' books of account with respect to excessive and obsolete Inventory (it being agreed that for the purposes of this Section 4.19, the term "excessive and obsolete Inventory" shall refer to any on-hand raw materials, parts, supplies, or finished products which

(a) cannot be sold at current prices in the ordinary course of business,

(b) are not usable in the production of current products, or

(c) consists of on-hand quantities in excess of one year's historical usage except as set forth in Schedule 4.19 (c). Each of the Companies has the proper amount of Inventory to conduct the Business consistent with past practice).

4.20 Certifications; Product Safety

(a) All operations of each of the Companies have achieved and maintained all required ISO (International Organization for Standardization) and quality certification and are compliant with the applicable United States Food and Drug Administration Quality System Regulations and all French and European health, safety and other regulations in all respects, all of which are listed on Schedule 4.20a).

(b) There is not pending and none of the Companies has since January 1, 2003 received any notice of or correspondence relating to any action to, repeal, fail to renew or challenge any Government Approvals or certificates of non-compliance with respect thereto nor to Sellers' knowledge, is any such action, threatened. All Government Approvals obtained by any of the Companies or by any of the Sellers in respect of the Business are listed on Schedule 4.20(a).

(c) Except as set forth on Schedule 4.20(c), none of the Companies has been required to file any notification or other report with or provide information to any product safety agency, commission, board or other Governmental Authority of any jurisdiction concerning actual or potential hazards with respect to any Product manufactured, distributed, sold or leased or service rendered by or on behalf of any of the Companies with respect to the Business. Each Product manufactured, sold or leased, or service rendered by or on behalf of any of the Companies complies in all respects with all product safety standards of each applicable product safety agency, commission, board or other Governmental Authority. The Government Approvals obtained by the Companies concern the following countries: the member-states of the European Union and the countries recognizing these Government Approvals by treaty (i.e., Switzerland, Norway, etc), the United States of America and Canada. For the rest of the world, Government Approvals are applied for and held by local Distributors.

4.21 Export

None of the Companies has directly to the Sellers' knowledge, indirectly through any Distributor or other Person, sold or delivered any Products in or to any of the following countries (or to any Person acting on behalf of any of the following countries): Burma (Myanmar), Cuba, Iran, Liberia, North Korea, Sudan, Syria or Zimbabwe.

4.22. Intellectual Property.

(a) Each of the Companies owns or is licensed or is otherwise entitled to exercise, all rights to all patents, trademarks, trade names, service marks, domain names, copyrights, trade secrets and other intellectual property rights, and any applications or registrations therefor, and all inventions, net lists, schematics, technical drawings, technology, know-how, processes, formulas, algorithms, computer software programs, documentation, and all other tangible and intangible information or material in any form, used or proposed to be used in the business of each of the Companies as currently conducted or as proposed to be conducted, without any conflict with or infringement of the rights of any other (collectively, the "Intellectual Property Rights").

(b) Schedule 4.22(b) lists: (i) all copyrights, patents, patent applications, trademarks, service marks, trade names, and other company, product or service identifiers used in the Business and/or owned by each of the Companies with respect to any Intellectual Property Rights (other than shrink-wrap licenses and other software licenses available to the general public) (collectively, the "Company Intellectual Property Rights"); (ii) the jurisdiction(s) in which an application for patent or application for registration of each such Company and/or Subsidiary's Intellectual Property Right has been made, including the respective application numbers and dates; (iii) the jurisdiction(s) in which each such Company and/or Subsidiary's Intellectual Property Right has been patented or registered, including the respective patent or registration numbers and dates; and (iv) all licenses, sublicenses and other agreements to which each of the Companies is a party and pursuant to which any other party is authorized to use, exercise or receive any benefit from any Intellectual Property Right.

(c) Each of the Companies is the owner or exclusive licensee of, with all right, title and interest in and to (free and clear of any Liens), its Intellectual Property Rights and has the rights to use, sell, license, assign, transfer, convey or dispose thereof or the products, processes and materials covered thereby, except as set forth in the licenses granted to the Companies as set forth in Schedule 4.13(a)(iv). The Sellers and the Companies have taken all necessary and appropriate

steps, including without limitation the filing and prosecution of patent, copyright, and trademark applications to protect their interests in the each of the Companies' Intellectual Property Rights in the countries listed on Schedule 4.22(b); and each of the Companies has the exclusive right to file, prosecute, and maintain such applications and the patents and registrations that issue therefrom.

(d) To the best knowledge of the Sellers, all patents and registered trademarks, service marks, and other company, product or service identifiers and registered copyrights held by each of the Companies are valid and enforceable.

(e) Each of the Companies has secured valid and enforceable written assignments from the Sellers, all consultants, contractors, employees and other persons who contributed to the creation or development of the Companies Intellectual Property Rights of the rights to such contributions that any of the Companies does not already own by operation of law. In particular, each of the Companies is in compliance with applicable law relating to employee invention in all countries in which of the Companies has registered Intellectual Property Rights including without limitation the provisions of Article L 611-6 et seq, Articles R 611-1 et seq of the French Intellectual Property Code.

(f) To the Sellers' knowledge, except for the matters set forth on Schedule 4.9(k) but other than Balt Extrusion, there has not been and there is not now any unauthorized use, infringement or misappropriation of any of the Companies Intellectual Property Rights by any third party.

(g) Except as set forth on Schedule 4.9(k), None of the Companies has brought any actions or lawsuits alleging (i) infringement of any Companies' Intellectual Property Rights or (ii) breach of any license, sublicense or other agreement authorizing another party to use the Companies Intellectual Property Rights and, to the Seller's knowledge, there does not exist any facts which could form the basis of any such action or lawsuit. Except for the Contracts listed on Schedule 4.13(a)(ii) and (v), none of the Companies has entered into any agreement granting any third party the right to bring infringement actions with respect to, or otherwise to enforce rights with respect to, any of the Companies Intellectual Property Rights.

(h) Except as set forth on Schedule 4.9(k), no person has asserted, and none of the Sellers has any reason to believe there is any basis for asserting, any claims with respect to the Intellectual Property Rights (i) contesting the right of any of the Companies to use, exercise, receive, sell, license, transfer or dispose of any Intellectual Property Rights or any products, processes or materials covered thereby or (ii) challenging the ownership, validity or enforceability of any of the Intellectual Property Rights. No Intellectual Property Right is subject to any outstanding order, judgment, decree, stipulation or agreement related to or restricting in any manner the licensing, assignment, transfer, use or conveyance thereof by any of the Companies.

(i) Schedule 4.22(b) separately lists: (i) all copyrights, patents, patent applications, trademarks, service marks, trade names, and other company, product or service identifiers licensed to each of the Companies, other than software shrink-wrap licenses and other software licenses available to the general public (the "In-Licensed Intellectual Property Rights"); (ii) all licenses, sublicenses and other agreements to which each of the Companies is a party and pursuant to which each of the Companies is authorized to use, exercise, or receive any benefit from any In-Licensed Intellectual Property Right. Each of the Companies is in compliance with all terms and conditions of all such licenses, sublicenses, and other agreements. Except as set forth on Schedule 4.9(k), none of the Sellers has any knowledge of any assertion, claim or threatened claim that any of the Companies has breached any terms or conditions of such licenses, sublicenses, or other agreements.

(j) No In-Licensed Intellectual Property Right is subject to any outstanding order, judgment, decree, stipulation or agreement related to or restricting in any manner the use or licensing thereof by any of the Companies, except as specifically provided in the license agreements and know-how and cooperation agreements listed on Schedule 4.13(a)(ii).

(k) Except as specifically provided in the license agreements listed on Schedule 4.13(a)(ii), each of the Companies has the right to sell, assign, transfer, and convey all of its right, title and interest in and to the Intellectual Property Rights and In-Licensed Intellectual Property Rights. None of the Companies is, or will be as a result of the execution and delivery of this Agreement or the consummation of the transactions hereunder, in violation of, or lose or in any way impair any rights pursuant to any license, sublicense or agreement described in Schedule 4.22(b).

(l) Except as set forth on Schedule 4.9(k), there are no claims to the effect that the manufacture, marketing, license, sale or use of any product or service as now used or offered or proposed for use or sale by any of the Companies infringes any copyright, patent, trade secret, or other intellectual property or other right of any third party or violates any license or agreement with any third party. None of the Companies has received service of process or been charged in writing as a defendant in any claim, suit, action or proceeding which involves a claim of infringement of any patents, trademarks, service marks, trade secret rights, copyrights or other intellectual property rights and which has not been finally terminated prior to the date hereof; there are no such charges or claims outstanding; and none of the Companies has any outstanding restrictions or infringement liability with respect to any patent, trade secret, trademark, service mark, copyright or other intellectual property right of another.

(m) Except as set forth in the agreements with doctors and Distributors listed in Schedule 4.13(a)(ii) and (v), none of the Companies has entered into any agreement to indemnify any other person against any charge of infringement of any third party intellectual property right, Intellectual Property Right, or In-Licensed Intellectual Property Right.

(n) Each of the Companies has taken all commercially reasonable and appropriate steps to protect and preserve the confidentiality of all inventions, algorithms, formulas, schematics, technical drawings, ideas, know-how, processes not otherwise protected by patents or patent applications, source code, program listings, and trade secrets used or proposed to be used in the Business (the "Confidential Information"). The Companies have obtained valid written nondisclosure agreements from any party receiving Confidential Information. All Confidential Information is presently and as of the Closing Date will be located at the Companies' addresses as set forth in this Agreement or with subcontractors. None of the Companies nor, to the best of the Sellers' knowledge, any employee or officer of any of the Companies, has ever used, divulged or appropriated Confidential Information except for the benefit of the Companies, or ever breached any of the Companies' obligations under any confidentiality agreement or covenant. To the Sellers' knowledge, no person has used, divulged or appropriated Confidential Information to the detriment of any of the Companies other than pursuant to the terms of written agreements between the Companies and such other persons.

4.23. Transactions with Interested Persons.

Except to the extent specifically set forth on Schedule 4.23(a) or (b),

(a) None of the Companies nor any director, manager or other officer (or immediate family member thereof) or, to the Sellers' knowledge, employee (or immediate family member thereof) of any of the Companies owns, directly or indirectly, on an individual or joint basis, an interest of five percent (5%) or more in, or serves as a director, manager or other officer, employee, consultant, contractor or agent, of or to, any competitor or supplier of any of the Companies, or any person or entity who or that has a Contract or arrangement with any of the Companies; and,

(b) no director, manager or other officer or employee (or immediate family member thereof) of any of the Companies has entered into any agreement, contract or commitment of any type with any of the Companies, including without limitation, agreements and instruments relating to the lending of money to any of the Companies, leases of property to the Companies or rental of equipment or machinery by any of the Companies or Distribution Agreements.

4.24. Permits; Compliance with Laws, etc.

Each of the Companies has all licenses, franchises, permits, and other Governmental Approvals necessary or required for it to the conduct of the Business, and Schedule 4.24 lists all such licenses, franchises, permits, and other Governmental Approvals. Such licenses, franchises, permits, and other Governmental Approvals are valid, and none of the Companies has received any notice that any governmental authority intends to cancel, terminate, or not renew any such license, franchise, permit, or other Governmental Approval. Each of the Companies has substantially complied with and is in substantial compliance with all French, Belgium, European Union, U.S, and foreign statutes, laws, ordinances, regulations, rules, permits, judgments, orders, or decrees applicable to them or any of its properties, assets, operations, and business, including but not limited to competition laws and regulations, labor laws and regulations, import export laws, laws governing the manufacture, storage, import/export, sales, marketing and registration of medical devices, and laws regarding the protection of databases containing personal data, and to the Sellers' knowledge there does not exist any basis for any claim of default under or violation of any such statute, law, ordinance, regulation, rule, permit, judgment, order, or decree. None of the Companies, nor any director, manager, officer, employee, agent, consultant or any other person or entity acting on its or their behalf, have made, offered or provided any gift, entertainment, payment, loan or other consideration for the purpose of influencing the procurement of any favorable action by any Government Authority, regulator or office, or any official or employee thereof or any relative (by blood or marriage) of any such official or employee, in any way relating to the business of any of the Companies.

4.25. Environmental Matters.

Each of the Companies is now and has been at all times in substantial compliance with any and all applicable laws and regulations pertaining to the regulation and protection of the environment and the health and safety of the public and its employees.

4.26. Banks, Powers of Attorney.

SCHEDULE 4.26. hereto contains a correct and complete list setting forth the name of each bank in which each of the Companies has an account or safe deposit box, the names of all persons authorized to draw thereon or to have access thereto, and the names of each person holding a power of attorney from any of the Companies. None of the Companies has any outstanding power of attorney granted to any person or entity.

4.27. Business Records.

(a) The minutes and related books of resolutions of each of the Companies have been kept in accordance with the requirements of the laws and regulations of its jurisdiction of incorporation and contain true,

accurate and complete records of all meetings of, and corporate action taken by (including action taken by written consent), the shareholders and members of the board of directors or other corporate body, as may be applicable, of each of the Companies.

(b) All the accounts, books, ledgers, financial and other records of each of the Companies are in each of the Companies' possession, have been fully, properly and accurately kept and completed, are current, do not contain any inaccuracies or discrepancies of any kind and give and reflect a true and fair view of each of the Companies' commercial transactions and financial and commercial position.

(c) The share ledger registries of each of the Companies are in the possession of each of the Companies, have been properly maintained and contain an accurate and complete record of the matters with which they should deal.

4.28. Loans.

Except for advances against ordinary business expenses, and except as set forth in Schedule 4.28, none of the Companies has granted any loans or Indebtedness to any individual or to any Person, including without limitation any of the Sellers or their family members.

4.29. Off-Balance Sheet Undertakings; Parent Guarantees

Except as set forth in Schedule 4.29, none of the Companies has any off-balance sheet liabilities or obligations, and in particular it has not granted any guarantees (in any form whatsoever, including as a comfort letter), sureties, warranties or securities with regard to the performance of obligations contracted by third parties (including partners, shareholders, corporate officers or members of its staff). None of the Companies is participating in any "operations de portage" or interest rate or exchange rate swap agreements, nor is it bound by any undertakings made on a futures market. None of the Sellers has granted any guarantees (in any form whatsoever, including as a comfort letter), sureties, warranties or securities with regard to the performance of obligations contracted by any of the Companies.

4.30. No Brokers.

No agent, broker or other person is or will be entitled to any commission, finder's fee or similar compensation in connection with any negotiations relating to this Agreement, or the transactions contemplated hereby, except for Opticroissance and Grant Thornton Corporate Finance, whose fees shall be paid by the Sellers.

4.31. Disclosure.

No representation, warranty, statement or information contained in this Agreement or the Schedules hereto contain any untrue statement of a fact or omits any fact necessary in order to make the statements contained therein in light of the circumstances under which they were made not misleading. None of the Sellers has made any untrue statements and has not omitted to disclose any fact about the assets, liabilities, financial position, Business or prospects of any of the Companies. All copies of documents provided to the Purchaser, including those provided in during the due diligence process, were true, correct and complete copies and included all amendments, supplements and side letters. It is understood that when information must appear in several Schedules to this Agreement, the information in question can be set forth in only one of the Schedules only if the Seller insures that a cross-reference thereto is set forth in the other Schedules.

5. Representations of the Purchaser

The Purchaser hereby represents to the Sellers:

5.1 The Purchaser has the right, power and authority to execute and deliver this Agreement and other agreements and documents contemplated by this Agreement and to carry its obligations hereunder and thereunder;

5.2 The Purchaser is able to finance the contemplated acquisition, without prior approval of any lending institution;

5.3 The execution, delivery and performance by the Purchaser of this Agreement and of any other agreement or document contemplated by this Agreement: (i) will not violate or conflict with the certificate of incorporation or by-laws of Integra; (ii) will not violate any law, regulation, order or judgment of any Governmental Authority applicable to Integra; and (iii) will not violate, conflict with, or constitute default (or an event which, with notice or lapse of time or both, would constitute a default) under, any agreement to which Integra is a party, except for any such violation, conflict or default which would not materially impair Integra's ability to perform its obligations under this Agreement.

5.4 The Purchaser has no agreements with the current advisors to the Sellers (accountants, lawyers, statutory auditors, intermediaries) that would affect their independence in the context of the sale contemplated hereby.

6. Covenants.

6.1 Covenants of the Sellers.

6.1.1 Non-Competition.

(a) Each of the Sellers covenants and agrees that, for a period of five years commencing on the Closing Date, it shall not, directly or indirectly, except to the extent any of them remains employed by any of the Companies or by the Purchaser:

(i) participate or engage in a business related to the manufacture, the sale and maintenance of products, orthopedic implants for feet or ankles, or the provision of services, that are similar to or competitive with the Business or any part thereof anywhere in the European Union, Switzerland, United States of America, Canada, Japan and Australia

(ii) induce or attempt to induce any Person who, at the time of such inducement, is an employee of the Purchaser or any of its affiliates, or any of the Companies to perform work or services for any other person, firm, corporation, association, venture, partnership or entity other than the Purchaser or any of its affiliates, or any of the Companies or personally participate in the recruitment or hiring of any such person by any such entity; nor

(iii) own any shares or interest in any person, firm, corporation, association, venture, partnership or entity that directly or indirectly competes with any of the Companies or the Business, except as permitted under Section 6.1.1(b).

(b) Notwithstanding the foregoing, each of the Sellers may own, directly or indirectly, solely as an investment, up to two percent (2%) of any class of securities of any entity that compete with the Business and that are traded on a U.S. national or European securities exchange or quotation system such as the NASDAQ. It is understood that Giet currently owns approximately 30% of G2P, a French societe anonyme that manufacturers for the Companies and may also manufacture product for competitors. Giet hereby agrees to sell all such shares not later than December 31, 2005.

(c) The breach by one or more Sellers of the noncompetition obligations in this Section 6.1.1 will not be subject to the limitation of liability in Sections 7.2(a) and 7.2(b).

6.1.2. Maintenance and Conduct of Business.

(a) During the period from the date hereof through the Closing Date, each of the Sellers covenants that it shall continue, and cause the officers of each of the Companies to continue to manage the affairs of each of the Companies and the Business with the same degree of care as heretofore exercised, and, each of the Sellers further covenants to continue to manage the Business with the same degree of care as heretofore exercised. If any of the Sellers becomes aware of a material deterioration in the Business or any of the Companies or in a relationship with any customer, supplier, licensee or officer, employee or agent with respect to the Business, operations and facilities, it will promptly bring such information to the attention of the Purchaser and will use its best efforts in cooperation with the Purchase to restore such relationship except as otherwise mutually agreed.

(b) From the date hereof through the Closing Date, except as expressly permitted hereby or by the Purchaser in writing (permission given within a reasonable time period not to exceed three (3) days in the absence of which permission will be deemed given), each of the Sellers covenants that it shall cause each of the Companies, without prior express written consent of the Purchaser, not to:

(i) except for transactions necessary to satisfy the Closing Conditions, incur any obligation or liability (absolute or contingent) other than current liabilities and obligations incurred in the ordinary course of business, or indebtedness for money borrowed, or guarantee any indebtedness or obligation of any other party;

(ii) except for transactions necessary to satisfy the Closing Conditions, set aside or pay any dividend or distribution of assets, or repurchase any of its stock;

(iii) issue or grant any securities, including any options, warrants or rights to subscribe for its common stock or securities convertible into or exercisable for its common stock or enter into any agreement with respect thereto;

(iv) enter into, amend or terminate any employment or consulting agreement or any similar agreement or arrangement or hire any employee (except for fixed term employment agreements having terms of not more than two months);

(v) increase or modify the compensation or other benefits payable or to become payable to any of its officers, directors, employees or agents, or any relative of any such person, or adopt or amend any employee benefit plan or arrangement;

(vi) acquire, or dispose of, by sale, lease, license or other means, any tangible or intangible properties or assets used in its business (including but not limited to cash and cash equivalents) except in the ordinary course of business consistent with past practice;

(vii) waive or commit to waive any rights of substantial value or cancel any debts or claims;

(viii) permit any change in the nature of its status as a manufacturer and seller of medical devices or the manner in which its books and records are maintained;

(ix) create or suffer to be imposed any Lien or other charge on or against its properties or assets, whether tangible or intangible;

(x) enter into, amend or terminate any lease of real or personal property except automobile and office equipment leases in the ordinary course of business consistent with past practice;

(xi) amend its bylaws, its certificate of incorporation or any other governing provisions;

(xii) other than in the ordinary course of its business and consistent with past practice, enter into any material Contract or commitment, or violate, amend or otherwise modify, terminate or waive any of the terms of any of its Contracts, or engage in any activities or transactions , including, without limitation, entering into a Contract with a customer on terms which reflect a discount of more than five (5%) percent of the customary rates for the product or service covered by such Contract;

(xiii) accelerate the vesting of any employee stock benefit (including vesting under stock purchase agreements or exercisability of stock options) or waive any repurchase right or other right of forfeiture or take any other action designed to accomplish the foregoing;

(xiv) grant any bonus, severance or termination pay to any director, officer, employee or consultant, except mandatory payments made pursuant to standard written agreements outstanding on the date hereof (with any such agreement or arrangement to be disclosed by the Sellers);

(xv) abandon, dispose of, transfer or license to any person or entity any rights to the Intellectual Property Rights;

(xvi) other than in the ordinary course of business and consistent with past practice, make or change any material election in respect of Taxes, adopt or change any accounting method in respect of Taxes, file any material Tax Return or any amendment to a material Tax Return, enter into any closing agreement, settle any material claim or assessment in respect of Taxes, or consent to any extension or waiver of the limitation period applicable to any material claim or assessment in respect of Taxes except for amounts paid pursuant to the tax audit described on Schedule 4.10;

(xvii) sell, lease, license or otherwise dispose of, or accept any order for, Products or services other than in the ordinary course of business consistent with past practice;

(xviii) revalue any of its assets, including without limitation writing down the value of Inventory or writing off notes or accounts receivable other than in the ordinary course of business consistent with past practice;

(xix) fail to pay or otherwise satisfy its monetary obligations as they become due, except such as are being contested in good faith;

(xx) take or agree to take, any action which would cause a breach of its representations or warranties contained in this Agreement or prevent it from performing or cause it not to perform its covenants hereunder;

(xxi) make or institute any unusual or new methods of manufacture, purchase, sale, distribution, shipment or delivery, lease, management, accounting or operation, or ship or deliver any quantity of Products in excess of normal shipment or delivery levels;

(xxii) make any capital expenditure or commitment for any capital expenditure in excess of ten thousand (10,000) Euro in the aggregate except for instruments under consignment;

(xxiii) commence or settle any litigation that, if adversely determined, could restrict the operations of any of the Companies or would have a Material Adverse Effect;

(xxiv) change its accounting methods or practices

(xxv) open any new bank accounts;

(xxvi) pay any professional advisors fees with respect to the transactions contemplated in this Agreement, including, without limitation, accounting, legal, advisory or consulting fees; or

(xxvii) enter into a Distribution Agreement except in Turkey, the Czech Republic, Hungary, Chile or Venezuela.

6.1.3. Access to Information

Each of the Sellers shall, and cause the Company to, give to the Purchaser and its accountants, legal counsel and other representatives full and complete access on terms regarding scheduling to be mutually agreed, during normal business hours throughout the period from the date hereof to the Closing, to all of the properties, technology, software, patents, patent applications, trademarks, trademark applications, copyrights, copyright applications, books, Contracts, commitments and records relating to the business, assets and liabilities of each of the Companies, and furnish the Purchaser, its accountants, legal counsel and other representatives during such period all information concerning the affairs of each of the Companies, as the Purchaser may reasonably request.

6.1.4. Statutory auditors

Sellers shall use their best efforts prior to the Closing to obtain from the Companies's statutory auditors their resignations, effective the date of the shareholders' meeting approving the accounts for fiscal year 2004 as well as an agreement from such the statutory auditors to cooperate with the Companies and the Purchaser after their resignation and provide at Purchaser's expense, the Companies and the Purchaser with the information necessary to enable the Companies and the Purchaser to file any required financial statement for any period, including but not limited to any period through the Closing Date.

6.1.5. Loans and Pledges

The Sellers shall assure that the indebtedness referred to in Schedule 4.4(b)(1) will be reimbursed prior to the Closing Date in a manner such that all the releases of pledges on any shares of any of the Companies are obtained.

6.2. Covenant of the Purchaser and the Sellers

The parties hereby covenant and agree that:

6.2.1. Taxes.

The Sellers shall pay all Taxes on the capital gains generated by sale of the Company Shares, and the Purchaser shall pay all registration Taxes and stamp duties in connection with the transfer of the Company Shares to the Purchaser.

6.2.2. Cooperation

Each party shall cooperate with the other party to secure all necessary consents, approvals, authorizations, exemptions and waivers from any third party or authority as shall be required in order to able such other party to consummate the transactions contemplated hereby.

6.2.3. Further Assurances.

(a) Each Party hereto agrees to do or cause to be done, or to cause each of the Companies to do or cause to be done, such further acts and things and deliver or cause to be delivered to any of the other Parties such additional assignments, agreements, powers, and instruments as any of the other parties may reasonably require to carry into effect the purposes of this Agreement or to better assure and confirm unto the Purchaser and each of the Sellers their respective rights, powers, and remedies hereunder and thereunder. In particular, between the date of this Agreement and the Closing, each Seller will promptly notify Purchaser if it becomes aware of (i) any breach, when made, of the representations and warranties contained in Article 4 of this Agreement, (ii) any fact that would constitute such a breach if such representations and warranties had been made as of the time of its awareness of such fact, (iii) any breach by a Seller of a covenant contained in this Agreement, or (iv) any fact that makes the satisfaction of the conditions contained in Article 3 of this Agreement impossible or unlikely.

(b) For at least until the first anniversary of the Closing Date, the Sellers shall use their best efforts to make the transition of the Business to

the Purchaser a success and in particular shall use their best efforts to preserve and maintain (and where desirable, improve and expand) existing relationships with all employees, consultants, independent contractors, Distributors and other customers, suppliers and medical professionals. The Sellers shall diligently perform all duties and obligations set forth in any employment or other agreements between any of them and any of the Companies.

6.3. Bank Guarantee.

The Sellers shall obtain from a bank of international rank and deliver on the Closing Date the issuance of a bank guarantee granted to the benefit of the Purchaser and the Companies in order to partially secure the indemnification obligations of each of the Sellers as set out in Section 7 hereof, substantially in the form as set out in Exhibit 3.2(k) hereto.

6.4 Termination of a Distributor

The Sellers shall cause Newdeal USA to give notice of cessationof its relationship with its Distributor in the United States and Canada, such notice to be effective no later than November 15, 2004

7. Indemnification.

7.1. Indemnification of the Purchaser and the Companies.

(a) From and after the Closing Date, (i) Fourcault, Knevels, and Giet, jointly and severally to the extent provided for in Section 7.1(b) and pro rata to their shares sold otherwise, and (ii) Gauneau, pro rata to his shares sold, will indemnify, defend, and hold harmless, each by way of a reduction in the Purchase Price, the Purchaser, or at the Purchaser's election, directly one or more of the Companies (collectively, "Purchaser Indemnified Parties") in an amount of any damage, liability, claim, prejudice, reduction in value of any asset or expense (including interest, penalties, and accountants', experts', counsels and attorneys' fees and disbursements incurred in a third party action) (collectively, the "Damages") that one of the Companies or the Purchaser may incur or be required to assume and that flows or results from (a) any inaccuracy or breach of the Seller's written representations or warranties made in or pursuant to this Agreement, or (b) the breach of any covenant, obligation, or agreements to be performed, fulfilled, or complied with pursuant to this Agreement ; or (c) any event, fact or transaction arising or having its origin or cause prior to the Closing Date; or (d) without limiting the scope of Section 4.10, any Tax incurred by any of the Companies or the loss of any Tax benefit following a reassessment or challenge by any Tax Authority in relation to any fact or event arising prior to the Closing Date and in relation to which the corresponding Tax was not paid on its due date for payment, or for which the Tax Returns were either not made on the appropriate date or were incorrect for any reason.

(b) For purposes of this Agreement, "joint and several" with respect to Fourcault, Knevels, and Giet means (without limitation in any way of the concept of "responsabilite conjointe et solidaire" under French Law) that, until the date that is three years and one month after the Closing Date, each of Fourcault, Knevels, and Giet will be liable for any inaccurancies in or breaches of representations, warranties, covenants, obligations or agreements with respect to Damages of up to three million eight hundred thousand Euros (EUR 3,800,000) even if such representation, warranty, convenant, obligation or agreement was not made or breached by, or inaccurate with respect to, such Seller.

(c) In determining the amount to be paid to the Purchaser Indemnified Parties in respect of any Damages, the following will be taken into account:

(i) in order to set the amount of the indemnification due by the Sellers, the tax-deductible nature of the Damages suffered by the Purchaser or one of the Companies will be taken into account;

(ii) any amount actually paid by insurance or other indemnity, contribution or other payment from a third party which compensates for all or part of the Damage will be deducted;

(iii) VAT on Damages will not be taken into account to the extent it is recoverable by one of the Companies, except as concerns late penalties and indemnities related thereto;

(iv) in no case may Damages be claimed on an item that has been reserved for in the Closing Balance Sheet, up to the amount of such reserve;

(v) any amount that has already been taken into account in the Post Closing Adjustment will not give rise to indemnification;

(vi) any Damage that results from a change of any law after the Closing Date may not give rise to any indemnification;

(vii) any Damage resulting from a change in the accounting methods or practices of the Companies that occurs after the Closing Date cannot given rise to any indemnification.

7.2. Limitation on Indemnification.

(a) The Sellers shall not be obligated to indemnify the Purchaser Indemnified Parties for any Damages (as defined above) based on any inaccuracy or breach of any of the representations or warranties made in or pursuant to this Agreement, until the aggregate amount of all Damages incurred with respect to all such claims are greater than three hundred and thirty five thousand Euro (EUR 335,000) (the "Threshold"), after which the Sellers shall be obligated to indemnify the Purchaser Indemnified Parties for all Damages represented by such claims in excess of two hundred thousand Euro (EUR 200,000) (the "Deductible").

(b) The maximum liability that the Sellers shall have under this Article 7 shall be seven million seven hundred thousand Euro (EUR 7,700,000 Euro) (the "Cap").

(c) Notwithstanding the provisions of Sections 7.2(a) and (b), none of the Threshold, the Deductible, or the Cap shall apply to any breaches of the Sellers of Full Liability Matters, which are the obligations of Sellers under this Agreement, as well as the representations and warranties set forth in Sections 4.1, 4.2, 4.3, 4.4, 4.5, and 4.10.

(d) Each Seller's indemnification obligations in respect of breaches of Full Liability Matters shall be capped at a maximum amount of Damages (suffered collectively by any of the Purchaser Indemnified Parties) equal to (x) the amount of the Purchase Price received by such Seller, less (y) the amount of all sums paid by such Seller to the Purchaser Indemnified Parties under its indemnification obligations.

(e) Further, notwithstanding anything to the contrary in this Agreement, the disclosures in Schedules 4.10(b) and 4.16(b)(ii) shall not discharge the Sellers from any damages resulting from such matters.

7.3. Indemnity Procedure regarding Damages suffered by any Purchaser Indemnified Party

(a) Notice and Defense.

(i) Notice. If a claim for Damages (an "Indemnity Claim") is to be made by a Purchaser Indemnified Party, such party shall give notice (an "Indemnity Claim Notice") to the Sellers as promptly as practicable after the Purchaser Indemnified Party becomes aware of any fact, condition or event which may give rise to Damages for which indemnification may be sought, but in any event, if applicable, within the period specified in Section 7.4. If any a lawsuit or proceeding is filed against any Purchaser Indemnified Party, notice thereof shall be given to the Sellers as promptly as practicable (and in any event within ten (10) business days after service). The failure of any Purchaser Indemnified Party to give timely notice hereunder shall not affect rights to indemnification hereunder, except to the extent that the indemnifying party demonstrates actual damage caused by such failure.

(ii) Conduct of Defense. After such notice, the Sellers shall be entitled, if they so elect: (x) to take control of the defense and investigation of such lawsuit or proceeding; (y) to employ and engage attorneys of their own choice to handle and defend the same (unless the named parties include both the indemnifying party and the Purchaser Indemnified Party and the latter has been advised in writing by counsel that there may be one or more legal defenses available to such Purchaser Indemnified Party that are different from or additional to those available to the Sellers, in which event the Purchaser Indemnified Party shall be entitled to separate counsel of its own choosing); and (z) to compromise or settle such lawsuit or proceeding, which compromise or settlement shall be made only with the written consent of the Purchaser Indemnified Party, which consent shall not be unreasonably withheld or delayed. The Purchaser Indemnified Party shall cooperate fully with Sellers in the defense of such claim, including making available to the Sellers and its counsel such documents, information, or other materials that are indispensable for handling such defense. If the Sellers fail to assume the defense within fifteen (15) calendar days after receipt of the Indemnity Claim Notice, the Purchaser Indemnified Party against which such lawsuit or proceeding has been asserted will (upon delivering notice to such effect to the Sellers) have the right to undertake, at the Sellers' expense, the defense, compromise or settlement of such Action; provided, however, that such lawsuit or proceeding shall not be compromised or settled without the written consent of the Sellers, which consent shall not be unreasonably withheld or delayed.

(b) Payment.

All amounts payable by the Sellers as a result of any final, unappealable adverse judgment obtained against any of the Companies, shall become immediately due to the Purchaser Indemnified Party. In the event of an adverse judgment subject to appeal, unless such judgment is subject to immediate execution, no amount shall be payable to the Purchaser Indemnified Party until the expiration of the deadline for appeal, and thereafter should the Sellers decide to pursue such appeal, until a judgment has been obtained upon appeal; provided, the Sellers shall pay for any guarantee or bond that may be required pending such appellate judgement. Notwithstanding anything set forth in this Section 7.3(b), Purchaser Indemnified Parties shall have the right to offset amounts due to Purchaser Indemnified Parties pursuant to this Section 7 against the Anniversary Payment.

7.4. Survival of Representations, Warranties, Covenants and Indemnification.

(a) The representations and warranties set forth in this Agreement shall survive the Closing and will expire upon the third anniversary of the Closing Date, except

(i) the Full Liability Matters, shall survive until the earlier of (x) the expiration of a three (3) month period following the expiration of the applicable statute of limitations period and (y) the tenth anniversary of the Closing Date, and

(ii) representations and warranties under which a claim has been notified in writing to the Sellers in accordance with Section 7.3 hereof, as applicable, prior to the date on which such representations or warranties would otherwise expire shall survive until such claim has been resolved.

(b) The representations and warranties of the Sellers shall not be affected or deemed waived by reason of any investigation made by or on behalf of the Purchaser (including but not limited to by any of its advisors, consultants or representatives) or (other than in respect of disclosures contained or set forth in the disclosure schedules) by reason of the fact that the Purchaser or any of such advisors, consultants or representatives knew or should have known that any such representation or warranty is or might be inaccurate.

7.5. Sellers Waiver of Subrogation, Contribution and Indemnification Claims.

Effective at Closing, each Seller hereby irrevocably waives and releases the Companies from any claim to or right of indemnification against any of the Companies. If any of the Sellers (or any family member or other affiliate of any Seller) has any claims, whether known or unknown, against any of the Companies arising out of any event occurring or state of facts existing on or prior to the Closing Date, all such claims, whether or not assigned to any third party, are hereby released, discharged and waived.

7.6 Purchaser Insurance

For a period of three years after the Closing Date, the Purchaser shall maintain insurance for product liability for the products of the Companies at substantially the same as for other medical device products of the Purchaser.

8. Termination before Closing

This Agreement may be terminated ipso facto by notice at any time prior to Closing:

(a) By the written consent of the Purchaser and Sellers;

(b) By the Purchaser if (i) there is a material breach of any covenant to be performed by any Seller under this Agreement which has not been waived by the Purchaser, (ii) satisfaction of any condition contained in Article 3 has become impossible (other than through a breach of a covenant contained in this Agreement by the Purchaser) and Purchasers have not waived such condition, or (iii) if the Closing has not occurred on or before January 6, 2005, or such later date as the parties may agree upon in writing, unless the Purchaser is in material breach of this Agreement; or

(c) By Sellers if (i) there is a material breach of any covenant to be performed by the Purchaser under this Agreement which has not been waived by Sellers, (ii) satisfaction of any condition contained in Article 3 has become impossible (other than through a breach of covenant contained in this Agreement by any Seller) and Sellers have not waived such condition or (iii) if the Closing has not occurred on or before January 6, 2005, or such later date as the parties may agree upon in writing, unless a Seller is in material breach of this Agreement.

9. Miscellaneous.

9.1. Complete Agreement; Amendments; Waivers.

This Agreement, together with the Schedules and Exhibits hereto and thereto, contains the entire agreement of the Parties with respect to the subject matter hereof and supersedes all prior agreements and understandings, oral or written, with respect thereto. This Agreement may be amended only by a written instrument signed by the Parties hereto. No provision of this Agreement may be waived without a written instrument signed by the waiving Party. The failure of any Party to insist, in any one or more instances, on performance of

any of the terms or conditions of this Agreement will not be construed as a waiver or relinquishment of any rights granted hereunder or of the future performance of any such term, covenant, or condition, but the obligations of the Parties with respect thereto will continue in full force and effect.

9.2. Successors and Assigns.

This Agreement will inure to the benefit of, and be binding upon, the Parties hereto and their respective executors, heirs, and permissible assigns. Neither this Agreement nor any of the rights or obligations hereunder (or under any document delivered pursuant hereto) may be assigned by a Party hereto without the prior written consent of the other Parties, except that the Purchaser may assign this Agreement to any of its subsidiaries or affiliates without the prior written consent of any Party.

9.3. Governing Law; Jurisdiction.

This Agreement will be construed and enforced in accordance with the laws of France. Any dispute relating to this Agreement (other than under Section 2.5.2) shall be brought exclusively in the Commercial Court of Paris.

9.4. Notices.

All notices, claims, requests, demands, and other communications hereunder will be in writing and will be duly given if: (a) personally delivered or sent via telecopy or (b) sent by Federal Express, DHL, or UPS (for next business day delivery or second business delivery in the case of international shipments), shipping prepaid as follows:

If to the Purchaser, to:

Integra Life Sciences Holding Corporation
311 Enterprise Drive
Plainsboro, NJ 08536
USA
Fax number:  ++ 609-275-1082.Attn: General Counsel

with a copy to counsel :

Kahn & Associes
51, rue Dumont d'Urville
75116 Paris
France
Fax number:  ++ 33 1 45 01 45 00
Attn: Douglas S. Glucroft, Esq.

If to the Sellers, to each of them at the address set forth on the first page of this Agreement.

with a copy to counsel:

CEFIDES
Immeuble le Britannia (Bat.C)
20, boulevard Eugene Dernelle
69432 Lyon Cedex 03
France
Fax number : ++ 33 4 72 84 02 85
Attn : Yves Conan, Esq.

or to such other address or addresses as the party to whom notice is to be given may have previously furnished to the others in writing in the manner set forth above. Notices will be deemed given at the time of personal delivery or completed telecopy, or, if sent by reputable overnight courier, one business day after such sending or two business days after sending in the case of international shipments.

9.5. Expenses.

No expenses of the Seller or the Company incurred in connection with the transactions contemplated by this Agreement (including, without limitation, Taxes or accounting and legal fees incurred in connection therewith) shall be paid by or deemed a liability of any of the Companies (or reflected on the Financial Statements), and the Sellers (and none of the Companies) shall bear their own expenses and those of the Companies with respect to the foregoing and the Purchaser shall bear its own expenses in connection therewith. However, all expenses relating to the by-law amendments and changes in governing bodies of each of the Companies concerned shall not be borne by the Sellers for purposes of calculation of the Post-Closing Adjustment.

9.6. Headings; Form of Words.

The headings contained in this Agreement (including but not limited to the titles of the Schedules and Exhibits hereto) have been inserted for the convenience of reference only, and neither such headings nor the placement of any term hereof under any particular heading will in any way restrict or modify any of the terms or provisions hereof. Terms used in the singular will be read in the plural, and vice versa, and terms used in the masculine gender will be read in the feminine or neuter gender when the context so requires, and vice versa.

9.7. Severability.

The provisions of this Agreement will be deemed severable, and if any part of any provision is held to be illegal, void, voidable, invalid, nonbinding, or unenforceable in its entirety or partially or as to any party, for any reason, such provision may be changed, consistent with the intent of the Parties hereto, to the extent reasonably necessary to make the provision, as so changed, legal, valid, binding, and enforceable. If any provision of this Agreement is held to be illegal, void, voidable, invalid, nonbinding, or unenforceable in its entirety or partially or as to any Party, for any reason, and if such provision cannot be changed consistent with the intent of the Parties hereto to make it fully legal, valid, binding, and enforceable, then such provisions will be stricken from this Agreement, and the remaining provisions of this Agreement will not in any way be affected or impaired, but will remain in full force and effect.

9.8 Public Announcements

Neither the Purchaser no the Sellers shall make public in any way or otherwise disclose any information with respect to this Agreement except with the prior consultation with the other Parties or except in so far as is required by any Governmental Authority, in which case the Party required to provide information shall inform the other Parties.

9.9. Language of Agreement.

Because the Purchaser is a United States of America company and certain of the Sellers are French, the Parties to this Agreement expressly declare that it is their express intention that this Agreement be drawn up both in the English and in the French language. In the event of any inconsistency between the English and the French versions, the French version shall prevail.

IN WITNESS WHEREOF, the Parties hereto have duly executed this Agreement as of the date first above written in three original copies.

FOR INTEGRA LIFESCIENCES HOLDINGS CORPORATION:

By: /s/ John B. Henneman, III

Name: John B. Henneman, III
Title: Executive Vice President, Chief Administrative Officer

THE SELLERS :

/s/ Eric Fourcault

Mr. Eric Fourcault

/s/ Theo Knevels

Mr. Theo Knevels

/s/ Jean-Christophe Giet

Mr. Jean-Christophe Giet

/s/ Bertrand Gauneau

Mr. Bertrand Gauneau

EXHIBIT 10.34

Notice of Grant of Stock Options and Option Agreement

Integra LifeSciences Holdings Corp.
ID: 51-0317849
311 Enterprise Drive
Plainsboro, New Jersey 08536

[NAME AND ADDRESS OF GRANTEE]

Option Number:
Plan: [NAME OF PLAN]
ID:

Effective [DATE OF GRANT], you have been granted a(n)[Non-Qualified][Incentive] Stock Option to buy ____ shares of Integra LifeSciences Holdings Corp.(the Company) stock at $[CLOSING PRICE OF COMMON STOCK ON DATE OF GRANT]per share.

The total option price of the shares granted is $___________.

Shares in each period will become fully vested on the date shown.**

| Shares | Vest Type | Full Vest | Expiration |
|---|---|---|---|
| [1/4th of SHARES] | On Vest Date | [ONE YEAR ANNIVERSARY OF GRANT DATE] | [SIX YEAR ANNIVERSARY OF GRANT DATE] |
| [3/4th of SHARES] | Monthly | [FOUR YEAR ANNIVERSARY OF GRANT DATE] | [SIX YEAR ANNIVERSARY OF GRANT DATE] |

By your signature and the Company's signature below, you and the Company agree that these options are granted under and governed by the terms and conditions of the Company's Stock Option Plan as amended and the Option Agreement, all of which are attached and made a part of this document.

Integra LifeSciences Holdings Corp. Date

Name Date

** The above is the standard vesting schedule for options granted to employees. Options granted to directors will (a) fully vest on the six month anniversary of the grant date and (b) expire on the six year anniversary of the grant date (except that grants made to directors upon their initial election as a director, will expire on the ten year anniversary of the grant date).

[FORM OF NON-QUALIFIED STOCK OPTION AGREEMENT - NON-DIRECTORS]

INTEGRA LIFESCIENCES HOLDINGS CORPORATION
[NAME OF PLAN]
NON-QUALIFIED STOCK OPTION AGREEMENT

NON-QUALIFIED STOCK OPTION AGREEMENT made as of the date (the "Grant Date") set forth in the attached Notice of Grant of Stock Options and Option Agreement ("Notice of Grant"), between Integra LifeSciences Holdings Corporation, a Delaware corporation (the "Company"), and the named Key Employee of the Company, a Related Corporation, or an affiliate (the "Employee").

WHEREAS, the Company desires to afford the Employee an opportunity to purchase shares of common stock of the Company, par value $.01 per share ("Common Stock"), as hereinafter provided, in accordance with the provisions of the Integra LifeSciences Holdings Corporation [NAME OF PLAN] (the "Plan"), which can be found on Integra's Intranet at http://intranet/stockoptions/. Requests for hardcopies of the "Plan" should be directed to Christie Davis at the New Jersey Corporate Office.

NOW, THEREFORE, in consideration of the mutual covenants hereinafter set forth and for other good and valuable consideration the legal sufficiency of which is hereby acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

1. Grant of Option. The Company hereby grants to the Employee a non-qualified stock option (the "Option") to purchase all or any part of an aggregate of the number of shares of Common Stock as set forth in the attached Notice of Grant, subject to adjustment in accordance with Section 8 of the Plan.

2. Purchase Price. The purchase price per share of the shares of Common Stock covered by the Option shall be that set forth in the attached Notice of Grant, subject to adjustment in accordance with Section 8 of the Plan. It is the determination of the Company's Equity Award Committee (the "Committee") that on the Grant Date the Option price was not less than the greater of one hundred percent (100%) of the fair market value of the Common Stock, or the par value thereof.

3. Term. Unless earlier terminated pursuant to any provision of this Option Agreement, this Option shall expire on the date set forth in the attached Notice of Grant (the "Expiration Date"), which date is not more than ten (10) years from the Grant Date. Notwithstanding anything herein to the contrary, this Option shall not be exercisable after the Expiration Date.

4. Exercise of Option. This Option shall vest and become exercisable in accordance with the vesting schedule set forth in the attached Notice of Grant.

Any portion of the Option that becomes exercisable in accordance with the foregoing shall remain exercisable, subject to the provisions contained in this Option Agreement, until the expiration of the term of this Option as set forth in Paragraph 3 or until other termination of the Option as set forth in this Option Agreement.

5. Method of Exercising Option. Subject to the terms and conditions of this Option Agreement, the Option may be exercised in whole or in part by written notice to the Company, at its principal office, which is located at 311 Enterprise Drive, Plainsboro, New Jersey 08536. Such notice shall state the election to exercise the Option, and the number of shares with respect to which it is being exercised; shall be signed by the person or persons so exercising the Option; shall, unless the Company otherwise notifies the Employee, be accompanied by the investment certificate referred to in Paragraph 6; and shall be accompanied by payment of the full Option price of such shares.

The Option price shall be paid to the Company in: (i) cash or its equivalent; or (ii) by delivering a properly executed notice of exercise of the Option to the Company and a broker, in accordance with Section 7.1(f)(iv) of the Plan.

Upon receipt of such notice and payment, the Company, as promptly as practicable, shall deliver or cause to be delivered a certificate or certificates representing the shares with respect to which the Option is so exercised. Such certificate(s) shall be registered in the name of the person or persons so exercising the Option (or, if the Option is exercised by the Employee and if the Employee so requests in the notice exercising the Option, shall be registered in the name of the Employee and the Employee's spouse, jointly, with right of survivorship) and shall be delivered as provided above to or upon the written order of the person or persons exercising the Option. In the event the Option is exercised by any person or persons after the legal disability or death of the Employee, such notice shall be accompanied by appropriate proof of the right of such person or persons to exercise the Option. All shares that are purchased upon the exercise of the Option as provided herein shall be fully paid and not assessable by the Company.

6. Shares to be Purchased for Investment. Unless the Company has theretofore notified the Employee that a registration statement covering the shares to be acquired upon the exercise of the Option has become effective under the Securities Act of 1933 and the Company has not thereafter notified the Employee that such registration statement is no longer effective, it shall be a condition to any exercise of this Option that the shares acquired upon such exercise be acquired for investment and not with a view to distribution, and the person effecting such exercise shall submit to the Company a certificate of such investment intent, together with such other evidence supporting the same as the Company may request. The Company shall be entitled to delay the transferability of the shares issued upon any such exercise to the extent necessary to avoid a risk of violation of the Securities Act of 1933 (or of any rules or regulations promulgated thereunder) or of any state laws or regulations. Such restrictions may, at the option of the Company, be noted or set forth in full on the share certificates.

7. Non-Transferability of Option. This Option is not assignable or transferable, in whole or in part, by the Employee other than by will or by the laws of descent and distribution, and during the lifetime of the Employee the Option shall be exercisable only by the Employee or by his or her guardian or legal representative.

8. Termination of Employment. If the Employee's employment with the Company and all Related Corporations is terminated for any reason other than death or disability prior to the Expiration Date of this Option as set forth in Paragraph 3, this Option may be exercised, to the extent of the number of shares with respect to which the Employee could have exercised it on the date of such termination of employment, or to any greater extent permitted by the Committee, by the Employee at any time prior to the earlier of:

(a) The Expiration Date specified in Paragraph 3; or

(b) Six (6) months after such termination of employment.

9. Disability. If the Employee becomes disabled, as defined in the Plan, during his or her employment with the Company and Related Corporations and, prior to the Expiration Date of this Option as set forth in Paragraph 3, the Employee's employment is terminated as a consequence of such disability, this Option may be exercised, to the extent of the number of shares with respect to which the Employee could have exercised it on the date of such termination of employment, or to any greater extent permitted by the Committee in its discretion, by the Employee, or in the event of the Employee's legal disability, by the Employee's legal representative, at any time prior to the earlier of:

(a) The Expiration Date specified in Paragraph 3; or

(b) One year after the date of such termination of employment.

10. Death. If the Employee dies during his or her employment with the Company and Related Corporations and prior to the Expiration Date of this Option as set forth in Paragraph 3, or if the Employee's employment is terminated for any reason (as described in Paragraphs 8 or 9 above) and the Employee dies following his or her termination of employment but prior to the earliest of the Expiration Date of this Option as set forth in Paragraph 3 above or the expiration of the period determined under Paragraph 8 or 9 above, this Option may be exercised, to the extent of the number of shares with respect to which the Employee could have exercised it on the date of his or her death, or to any greater extent permitted by the Committee, by the Employee's estate, personal representative or beneficiary who acquired the right to exercise this Option by bequest or inheritance or by reason of the Employee's death, at any time prior to the earlier of:

(a) The Expiration Date specified in Paragraph 3; or

(b) One year after the date of the Employee's death

11. Withholding of Taxes. The obligation of the Company to deliver shares of Common Stock upon the exercise of the Option shall be subject to applicable federal, state and local tax withholding requirements. If the exercise of any Option is subject to the withholding requirements of applicable federal, state or local tax laws, the Committee, in its discretion, may permit the Employee, subject to the provisions of the Plan and such additional withholding rules (the "Withholding Rules") as shall be adopted by the Committee, to satisfy the withholding tax, in whole or in part, by electing to have the Company withhold (or by returning to the Company) shares of Common Stock, which shares shall be valued, for this purpose, at their fair market value on the date of exercise of the Option (or, if later, the date on which the Employee recognizes ordinary income with respect to such exercise). An election to use shares of Common Stock to satisfy tax withholding requirements must be made in compliance with and subject to the Withholding Rules. The Committee may not withhold shares in excess of the number necessary to satisfy the minimum tax withholding requirements.

12. Construction. Except as would be in conflict with any specific provision herein, this Option Agreement is made under and subject to the provisions of the Plan as in effect on the Grant Date and, except as would conflict with the provisions of this Option Agreement, all of the provisions of the Plan as in effect on the Grant Date are hereby incorporated herein as provisions of this Option Agreement. Notwithstanding the foregoing, provisions of this Option Agreement that conflict with the Plan will be given effect only to the extent they do not exceed the Committee's discretion under the Plan.

13. Governing Law. This Non-Qualified Stock Option Agreement shall be governed by applicable federal law and otherwise by the laws of the State of New Jersey.

EXHIBIT 10.36

[FORM OF INCENTIVE STOCK OPTION AGREEMENT]

INTEGRA LIFESCIENCES HOLDINGS CORPORATION
[NAME OF PLAN]
INCENTIVE STOCK OPTION AGREEMENT

INCENTIVE STOCK OPTION AGREEMENT made as of the date (the "Grant Date") set forth in the attached Notice of Grant of Stock Options and Option Agreement ("Notice of Grant"), between Integra LifeSciences Holdings Corporation, a Delaware corporation (the "Company"), and the named Key Employee of the Company, a Related Corporation or an affiliate (the "Employee").

WHEREAS, the Company desires to afford the Employee an opportunity to purchase shares of common stock of the Company, par value $.01 per share ("Common Stock") as hereinafter provided, in accordance with the provisions of the Integra LifeSciences Holdings Corporation [NAME OF PLAN] (the "Plan"), which can be found on Integra's Intranet at http://intranet/stockoptions/. Requests for hardcopies of the "Plan" should be directed to Carla Marcinko at the New Jersey Corporate Office.

NOW, THEREFORE, in consideration of the mutual covenants hereinafter set forth and for other good and valuable consideration the legal sufficiency of which is hereby acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

1. Grant of Option. The Company hereby grants to the Employee the right and option (the "Option") to purchase all or any part of an aggregate of the number of shares of Common Stock as set forth in the attached Notice of Grant, subject to adjustment in accordance with Section 8 of the Plan. It is intended that the Option granted hereunder be an incentive stock option ("ISO") meeting the requirements of the Plan and section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

2. Purchase Price. The purchase price per share of the shares of Common Stock covered by the Option shall be that set forth in the attached Notice of Grant, subject to adjustment in accordance with Section 8 of the Plan. It is the determination of the Company's Equity Award Committee (the "Committee") that on the Grant Date the Option price was not less than the greater of one hundred percent (100%) (or in the case of a Key Employee who owns more than ten percent (10%) of the total combined voting power of all shares of stock of the Company or of a Related Corporation, one hundred ten percent (110%)) of the fair market value of the Common Stock, or the par value thereof.

3. Term. Unless earlier terminated pursuant to any provision of this Option Agreement, this Option shall expire on the date set forth in the attached Notice of Grant (the "Expiration Date"), which date is not more than ten (10) years (or in the case of a Key Employee who owns more than ten percent (10%) of the total combined voting power of all shares of stock of the Company or of a Related Corporation, five (5) years) from the Grant Date. Notwithstanding anything herein to the contrary, this Option shall not be exercisable after the Expiration Date.

4. Exercise of Option. This Option shall vest and become exercisable in accordance with the vesting schedule set forth in the attached Notice of Grant.

Any portion of the Option that becomes exercisable in accordance with the foregoing shall remain exercisable, subject to the provisions contained in this Option Agreement, until the expiration of the term of this Option as set forth in Paragraph 3 or until other termination of the Option as set forth in this Option Agreement.

5. Method of Exercising Option. Subject to the terms and conditions of this Option Agreement, the Option may be exercised in whole or in part by written notice to the Company, at its principal office, which is located at 311 Enterprise Drive, Plainsboro, New Jersey 08536. Such notice shall state the election to exercise the Option and the number of shares with respect to which it is being exercised; shall be signed by the person or persons so exercising the Option; shall, unless the Company otherwise notifies the Employee, be accompanied by the investment certificate referred to in Paragraph 6; and shall be accompanied by payment of the full Option price of such shares.

The Option price shall be paid to the Company in (i) cash or its equivalent; or (ii) by delivering a properly executed notice of exercise of the Option to the Company and a broker, in accordance with Section 7.1(f)(iv) of the Plan.

Upon receipt of such notice and payment, the Company, as promptly as practicable, shall deliver or cause to be delivered a certificate or certificates representing the shares with respect to which the Option is so exercised. Such certificate(s) shall be registered in the name of the person or persons so exercising the Option (or, if the Option is exercised by the Employee and if the Employee so requests in the notice exercising the Option, shall be registered in the name of the Employee and Employee's spouse, jointly, with right of survivorship) and shall be delivered as provided above to or upon the written order of the person or persons exercising the Option. In the event the Option is exercised by any person or persons after the legal disability or death of the Employee, such notice shall be accompanied by appropriate proof of the right of such person or persons to exercise the Option. All shares that shall be purchased upon the exercise of the Option as provided herein shall be fully paid and not assessable by the Company.

6. Shares to be Purchased for Investment. Unless the Company has theretofore notified the Employee that a registration statement covering the shares to be acquired upon the exercise of the Option has become effective under the Securities Act of 1933 and the Company has not thereafter notified the Employee that such registration statement is no longer effective, it shall be a condition to any exercise of this Option that the shares acquired upon such exercise be acquired for investment and not with a view to distribution, and the person effecting such exercise shall submit to the Company a certificate of such investment intent, together with such other evidence supporting the same as the Company may request. The Company shall be entitled to restrict the transferability of the shares issued upon any such exercise to the extent necessary to avoid a risk of violation of the Securities Act of 1933 (or of any rules or regulations promulgated thereunder) or of any state laws or regulations. Such restrictions may, at the option of the Company, be noted or set forth in full on the share certificates.

7. Non-Transferability of Option. This Option is not assignable or transferable, in whole or in part, by the Employee other than by will or by the laws of descent and distribution, and during the lifetime of the Employee the Option shall be exercisable only by the Employee or by his or her guardian or legal representative.

8. Termination of Employment. If the Employee's employment with the Company and all Related Corporations is terminated for any reason other than death or disability prior to the Expiration Date of this Option as set forth in Paragraph 3, this Option may be exercised, to the extent of the number of shares with respect to which the Employee could have exercised it on the date of such termination of employment, or to any greater extent permitted by the Committee, by the Employee at any time prior to the earlier of:

(a) The Expiration Date specified in Paragraph 3; or

(b) Six (6) months after such termination of employment.(However, if this Option is exercised later than three (3) months after the date of such termination of employment, it will be treated as a non-qualified stock option).

9. Disability. If the Employee becomes disabled, as defined in the Plan, during his or her employment with the Company and Related Corporations and, prior to the Expiration Date of this Option as set forth in Paragraph 3, the Employee's employment is terminated as a consequence of such disability, this Option may be exercised, to the extent of the number of shares with respect to which the Employee could have exercised it on the date of such termination of employment, or to any greater extent permitted by the Committee in its discretion, by the Employee, or in the event of the Employee's legal disability, by the Employee's legal representative, at any time prior to the earlier of:

(a) The Expiration Date specified in Paragraph 3; or

(b) One year after the date of such termination of employment.

10. Death. If the Employee dies during his or her employment with the Company and Related Corporations and prior to the Expiration Date of this Option as set forth in Paragraph 3, or if the Employee's employment is terminated for any reason (as described in Paragraphs 8 or 9 above) and the Employee dies following his or her termination of employment but prior to the earliest of the Expiration Date of this Option as set forth in Paragraph 3 above or the expiration of the period determined under Paragraph 8 or 9 above, this Option may be exercised, to the extent of the number of shares with respect to which the Employee could have exercised it on the date of his or her death, or to any greater extent permitted by the Committee, by the Employee's estate, personal representative or beneficiary who acquired the right to exercise this Option by bequest or inheritance or by reason of the Employee's death, at any time prior to the earlier of:

(a) The Expiration Date specified in Paragraph 3; or

(b) One (1) year after the date of the Employee's death.

11. Disqualifying Disposition of Option Shares. The Employee agrees to give written notice to the Company, at its principal office, if a "disposition" of the shares acquired through exercise of the Option granted hereunder occurs at any time within two years after the Grant Date or within one year after the transfer to the Employee of such shares. For purposes of this Paragraph 11, the term "disposition" shall have the meaning assigned to such term by section 424(c) of the Code.

12. Withholding of Taxes. The obligation of the Company to deliver shares of Common Stock upon the exercise of the Option shall be subject to applicable federal, state and local tax withholding requirements. If the exercise of any Option is subject to the withholding requirements of applicable federal, state or local tax laws, the Committee, in its discretion, may permit the Employee, subject to the provisions of the Plan and such additional withholding rules ("Withholding Rules") as shall be adopted by the Committee, to satisfy the withholding tax, in whole or in part, by electing to have the Company withhold (or by returning to the Company) shares of Common Stock, which shares shall be valued, for this purpose, at their fair market value on the date of exercise of the Option (or, if later, the date on which the Employee recognizes ordinary income with respect to such exercise). An election to use shares of Common Stock to satisfy tax withholding requirements must be made in compliance with and subject to the Withholding Rules. The Committee may not withhold shares in excess of the number necessary to satisfy the minimum tax withholding requirements.

13. Construction. Except as would be in conflict with any specific provision herein, this Option Agreement is made under and subject to the provisions of the Plan as in effect on the Grant Date and, except as would conflict with the provisions of this Option Agreement, all of the provisions of the Plan as in effect on the Grant Date are hereby incorporated herein as provisions of this Option Agreement. Notwithstanding the foregoing, provisions of this Option Agreement that conflict with the Plan will be given effect only to the extent they do not exceed the Committee's discretion under the Plan.

14. Governing Law. This Incentive Stock Option Agreement shall, to the maximum extent possible, be construed in a manner consistent with the Code provisions concerning ISOs, and its interpretation shall be governed by applicable federal law and otherwise by the laws of the State of New Jersey.

EXHIBIT 10.37

[FORM OF NON-QUALIFIED STOCK OPTION AGREEMENT - DIRECTORS]

INTEGRA LIFESCIENCES HOLDINGS CORPORATION
[NAME OF PLAN]
NON-QUALIFIED STOCK OPTION AGREEMENT

NON-QUALIFIED STOCK OPTION AGREEMENT made as of the date (the "Grant Date") set forth in the attached Notice of Grant of Stock Options and Option Agreement ("Notice of Grant"), between Integra LifeSciences Holdings Corporation, a Delaware corporation (the "Company"), and the named member of the Company's Board of Directors (the "Optionee").

WHEREAS, the Company desires to afford the Optionee an opportunity to purchase shares of common stock of the Company, par value $.01 per share ("Common Stock"), as hereinafter provided, in accordance with the provisions of the Integra LifeSciences Holdings Corporation [NAME OF PLAN] (the "Plan"), which can be found on Integra's Intranet at http://intranet/stockoptions/. Requests for hardcopies of the "Plan" should be directed to Christie Davis at the New Jersey Corporate Office.

NOW, THEREFORE, in consideration of the mutual covenants hereinafter set forth and for other good and valuable consideration the legal sufficiency of which is hereby acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

1. Grant of Option. The Company hereby grants to the Optionee a non-qualified stock option (the "Option") to purchase all or any part of an aggregate of the number of shares of Common Stock as set forth in the attached Notice of Grant, subject to adjustment in accordance with Section 8 of the Plan.

2. Purchase Price. The purchase price per share of the shares of Common Stock covered by the Option shall be that set forth in the attached Notice of Grant, subject to adjustment in accordance with Section 8 of the Plan. It is the determination of the Company's Equity Award Committee (the "Committee") that on the Grant Date the Option price was not less than the greater of one hundred percent (100%) of the fair market value of the Common Stock, or the par value thereof.

3. Term. Unless earlier terminated pursuant to any provision of this Option Agreement, this Option shall expire on the date set forth in the attached Notice of Grant (the "Expiration Date"), which date is not more than ten (10) years from the Grant Date. Notwithstanding anything herein to the contrary, this Option shall not be exercisable after the Expiration Date.

4. Exercise of Option. This Option shall vest and become exercisable in accordance with the vesting schedule set forth in the attached Notice of Grant.

Any portion of the Option that becomes exercisable in accordance with the foregoing shall remain exercisable, subject to the provisions contained in this Option Agreement, until the expiration of the term of this Option as set forth in Paragraph 3 or until other termination of the Option as set forth in this Option Agreement.

5. Method of Exercising Option. Subject to the terms and conditions of this Option Agreement, the Option may be exercised in whole or in part by written notice to the Company, at its principal office, which is located at 311C Enterprise Drive, Plainsboro, New Jersey 08536. Such notice shall state the election to exercise the Option, and the number of shares with respect to which it is being exercised; shall be signed by the person or persons so exercising the Option; shall, unless the Company otherwise notifies the Optionee, be accompanied by the investment certificate referred to in Paragraph 6; and shall be accompanied by payment of the full Option price of such shares.

The Option price shall be paid to the Company in: (i) cash or its equivalent; or (ii) by delivering a properly executed notice of exercise of the Option to the Company and a broker, in accordance with Section 7.1(f)(iv) of the Plan.

Upon receipt of such notice and payment, the Company, as promptly as practicable, shall deliver or cause to be delivered a certificate or certificates representing the shares with respect to which the Option is so exercised. Such certificate(s) shall be registered in the name of the person or persons so exercising the Option (or, if the Option is exercised by the Optionee and if the Optionee so requests in the notice exercising the Option, shall be registered in the name of the Optionee and the Optionee's spouse, jointly, with right of survivorship) and shall be delivered as provided above to or upon the written order of the person or persons exercising the Option. In the event the Option is exercised by any person or persons after the legal disability or death of the Optionee, such notice shall be accompanied by appropriate proof of the right of such person or persons to exercise the Option. All shares that are purchased upon the exercise of the Option as provided herein shall be fully paid and not assessable by the Company.

6. Shares to be Purchased for Investment. Unless the Company has theretofore notified the Optionee that a registration statement covering the shares to be acquired upon the exercise of the Option has become effective under the Securities Act of 1933 and the Company has not thereafter notified the Optionee that such registration statement is no longer effective, it shall be a condition to any exercise of this Option that the shares acquired upon such exercise be acquired for investment and not with a view to distribution, and the person effecting such exercise shall submit to the Company a certificate of such investment intent, together with such other evidence supporting the same as the Company may request. The Company shall be entitled to delay the transferability of the shares issued upon any such exercise to the extent necessary to avoid a risk of violation of the Securities Act of 1933 (or of any rules or regulations promulgated thereunder) or of any state laws or regulations. Such restrictions may, at the option of the Company, be noted or set forth in full on the share certificates.

7. Non-Transferability of Option. This Option is not assignable or transferable, in whole or in part, by the Optionee other than by will or by the laws of descent and distribution, and during the lifetime of the Optionee the Option shall be exercisable only by the Optionee or by his or her guardian or legal representative.

8. Termination of Service. If the Optionee's service with the Company (and Related Corporations) terminates for any reason other than death or disability prior to the Expiration Date of this Option as set forth in Paragraph 3, this Option may be exercised, to the extent of the number of shares with respect to which the Optionee could have exercised it on the date of such termination of service, or to any greater extent permitted by the Committee, by the Optionee at any time prior to the earlier of:

(a) The Expiration Date specified in Paragraph 3; or

(b) Six (6) months after the date of the Optionee's termination of service

9. Disability. If the Optionee becomes disabled, as defined in the Plan, during his or her service with the Company (and Related Corporations) and, prior to the Expiration Date of this Option as set forth in Paragraph 3, the Optionee's service is terminated as a consequence of such disability, this Option may be exercised, to the extent of the number of shares with respect to which the Optionee could have exercised it on the date of such termination of service, or to any greater extent permitted by the Committee in its discretion, by the Optionee, or in the event of the Optionee's legal disability, by the Optionee's legal representative, at any time prior to the earlier of:

(a) The Expiration Date specified in Paragraph 3; or

(b) One (1) year after the date of the Optionee's termination of service by reason of disability

10. Death. If the Optionee dies during his or her service with the Company (and Related Corporations), and prior to the Expiration Date of this Option as set forth in Paragraph 3, or if the Optionee's service is terminated for any reason (as described in Paragraphs 8 or 9 above) and the Optionee dies following his or her termination of service but prior to the earlier of the Expiration Date of this Option as set forth in Paragraph 3 above, or the expiration of the period determined under Paragraph 8 or 9 above, this Option may be exercised, to the extent of the number of shares with respect to which the Optionee could have exercised it on the date of his or her death, or to any greater extent permitted by the Committee, by the Optionee's estate, personal representative or beneficiary who acquired the right to exercise this Option by bequest or inheritance or by reason of the Optionee's death, at any time prior to the earlier of:

(a) The Expiration Date specified in Paragraph 3; or

(b) One (1) year after the date of the Optionee's death

11. Withholding of Taxes. The obligation of the Company to deliver shares of Common Stock upon the exercise of the Option shall be subject to applicable federal, state and local tax withholding requirements. If the exercise of any Option is subject to the withholding requirements of applicable federal, state or local tax laws, the Committee, in its discretion, may permit the Optionee, subject to the provisions of the Plan and such additional withholding rules (the "Withholding Rules") as shall be adopted by the Committee, to satisfy the withholding tax, in whole or in part, by electing to have the Company withhold (or by returning to the Company) shares of Common Stock, which shares shall be valued, for this purpose, at their fair market value on the date of exercise of the Option (or, if later, the date on which the Optionee recognizes ordinary income with respect to such exercise). An election to use shares of Common Stock to satisfy tax withholding requirements must be made in compliance with and subject to the Withholding Rules. The Committee may not withhold shares in excess of the number necessary to satisfy the minimum tax withholding requirements.

12. Construction. Except as would be in conflict with any specific provision herein, this Option Agreement is made under and subject to the provisions of the Plan as in effect on the Grant Date and, except as would conflict with the provisions of this Option Agreement, all of the provisions of the Plan as in effect on the Grant Date are hereby incorporated herein as provisions of this Option Agreement. Notwithstanding the foregoing, provisions of this Option Agreement that conflict with the Plan will be given effect only to the extent they do not exceed the Committee's discretion under the Plan.

13. Governing Law. This Non-Qualified Stock Option Agreement shall be governed by applicable federal law and otherwise by the laws of the State of New Jersey.

EXHIBIT 10.38

# Compensation of Directors of Integra LifeSciences Holdings Corporation

Effective as of January 28, 2005, the annual compensation payable to non-employee directors of Integra LifeSciences Holdings Corporation (the "Company") is as set forth below.

Directors will receive a grant of 7,500 options each year, with the chairman receiving 10,000 options. Directors will also receive an annual retainer of $40,000, payable in one of four ways, at their election: (1) in cash, (2) one half in cash and one half in restricted stock, (3) in restricted stock, or (4) in the form of options (the number of options determined by valuing the options at 25% of the fair market value of the Company's common stock underlying the option), with a maximum of 5,000 options.

Cash payments will be paid in arrears on a quarterly basis. Options and restricted stock will be granted on the date of the annual meeting of stockholders at which directors are elected.

Options and restricted stock will fully vest six months after the grant date. The exercise price of options granted will be the fair market of the Company's common stock on the grant date, and restricted stock will be valued based on the fair market value of the Company's common stock on the date of the grant.

The Company will pay reasonable travel and out-of-pocket expenses incurred by non-employee directors in connection with attendance at meetings to transact business of the Company or attendance at meetings of the Board of Directors or any committee thereof.

EXHIBIT 21

Subsidiaries of Integra LifeSciences Holdings Corporation

| Name of Subsidiary | State or Country of Incorporation or Organization |
|---|---|
| Caveangle Ltd. | United Kingdom |
| GMSmbH | Germany |
| Integra CI, Inc. | Cayman Islands |
| Integra Clinical Education Institute, Inc. | Delaware |
| Integra Healthcare Products LLC | Delaware |
| Integra LifeSciences Corporation | Delaware |
| Integra LifeSciences (France) LLC | Delaware |
| Integra LifeSciences Holdings SAS | France |
| Integra LifeSciences Investment Corporation | Delaware |
| Integra LifeSciences (Ireland), LTD | Ireland |
| Integra ME GmbH | Germany |
| Integra NeuroSciences Holdings BV | Netherlands |
| Integra NeuroSciences Holdings (France) SA | France |
| Integra NeuroSciences Holdings Ltd. | United Kingdom |
| Integra NeuroSciences Implants (France) SA | France |
| Integra NeuroSciences(International), Inc. | Delaware |
| Integra NeuroSciences (IP), Inc. | Delaware |
| Integra NeuroSciences Ltd. | United Kingdom |
| Integra NeuroSciences PR, Inc. | Delaware |
| Integra Ohio, Inc. | Delaware |
| Integra Selector Corporation | Delaware |
| Integra Signature Technologies, Inc. | Delaware |
| J. Jamner Surgical Instruments, Inc. | Delaware |
| Jarit Instruments Inc. & Co. KG | Germany |
| Jarit Instruments, Inc. | Delaware |
| ND Service NV | Belgium |
| Newdeal, Inc. | Texas |
| Newdeal SAS | France |
| Newdeal Technologies SAS | France |
| NMT NeuroSciences Gmbh | Germany |
| Spembly Cryosurgery Ltd. | United Kingdom |
| Spembly Medical Ltd. | United Kingdom |
| Spinal Specialties, Inc. | Delaware |
| Surfix Technologies SAS | France |

EXHIBIT 23

# CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (File Nos. 333-46024, 333-82233, 333-58235, 333-06577, 333-73512 and 333-109042) and Form S-3 (File No. 333-106625) of Integra LifeSciences Holdings Corporation and Subsidiaries of our report dated March 15, 2005 relating to the consolidated financial statements, financial statement schedule, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in this Annual Report on Form 10-K.

/s/ PricewaterhouseCoopers LLP

Florham Park, New Jersey
March 16, 2005

EXHIBIT 31.1

Certification of Principal Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Stuart M. Essig, certify that:

1. I have reviewed this annual report on Form 10-K of Integra LifeSciences Holdings 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) 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

   (d) 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 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 16, 2005

/s/ Stuart M. Essig

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Stuart M. Essig
Chief Executive Officer

EXHIBIT 31.2

Certification of Principal Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, David B. Holtz, certify that:

1. I have reviewed this annual report on Form 10-K of Integra LifeSciences Holdings 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) 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

   (d) 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 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 16, 2005

/s/ David B. Holtz

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David B. Holtz
Senior Vice President, Finance and
Treasurer

EXHIBIT 32.1

Certification of Chief Executive Officer
Pursuant to Section 906 of the
Sarbanes-Oxley Act of 2002

I, Stuart M. Essig, Chief Executive Officer and Director of Integra LifeSciences Holdings Corporation (the "Company"), hereby certify that, to my knowledge:

1. The Annual Report on Form 10-K of the Company for the year ended December 31, 2004 (the "Report") fully complies with the requirement of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; 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 16, 2005

By: /s/ Stuart M. Essig
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Stuart M. Essig
Chief Executive Officer

EXHIBIT 32.2

Certification of Chief Financial Officer
Pursuant to Section 906 of the
Sarbanes-Oxley Act of 2002

I, David B. Holtz, Senior Vice President, Finance and Treasurer of Integra LifeSciences Holdings Corporation (the "Company"), hereby certify that, to my knowledge:

1. The Annual Report on Form 10-K of the Company for the year ended December 31, 2004 (the "Report") fully complies with the requirement of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; 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 16, 2005

By: /s/ David B. Holtz
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David B. Holtz
Senior Vice President, Finance
and Treasurer