SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2002

Commission file number 0-26224

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

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

311 Enterprise Drive
Plainsboro, New Jersey 08536
(Address of principal executive offices) (Zip code)

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

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

As of August 9, 2002 the registrant had outstanding 26,998,369 shares of Common Stock, par value $.01 per share.

INTEGRA LIFESCIENCES HOLDINGS CORPORATION
INDEX

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

In thousands, except per share amounts

June 30, December 31, 2002 2001 ------------ -----
------- ASSETS Current Assets: Cash and cash
equivalents .... $
51,195 $ 44,518 Short-term investments
.... 50,512 22,183
Accounts receivable, net of allowances of $303 and
$964 ....
15,642 14,024 Inventories
....
25,025 24,329 Prepaid expenses and other current
assets .... 2,708 2,898 ------------
------ Total current assets
.... 145,082 107,952
Noncurrent investments
.... 37,613 64,335
Property, plant, and equipment, net
.... 11,273 11,662 Deferred
income taxes, net ....
6,459 10,243 Identifiable intangible assets, net
.... 15,247 16,898 Goodwill
....
16,502 14,627 Other assets
....
2,214 1,871 ------------ Total assets
.... $
234,390 $ 227,588 ========= =========
LIABILITIES AND STOCKHOLDERS' EQUITY Current
Liabilities: Short-term debt
.... $ -- $
3,576 Accounts payable, trade
.... 2,989 2,924
Income taxes payable
.... 1,703 1,481
Customer advances and deposits
.... 4,062 4,843 Deferred
revenue ....
929 772 Accrued expenses and other current
liabilities .... 5,441 5,550 ------------
----- Total current liabilities
.... 15,124 19,146 Deferred
revenue ....
3,602 3,949 Other liabilities
.... 516 437
---------- Total liabilities
.... 19,242
23,532
Commitments and contingencies Stockholders'
Equity: Preferred stock; $0.01 par value; 15,000
authorized shares; 0 and 54 Series C Convertible
shares issued and outstanding at June 30, 2002 and
December 31, 2001, respectively
.... 1 Common
stock; $0.01 par value; 60,000 authorized shares;
26,984 and 26,129 issued and outstanding at June
30, 2002 and December 31, 2001, respectively
.... 269 261 Additional paid-in capital
.... 285,549 284,021
Treasury stock, at cost; 6 shares at June 30, 2002
and December 31, 2001, respectively
.... (51) (51) Other
....
(24) (37) Accumulated other comprehensive income
(loss) .... 665 (539) Accumulated deficit
.... (71,260)

~~(79,600) Total stockholders' equity .... 215,148 204,056 Total liabilities and stockholders' equity .... $ 234,390 $ 227,588 ========= ========= The accompanying notes are an integral part of the consolidated financial statements~~

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

(In thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
REVENUES				
Product sales	$24,703	$21,385	$49,133	$41,669
Other revenue	1,738	1,535	3,224	2,935
Total revenues	26,441	22,920	52,357	44,604
COSTS AND EXPENSES				
Cost of product sales	9,465	8,310	18,993	16,904
Research and development	2,073	1,837	3,895	3,910
Selling and marketing	5,928	5,269	11,600	10,020
General and administrative	3,121	3,319	6,340	6,523
Amortization	364	729	714	1,409
Total costs and expenses	20,951	19,464	41,542	38,766
Operating income	5,490	3,456	10,815	5,838
Interest income (expense), net ...	993	(114)	1,986	(192)
Other income (expense), net	55	(151)	32	(213)
Income before income taxes	6,538	3,191	12,833	5,433
Income tax expense	2,289	429	4,493	675
Net income.......................	$ 4,249	$ 2,762	$ 8,340	$ 4,758
Basic net income per share	$ 0.15	$ 0.12	$ 0.28	$ 0.20
Diluted net income per share	$ 0.14	$ 0.10	$ 0.27	$ 0.18
Weighted average common shares outstanding:				
Basic	29,080	20,245	28,770	19,931
Diluted	30,849	25,049	30,783	22,211

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

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

(In thousands)

	Six Months Ended June 30, 2002	Six Months Ended June 30, 2001
OPERATING ACTIVITIES:		
Net income	$ 8,340	$ 4,758
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,338	2,855
Deferred tax provision	3,640	--
Amortization of discount and premium on investments	882	--
Other, net	30	82
Changes in assets and liabilities, net of business acquisitions:		
Accounts receivable	(1,476)	(1,492)
Inventories	(670)	(5,406)
Prepaid expenses and other current assets	105	605
Non-current assets	(139)	642
Accounts payable, accrued expenses and other liabilities	218	520
Customer advances and deposits	(781)	1,535
Deferred revenue	(191)	(1,115)
Net cash provided by operating activities	12,296	2,984
INVESTING ACTIVITIES:		
Proceeds from sale/maturity of investments	11,157	1,000
Purchases of available-for-sale investments	(13,549)	(2,891)
Cash used in business acquisition, net of cash acquired	(67)	(5,899)
Purchases of property and equipment	(1,103)	(1,168)
Net cash used in investing activities	(3,562)	(8,958)
FINANCING ACTIVITIES:		
Net proceeds from revolving credit facility	--	747
Repayment of term loan	--	(3,203)
Repayment of note payable	(3,600)	(1,540)
Proceeds from exercised stock options and warrants	1,480	4,533
Net cash (used in) provided by financing activities	(2,120)	537
Effect of exchange rate changes on cash and cash equivalents	63	(47)
Net increase (decrease) in cash and cash equivalents	6,677	(5,484)
Cash and cash equivalents at beginning of period	44,518	14,086
Cash and cash equivalents at end of period	$ 51,195	$ 8,602
Non cash investing activities:		
Business acquisition costs accrued in liabilities	$ --	$ 716

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

1. BASIS OF PRESENTATION

General

In the opinion of management, the June 30 unaudited consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the financial position, results of operations and cash flows of the Company. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. These unaudited consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2001 included in the Company's Annual Report on Form 10-K. Operating results for the three-month and six month periods ended June 30, 2002 are not necessarily indicative of the results to be expected for the entire year.

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the disclosure of contingent liabilities, and the reported amounts of revenues and expenses. Significant estimates affecting amounts reported or disclosed in the consolidated financial statements include allowances for doubtful accounts receivable and sales returns, net realizable value of inventories, estimates of future cash flows associated with long-lived asset valuations, depreciation and amortization periods for long-lived assets, valuation allowances recorded against deferred tax assets, loss contingencies, and estimates of costs to complete performance obligations associated with research, licensing, and distribution arrangements for which revenue is accounted for using percentage of completion accounting. 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.

The Company has reclassified certain prior year amounts to conform with the current year's presentation.

Recently Issued Accounting Standards

On July 31, 2002, the Financial Accounting Standard Board (FASB) issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (Statement 146). Statement 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Statement 146 nullifies Emerging Issues Task Force Issue 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)", which required that a liability for an exit cost be recognized at the date of an entity's commitment to an exit plan. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002. The Company is currently assessing the impact that Statement 146 will have on its financial statements.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (Statement 144). Statement 144 supercedes Statement of Financial Accounting Standards No 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of". Statement 144 applies to all long-lived assets, including discontinued operations, and consequently amends Accounting Principles Board Opinion No. 30, "Reporting Results of Operations-- Reporting the Effects of Disposal of a Segment of a Business". The Company adopted Statement 144 on January 1, 2002. The adoption of Statement 144 had no impact on the Company's financial statements.

1. BASIS OF PRESENTATION (continued)

Recently Issued Accounting Standards

In July 2001, the FASB issued Statements of Financial Accounting Standards No. 141, "Business Combinations" (Statement 141), and No.142, "Goodwill and Other Intangible Assets" (Statement 142).

Statement 141 requires that all business combinations initiated after June 30, 2001, be accounted for using the purchase method of accounting and further clarifies the criteria to recognize intangible assets separately from goodwill. The Company determined that its assembled workforce intangible asset does not meet the criteria for recognition as a separate identifiable intangible asset and thus, effective January 1, 2002, reclassified the net book value of its assembled workforce intangible asset into goodwill. Under Statement 142, goodwill and indefinite-lived intangible assets are no longer amortized, but are reviewed for impairment at the reporting unit level annually, or more frequently if impairment indicators arise. Separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives. The Company reassessed the useful lives of its identifiable intangible assets and determined that they continue to be appropriate. As required by Statement 142, the Company amortized through December 31, 2001 all goodwill acquired prior to July 1, 2001. Effective January 1, 2002, the Company ceased amortization of all goodwill. The implementation of Statement 142 is expected to reduce amortization expense by approximately $1.0 million in 2002.

If the non-amortization provisions of Statement 142 had been applied for all of 2001, net income for the three and six months ended June 30, 2001 would have been as follows:

	Three Months Ended June 30, 2001	Six Months Ended June 30, 2001
	(in thousands)	
Net income, as reported	$ 2,762	$ 4,758
Add: Goodwill amortization	218	365
Assembled workforce amortization	36	65
Net income, as adjusted	$ 3,016	$ 5,188
Net income per share, as adjusted		
Basic	$ 0.14	$ 0.22
Diluted	$ 0.12	$ 0.20

The Company completed its initial impairment review for goodwill as of June 30, 2002 and determined that its reporting unit goodwill was not impaired.

2. INVENTORIES

Inventories consisted of the following:

	June 30, 2002	December 31, 2001
	(in thousands)	
Raw materials	$ 7,603	$ 7,559
Work in process	3,862	3,493
Finished goods	13,560	13,277
	$ 25,025	$24,329

3. GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amount of reporting unit goodwill for the six months ended June 30, 2002, were as follows:

	Integra LifeSciences	Integra NeuroSciences	Total
	(in thousands)		
Goodwill, net of accumulated amortization at December 31, 2001	$ 13,815	$ 812	$ 14,627
Reclassification of assembled workforce intangible, net of accumulated amortization	1,245	30	1,275
Foreign currency translation	597	3	600
Goodwill at June 30, 2002	$ 15,657	$ 845	$ 16,502

The components of the Company's

~~identifiable intangible assets were as follows:~~

	June 30, 2002		December 31, 2001	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
	(in thousands)			
~~Technology~~	~~$ 11,565~~	~~$ (1,919)~~	~~$ 11,255~~	~~$ (1,516)~~
~~Customer base~~	~~3,620~~	~~(865)~~	~~3,575~~	~~(674)~~
~~Trademarks~~	~~1,715~~	~~(363)~~	~~1,715~~	~~(305)~~
~~Assembled work force~~	~~--~~	~~--~~	~~1,581~~	~~(306)~~
~~Other~~	~~1,838~~	~~(344)~~	~~1,824~~	~~(251)~~
	~~$ 18,738~~	~~$ (3,491)~~	~~$ 19,950~~	~~$ (3,052)~~
~~Accumulated amortization~~	~~(3,491)~~		~~(3,052)~~	
	~~$ 15,247~~		~~$ 16,898~~	

Before the effects of recent acquisitions (see Note 10), amortization expense is expected to approximate $1.4 million annually in each of the next five years.

4. COMMON AND PREFERRED STOCK

On April 15, 2002, the Company notified the holders of the 54,000 shares of Series C Preferred Stock of its intention to redeem these shares on May 31, 2002 for $6.6 million. On April 16, 2002, all of the holders of the Series C Preferred Stock exercised their right to convert their shares into 600,000 shares of common stock prior to the redemption.

5. INCOME TAXES

Income tax expense was approximately 35% and 12% of income before income taxes for the six months ended June 30, 2002 and 2001, respectively. Income tax expense for the six months ended June 30, 2002 included a deferred income tax provision of $3.6 million, or 28% of income before income taxes. The effective rate for the six months ended June 30, 2001 reflects the utilization of net operating loss carryforwards during the period. In the quarter ended December 31, 2001, the Company reversed a portion of the valuation allowance recorded against the deferred tax assets related to these net operating loss carryforwards.

6. COMPREHENSIVE INCOME

Comprehensive income was as follows:

(In thousands)	Three Months Ended June 30, 2002	2001	Six Months Ended June 30, 2002	2001
Net income	$ 4,249	$ 2,762	$ 8,340	$ 4,758
Foreign currency translation adjustment	1,355	(414)	1,127	(745)
Unrealized gain on investments	526	121	77	107
Comprehensive income	$ 6,130	$ 2,469	$ 9,544	$ 4,120

7. NET INCOME PER SHARE

Basic and diluted net income per share were as follows:

(In thousands, except per share amounts)	Three Months Ended June 30, 2002	2001	Six Months Ended June 30, 2002	2001
Basic net income per share:				
Net income	$ 4,249	$ 2,762	$ 8,340	$ 4,758
Dividends on preferred stock	(24)	(371)	(159)	(756)
Net income available to common stock	$ 4,225	$ 2,391	$ 8,181	$ 4,002
Basic net income per share	$ 0.15	$ 0.12	$ 0.28	$ 0.20
Diluted net income per share:				
Net income	$ 4,249	$ 2,762	$ 8,340	$ 4,758
Dividends on preferred stock	(24)	(135)	(159)	(756)
Net income available to common stock	$ 4,225	$ 2,627	$ 8,181	$ 4,002
Diluted net income per share	$ 0.14	$ 0.10	$ 0.27	$ 0.18
Weighted average shares outstanding:				
Basic	29,080	20,245	28,770	19,931
Effect of dilutive securities: Options and warrants	1,769	2,330	2,013	2,280
Preferred stock	--	2,474	--	--
Diluted	30,849	25,049	30,783	22,211

Prior to its conversion on April 16, 2002, the Series C Preferred Stock (convertible into 600,000 shares of common stock) was not included in the computation of diluted net income per share for the three or six month periods ended June 30, 2002 because its effect would have been antidilutive. Prior to its conversion on June 26, 2001, the Series B Preferred Stock (convertible into 2,617,800 shares of common stock) was not included in the computation of diluted net income per share for the six month period ended June 30, 2001 because its effect would have been antidilutive. Options outstanding at June 30, 2002 to purchase 627,000 shares of common stock were excluded from the computation of diluted net income per share for the three and six month periods ended June 30, 2002 because their exercise price exceeded the average market price of the common stock for the applicable period.

8. DIVISION AND GEOGRAPHIC INFORMATION

Integra's business is divided into two divisions: Integra NeuroSciences(TM) and Integra LifeSciences(TM).

The Integra NeuroSciences division is a leading provider of implants, devices, and systems used in neurosurgery, neurotrauma, and related critical care and a distributor of disposables and supplies used in the diagnosis and monitoring of neurological disorders. The Integra LifeSciences division develops and manufactures a variety of medical products and devices, including products based on the Company's proprietary tissue regeneration technology that are used to treat soft tissue and orthopedic conditions.

Integra NeuroSciences sells primarily through a direct sales force in the United States and Western Europe and through a network of distributors elsewhere throughout the world. For the majority of the products manufactured by the Integra LifeSciences division, the Company has partnered with market leaders for the development and marketing efforts related to these products.

As a result of the acquisitions of NeuroSupplies, Inc. (renamed Integra NeuroSupplies, Inc.) in December 2001, and GMSmbH and Satelec Medical in April 2001, the following division financial results may not be directly comparable.

	Integra NeuroSciences	Integra LifeSciences	Total Reportable Divisions
		(in thousands)	
Three months ended June 30, 2002			
Product sales	$ 20,062	$ 4,641	$ 24,703
Total revenue	20,090	6,351	26,441
Operating expenses	14,818	3,761	18,579
Operating income	5,272	2,590	7,862
Depreciation included in division operating expenses	519	250	769
Three months ended June 30, 2001			
Product sales	$ 17,032	$ 4,353	$ 21,385
Total revenue	17,310	5,610	22,920
Operating expenses	12,799	4,163	16,962
Operating income	4,511	1,447	5,958
Depreciation included in division operating expenses	373	257	630
Six months ended June 30, 2002			
Product sales	$ 39,857	$ 9,276	$ 49,133
Total revenue	39,913	12,444	52,357
Operating expenses	29,424	7,419	36,843
Operating income	10,489	5,025	15,514
Depreciation included in division operating expenses	1,072	497	1,569
Six months			

ended June 30, 2001

Product sales
....
$ 32,818 $ 8,851 $
41,669 Total revenue
....
33,374 11,230 44,604
Operating expenses
....
24,657 8,860 33,517
Operating income
....
8,717 2,370 11,087
Depreciation
included in division
operating expenses
.... 790 555
1,345

8. DIVISION AND GEOGRAPHIC INFORMATION (continued)

A reconciliation of the amounts reported for total reportable divisions to the consolidated financial statements is as follows:
Three Months Ended
Six Months Ended June
30, June 30, --------
---------- ----------
-------- 2002 2001
2002 2001 ------ ----
-- ------ ------ (in
thousands) ~~Operating~~
~~expenses: Total~~
~~reportable divisions~~
~~..............~~
~~$18,579 $16,962~~
~~$36,843 $33,517 Plus:~~
~~Corporate general and~~
~~administrative~~
~~expenses ....~~
~~2,008 1,773 3,985~~
~~3,840 Amortization~~
~~......................~~
~~364 729 714 1,409 ---~~
~~--- ------ ------ ---~~
~~--- Consolidated~~
~~total operating~~
~~expenses ... $20,951~~
~~$19,464 $41,542~~
~~$38,766 Operating~~
~~income: Total~~
~~reportable divisions~~
~~.............. $~~
~~7,862 $ 5,958 $15,514~~
~~$11,087 Less:~~
~~Corporate general and~~
~~administrative~~
~~expenses ....~~
~~2,008 1,773 3,985~~
~~3,840 Amortization~~
~~......................~~
~~364 729 714 1,409 ---~~
~~---------------------~~
~~--- Consolidated~~
~~operating income~~
~~........... $ 5,490 $~~
~~3,456 $10,815 $ 5,838~~
Product sales
consisted of the
following: Three
Months Ended Six
Months Ended June 30,
June 30, ------------
------ -------------
---- 2002 2001 2002
2001 ------ ------ --
---- ------ (in
thousands) Integra

NeuroSciences: Neuro
intensive care unit
...... $ 6,973 $
6,914 $14,214 $13,492
Neuro operating room
.... 10,610
9,056 20,702 17,294
Other NeuroSciences
products ... 2,479
1,062 4,941 2,032 ---
--- ------ ------ ---
--- Total product
sales ....
20,062 17,032 39,857
32,818 Integra
LifeSciences: Tissue
repair products
.... $ 2,333
1,836 4,454 3,626
Other medical devices
.... 2,308
2,517 4,822 5,225 ---
--- ------ ------ ---
--- Total product
sales ....
4,641 4,353 9,276
8,851 Consolidated
product sales
.... $24,703
$21,385 $49,133
$41,669 Product sales
by major geographic
area are summarized
below:
United Asia Other
States Europe Pacific
Foreign Total -------
- -------- -------- -
------- -------- (in
thousands) ~~Three~~
~~months ended June 30,~~
~~2002 ... $ 20,022 $~~
~~2,826 $ 1,103 $ 752 $~~
~~24,703 Three months~~
~~ended June 30, 2001~~
~~... 16,819 2,330~~
~~1,390 846 21,385 Six~~
~~months ended June 30,~~
~~2002 ..... $ 39,305 $~~
~~5,850 $ 2,342 $ 1,636~~
~~$ 49,133 Six months~~
~~ended June 30, 2001~~
~~..... 32,750 4,714~~
~~2,505 1,700 41,669~~

9. 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 "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 to willfully and deliberately 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 the Company 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.

This case went to trial in February 2000. In March, 2000, a jury returned a unanimous verdict for the Company and awarded $15,000,000 in damages, finding that Merck KGaA had willfully infringed and induced the infringement of the Company's patents. The Court dismissed Scripps and Dr. Cheresh from the case.

In October, 2000, the Court entered judgment in the Company's favor and against Merck KGaA in the case. In entering the judgment, the Court also granted the Company pre-judgment interest of approximately $1,350,000, bringing the total award to approximately $16,350,000, 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 Court entered orders in favor of the Company 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 have each appealed various decisions of the Court. We expect the court of appeals to hear arguments in the appeal during late 2002 or early 2003 and to issue its opinion during 2003. Integra has not recorded any gain in connection with this favorable judgment.

The Company is also subject to other claims and lawsuits in the ordinary course of our business, including claims by employees or former employees and with respect to our products. In the opinion of management, such other 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. The Company's financial statements do not reflect any material amounts related to possible unfavorable outcomes of the matters above or others. However, it is possible that the Company's results of operations, financial position and cash flows in a particular period could be materially affected by these contingencies.

10. SUBSEQUENT EVENTS

On July 1, 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 purchase price consisted of $2.8 million in cash paid at closing, and certain other consideration to be paid upon the release of new products to be sold through the Integra NeuroSciences sales force. The acquired product lines generated approximately $3.2 million in sales during the year ended December 31, 2001, primarily from the manufacture of cranial fixation systems for sale under a contract manufacturing agreement that expires in June 2004.

On August 1, 2002, the Company acquired the neurosciences division of NMT Medical, Inc. for $5.4 million in cash. Through this acquisition, the Company added a range of leading differential pressure valves, including the Orbis-Sigma(R), Integra Hakim(R) and horizontal-vertical ("H-V") lumbar valves, and external ventricular drainage products to its neurosurgical product line. The acquired product lines generated sales of approximately $13.9 million during the year ended December 31, 2001. The acquired operations include a facility located in Biot, France that manufactures, packages and distributes shunting, catheter and drainage products, and a distribution facility located in Atlanta, Georgia. The Company expects to consolidate the Atlanta operations into its Cranbury, New Jersey National Distribution Center before the end of 2002.

The Company is currently evaluating the allocation of the purchase price of these acquisitions, including any potential in-process research and development charge associated with acquired intellectual property or undeveloped technology.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes thereto appearing elsewhere in this report and in our 2001 Annual Report on Form 10-K filed with the Securities and Exchange Commission. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. The 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 "Risk Factors" contained in our 2001 Annual Report on Form 10-K.

General

Integra is a global, diversified medical device company that develops, manufactures, and markets medical devices, implants and biomaterials primarily for use in neurosurgery, orthopedics and soft tissue repair. Our business is divided into two divisions: Integra NeuroSciences(TM) and Integra LifeSciences(TM).

Our Integra NeuroSciences division is a leading provider of implants, devices, and systems used in neurosurgery, neurotrauma, and related critical care and a distributor of disposables and supplies used in the diagnosis and monitoring of neurological disorders. Integra NeuroSciences sells primarily through a direct sales force of more than 90 people in the United States, the United Kingdom, Germany, France and Belgium.

Our Integra LifeSciences division develops and manufactures a variety of medical products and devices, including products based on our proprietary tissue regeneration technology that are used to treat soft tissue and orthopedic conditions. For the majority of the products manufactured by our Integra LifeSciences division, we have partnered with market leaders for the development and marketing efforts related to these products. Many of these products address large, diverse markets, and we believe that they can be promoted more cost-effectively through leveraging marketing partners than through developing our own sales infrastructure. We have strategic alliances with Ethicon, a division of Johnson & Johnson, Wyeth, Medtronic, and Centerpulse.

Acquisitions

As a result of the acquisitions of NeuroSupplies, Inc. (renamed Integra NeuroSupplies, Inc.) in December 2001, and GMSmbH and Satelec Medical in April 2001, our division financial results for the three and six month periods ended June 30, 2002 and 2001 may not be directly comparable. Reported product sales for the three and six month periods ended June 30, 2002 and 2001 included the following amounts in sales of acquired product lines:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2002	2001	2002	2001
Integra NeuroSciences Products acquired in 2001(1)	$ 2,093	$ 451	$ 4,095	$ 451
All other product sales	17,969	16,581	35,762	32,367
Total Integra NeuroSciences product sales	20,062	17,032	39,857	32,818
Integra LifeSciences Products acquired in 2001	$ --	$ --	$ --	$ --
All other product				

~~sales ....~~
~~4,641 4,353 9,276 8,851~~
~~Total Integra LifeSciences product sales ..... 4,641 4,353 9,276 8,851~~
~~Consolidated product sales ....~~
~~$24,703 $21,385 $49,133 $41,669~~

(1) Excludes sales of the LICOX(R) product in those territories where Integra NeuroSciences had exclusive distribution rights to the product prior to our acquisition of GMSmbH.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

Future divisional financial results are also expected to be impacted by the following acquisitions, which we completed subsequent to June 30, 2002:

|X| On July 1, 2002, we acquired the assets of Signature Technologies, Inc. (renamed Integra 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 $2.8 million in cash paid at closing, and certain other consideration to be paid upon the release of new products to be sold through our Integra NeuroSciences sales force. The acquired product lines generated approximately $3.2 million in sales during the year ended December 31, 2001, primarily from the manufacture of cranial fixation systems for sale under a contract manufacturing agreement that expires in June 2004. We expect that ongoing sales from existing relationships will be approximately $2.5 million per year. Sales of Integra Signature products to contract manufacturing partners will be included in the Integra LifeSciences division.

|X| On August 1, 2002, we acquired the neurosciences division of NMT Medical, Inc.("NMT Neurosciences")for $5.4 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 ("H-V") lumbar valves, and external ventricular drainage products to our neurosurgical product line. Although the acquired product lines generated sales of approximately $13.9 million during the year ended December 31, 2001, we estimate that the net effect of this acquisition and our planned elimination of redundant or under performing product lines (including products already sold by us prior to the acquisition of NMT Neurosciences) will be to increase our product sales by approximately $2.5 million per quarter through the end of 2003. Sales of NMT Neurosciences products will be included in the Integra NeuroSciences division.

The Company is currently evaluating the allocation of the purchase price of these acquisitions, including any potential in-process research and development charge associated with acquired intellectual property or undeveloped technology.

Results of Operations

Second Quarter Ended June 30, 2002 Compared to Second Quarter Ended June 30, 2001

For the second quarter ended June 30, 2002, total revenues increased 15% over the quarter ended June 30, 2001 to $26.4 million, led by a 16% increase in product sales to $24.7 million. Domestic product sales increased $3.2 million in the second quarter of 2002 to $20.0 million, or 81% of product sales, as compared to 79% of product sales in the second quarter ended June 30, 2001. The Integra NeuroSciences division, which reported a $2.8 million increase in total revenues to $20.1 million, a 16% increase over the prior year quarter, led growth in total revenues and product sales for the second quarter of 2002. The Integra LifeSciences division reported a $0.7 million increase in total revenues to $6.3 million, a 13% increase over the second quarter of 2001.

Net income for the second quarter of 2002 was $4.2 million, or $0.14 per share, as compared to net income of $2.8 million, or $0.10 per share, reported in the prior year quarter. In addition to the increase in revenues, results for the second quarter of 2002 benefited from a one percentage point improvement in consolidated gross margin on product sales to 62%, which is three percentage points better than the 59% reported for the full year 2001. The improvement in gross margins in the second quarter of 2002 reflects a greater proportion of sales of higher margin products compared to the second quarter of 2001 and increased direct sales in Europe. The increase in the proportion of higher margin product sales was attributable both to increases in sales of the DuraGen(R) Dural Graft Matrix and other single-use products and decreases in sales of certain lower-margin capital equipment products.

We expect gross margins for the remainder of 2002 to be adversely affected by the planned rationalization of our product lines and by inventory fair market value adjustments to be recorded in connection with our recent acquisitions of Integra Signature Technologies and NMT Neurosciences. After giving effect to these items and the lower gross margins associated with the recently acquired product lines, we expect consolidated gross margins to approximate 60% for the remainder of 2002 and 62% for the full year 2003 based on a continued improvement in product and geographic sales mix.

An increase in our effective tax rate from 13% in the second quarter of 2001 to a 35% rate recorded in 2002 offset the improved gross margin results in the second quarter of 2002. The effective rate for the second quarter of 2001 reflects the utilization of our net operating loss carryforwards during the period. In the fourth quarter ended December 31, 2001, we reversed a portion of the valuation allowance recorded against the deferred tax assets related to these net operating loss carryforwards, which is expected to result in an ongoing effective tax rate of 35%. We expect our actual cash tax rate to be in the 6% to 8% range in 2002. Had our effective tax rate been 35% in 2001, reported earnings would have been $0.08 per share in the second quarter of 2001.

The following discussion of divisional financial results excludes corporate general and administrative expenses and amortization of intangible assets, which are not included in the measurement of divisional operating results.

INTEGRA NEUROSCIENCES DIVISION

	Quarter Ended June 30, 2002	2001
	(in thousands)	
Product sales:		
Neuro intensive care unit	$ 6,973	$ 6,914
Neuro operating room	10,610	9,056
Other NeuroSciences products	2,479	1,062
Total product sales	20,062	17,032
Other revenue	28	278
Total revenue	20,090	17,310
Cost of product sales	7,194	6,078
Gross margin as a percentage of product sales ...	64%	64%
Research and development expenses	943	712
Sales and marketing expenses	5,740	4,845
General and administrative expenses	941	1,164
Operating income	$ 5,272	$ 4,511

Product sales in the Integra NeuroSciences division increased $3.0 million in the second quarter of 2002 to $20.1 million, an 18% increase over the prior year quarter. This increase included $1.4 million in sales of products acquired since the end of the second quarter of 2001. This growth has been generated through acquisitions, new product launches, and increased direct sales and marketing efforts, both domestically and in Europe.

Sales of neuro intensive care unit products increased $0.1 million to $7.0 million in the second quarter of 2002 and neuro operating room product sales increased $1.5 million to $10.6 million, led by increased sales of our DuraGen(R) Dural Graft Matrix product. The $1.4 million increase in other NeuroSciences products to $2.5 million was related to acquired product lines. The $0.3 million decrease in other revenues was the result of decreased royalty revenues from an agreement that expired.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

We expect our recent increase in the domestic sales force to 63 territories, the continued implementation of our direct sales strategy in Europe and sales of products which have been recently launched or acquired to drive future revenue

~~growth in the Integra NeuroSciences division.~~

~~Gross margin on product sales for the Integra NeuroSciences division was consistent at 64% of product sales in both the second quarter of 2002 and 2001. The effects of an increase in the proportion of higher margin product sales and increased direct sales in Europe in the second quarter of 2002 compared to the second quarter of 2001 was offset by lower gross margins from our Integra NeuroSupplies business. Gross margin on product sales is expected to decrease approximately one percentage point for the remainder of 2002 as a result of the acquisition of NMT Neurosciences.~~

~~The $0.2 million increase in research and development expenses in the second quarter of 2002 was primarily related to the development of a new collagen hemostatic device for use in neurosurgical procedures. Sales and marketing spending in the second quarter of 2002 increased $0.9 million as a result of the continued expansion in the domestic and international sales force. Sales and marketing expenses remained consistent at approximately 28.5% of product sales in both the second quarter of 2002 and 2001. The $0.2 million decrease in general and administrative expenses was primarily related to a $0.2 million favorable adjustment to the allowance for doubtful accounts recorded in the second quarter of 2002, as compared to a $0.2 million increase in the allowance for doubtful accounts recorded in the second quarter of 2001. We reduced the allowance for doubtful accounts in 2002 because of a substantial improvement in collection efforts. Offsetting this benefit was approximately $0.1 million of general and administrative costs related to the acquired Integra NeuroSupplies business and higher personnel costs related to increased headcount.~~

~~The NMT Neurosciences operations acquired in August 2002 include a facility located in Biot, France that manufactures, packages and distributes shunting, catheter and drainage products, and a distribution facility located in Atlanta, Georgia. The Biot plant is expected to become an important part of Integra's continental European distribution activities. Accordingly, operating expenses in the Integra NeuroSciences division are expected to increase in the future from the acquired Biot operations. Additionally, sales and marketing costs through the remainder of 2002 are expected to include incremental and redundant distribution costs that will be incurred until the Atlanta operations are integrated into Integra's existing operations.~~

~~We may achieve future financial and operating synergies by increasing capacity utilization at the Biot, France facility, which is currently operating at less than 50% capacity, and by leveraging sales of existing Integra NeuroSciences products through the customer base of the acquired business, especially in France and Germany.~~

~~The five direct European sales representatives from the acquired NMT Neurosciences business are expected to join our direct sales team. In international markets where both Integra and the acquired NMT business sell through distributors, we will evaluate the competing distributors with the goal of improving sales and profitability of the affected products.~~

~~Research and development expenses are also expected to increase through the end of 2002 and into the beginning of 2003 as a result of projected costs to develop our own line of metal implants based on the intellectual property acquired from Signature Technologies.~~

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

INTEGRA LIFESCIENCES DIVISION

Quarter Ended June 30,	2002	2001
	(in thousands)	
Product sales:		
Tissue repair products	$ 2,333	$ 1,836
Other medical devices	2,308	2,517
Total product sales	4,641	4,353
Other revenue	1,710	1,257
Total revenue	6,351	5,610
Cost of product sales	2,271	2,232
Gross margin as a percentage of product sales ...	51%	49%
Research and development expenses	1,130	1,125
Sales and marketing expenses	188	424
General and administrative expenses	172	382
Operating income	$ 2,590	$ 1,447

Product sales in the Integra LifeSciences division increased $0.3 million in the second quarter of 2002 to $4.6 million, a 7% increase over the prior year quarter. This growth was generated primarily by a $0.5 million increase in sales of tissue repair products, or 27% growth over the prior year quarter, offset by a $0.2 million decline in sales of other medical devices. The increase in sales of tissue repair products was primarily related to increased sales to Wyeth of our Absorbable Collagen Sponges that are used as a component in Medtronic's INFUSE(TM) Bone Graft product for the treatment of certain types of spinal degenerative disc disease, which received FDA approval in July 2002.

Future sales growth in the Integra LifeSciences division is expected to be led by increased sales of Absorbable Collagen Sponges and the INTEGRA(R) Dermal Regeneration Template and from sales of the Signature Technologies product lines acquired in July 2002. In April 2002, the FDA approved our pre-market approval application supplement to market INTEGRA(R) Dermal Regeneration Template for the repair of scar contractures, the first indication in the United States for the device outside of the treatment of severe burns.

Gross margin on product sales in the Integra LifeSciences division increased two percentage points to 51% in the second quarter primarily as a result of increased sales of higher margin products. Gross margin on product sales is expected to decrease approximately one percentage point for the remainder of 2002 and approximately one and one half percentage points in 2003 as a result of the acquisition of Signature Technologies.

Other revenue consists of i) research and development funding from strategic partners and government grants, ii) license, distribution, and other event-related revenues from strategic partners and other third parties, and iii) product royalty income. The $0.4 million increase in other revenue in the second quarter of 2002 was primarily related to a $0.5 million event payment from Johnson & Johnson for the achievement of a clinical and regulatory objective for INTEGRA(R) Dermal Regeneration Template related to the expanded indications for the product that we received during the quarter. This is the second event payment received this year.

Sales and marketing expenses decreased $0.2 million in the second quarter of 2002 primarily due to the termination of distributors who had been paid commissions during the prior year period. Sales and marketing activities in the Integra LifeSciences division are primarily the responsibility of our strategic marketing partners and distributors.

CORPORATE EXPENSES AND AMORTIZATION

Quarter Ended June 30,	2002	2001
	(in thousands)	
Total divisional operating costs and expenses	$ 18,579	$ 16,962
Corporate general and administrative expenses	2,008	1,773
Amortization	364	729
Consolidated total operating expenses	$ 20,951	$ 19,464

Corporate general and administrative expenses increased $0.2 million in the second quarter of 2002 primarily as a result of spending on the appeal of the judgment in our favor in the litigation with Merck KGaA, and increases in the cost of premiums for our various insurance policies. Amortization expense decreased $0.3 million in the second quarter of 2002 to $0.4 million as a result of the full implementation of Statement of Financial Accounting Standard No 142 in January 2002. The reduction in goodwill amortization related to the implementation of Statement 142 had a favorable impact on earnings of approximately $0.01 per share in the second quarter of 2002.

We reported operating EBITDA, representing operating earnings before depreciation and amortization, of $6.7 million in the second quarter of 2002, as compared to $4.9 million in the prior year quarter.

NON OPERATING INCOME AND EXPENSES

We raised $113.4 million in a follow on public offering of 4.7 million shares of common stock in August 2001 and subsequently used $9.3 million to repay all outstanding indebtedness. Accordingly, net interest income increased $1.1 million in the second quarter of 2002 to $1.0 million.

INCOME TAXES

Income tax expense was approximately 35% and 13% of income before income taxes for the second quarter of 2002 and 2001, respectively. Income tax expense for the second quarter of 2002 included a deferred income tax provision of $1.8 million, or 29% of income before income taxes.

We are currently assessing the impact, if any, that the recent acquisitions will have on our effective and actual cash tax rates.

Six Month Period Ended June 30, 2002 Compared to Six Month Period Ended June 30, 2001

For the six month period ended June 30, 2002, total revenues increased 17% over the six month period ended June 30, 2001 to $52.4 million, led by an 18% increase in product sales to $49.1 million. Domestic product sales increased $6.6 million in the six month period ended June 30, 2002 to $39.3 million, or 80% of product sales, as compared to 79% of product sales in the prior year period. The Integra NeuroSciences division, which reported a $6.5 million increase in total revenues to $39.9 million in the six month period ended June 30, 2002, a 20% increase over the prior year period, led growth in total revenues and product sales in 2002. The Integra LifeSciences division reported a $1.2 million increase in total revenues to $12.5 million, an 11% increase over the prior year period.

Net income for the six month period ended June 30, 2002 was $8.3 million, or $0.27 per share, as compared to net income of $4.8 million, or $0.18 per share, reported in the prior year period. In addition to the increase in revenues, results for the six month period ended June 30, 2002 benefited from a two percentage point improvement in consolidated gross margin on product sales to 61%. The improvement in gross margins reflects a greater proportion of sales of higher margin products in 2002, increased direct

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

sales in Europe, and an increase in capacity utilization, offset by lower gross margins from our Integra NeuroSupplies business.

Offsetting the improved gross margin results in 2002 was an increase in our effective tax rate from 12% in the six month period ended June 30, 2001 to a 35%

~~rate recorded in the six month period ended June 30, 2002. Had our effective tax rate been 35% in 2001, reported earnings would have been $0.12 per share in the six month period ended June 30, 2001.~~

~~The following discussion of divisional financial results excludes corporate general and administrative expenses and amortization of intangible assets, which are not included in the measurement of divisional operating results.~~

~~INTEGRA NEUROSCIENCES DIVISION~~

	~~Six Month Period Ended June 30, 2002~~	~~2001~~
	~~(in thousands)~~	
~~Product sales:~~		
~~- Neuro intensive care unit~~	~~$ 14,214~~	~~$ 13,492~~
~~- Neuro operating room~~	~~20,702~~	~~17,294~~
~~- Other NeuroSciences products~~	~~4,941~~	~~2,032~~
~~Total product sales~~	~~39,857~~	~~32,818~~
~~Other revenue~~	~~56~~	~~556~~
~~Total revenue~~	~~39,913~~	~~33,374~~
~~Cost of product sales~~	~~14,422~~	~~12,126~~
~~Gross margin as a percentage of product sales~~	~~64%~~	~~63%~~
~~Research and development expenses~~	~~1,826~~	~~1,400~~
~~Sales and marketing expenses~~	~~11,223~~	~~9,155~~
~~General and administrative expenses~~	~~1,953~~	~~1,976~~
~~Operating income~~	~~$ 10,489~~	~~$ 8,717~~

~~Product sales in the Integra NeuroSciences division increased $7.0 million in the six month period ended June 30, 2002 to $39.9 million, a 21% increase over the prior year period. Sales in the six month periods ended June 30, 2002 and 2001 included $4.1 million and $0.5 million, respectively, in sales of products acquired in 2001.~~

~~Sales of neuro intensive care unit products increased $0.7 million to $14.2 million in the six month period ended June 30, 2002. Neuro intensive care unit sales in the six month periods ended June 30, 2002 and 2001 included $0.5 million and $0.2 million, respectively, in sales of products acquired in 2001. Neuro operating room product sales increased $3.4 million to $20.7 million, led by increased sales of our DuraGen(R) Dural Graft Matrix product. Neuro operating room sales in the six month periods ended June 30, 2002 and 2001 included $0.8 million and $0.3 million, respectively, in sales of products acquired in 2001. The $2.9 million increase in other NeuroSciences products to $4.9 million was primarily related to $2.8 million in sales of acquired products. The $0.5 million decrease in other revenues was the result of decreased royalty revenues from an agreement that expired.~~

~~The $0.4 million increase in research and development expenses in the six month period ended June 30, 2002 was primarily related to the development of a new collagen hemostatic device for use in neurosurgical procedures. Sales and marketing spending in the six month period ended June 30, 2002 increased $2.1 million as a result of the continued expansion in the domestic and international sales force. General and administrative expenses remained relatively consistent at $2.0 million in the six month periods ended June 30, 2002 and 2001. The benefit of a $0.2 million favorable adjustment to the allowance for doubtful accounts recorded in the six month period ended June 30, 2002, as compared to a $0.2 million increase in the allowance for doubtful accounts recorded in the six month period ended June 30, 2001, was offset by an increase in general and administrative costs related to acquisitions and higher personnel costs resulting from increased headcount.~~

~~INTEGRA LIFESCIENCES DIVISION~~

~~Six Month Period Ended June 30, (in thousands)~~	~~2002~~	~~2001~~
~~Product sales:~~		
~~Tissue repair products~~	~~$ 4,454~~	~~$ 3,626~~
~~Other medical devices~~	~~4,822~~	~~5,225~~
~~Total product sales~~	~~9,276~~	~~8,851~~
~~Other revenue~~	~~3,168~~	~~2,379~~
~~Total revenue~~	~~12,444~~	~~11,230~~
~~Cost of product sales~~	~~4,571~~	~~4,778~~
~~Gross margin as a percentage of product sales~~	~~51%~~	~~46%~~
~~Research and development expenses~~	~~2,069~~	~~2,510~~
~~Sales and marketing expenses~~	~~377~~	~~865~~
~~General and administrative expenses~~	~~402~~	~~707~~
~~Operating income~~	~~$ 5,025~~	~~$ 2,370~~

~~Product sales in the Integra LifeSciences division increased $0.4 million in the six month period ended June 30, 2002 to $9.3 million, a 5% increase over the prior year period. This growth was generated primarily by a $0.8 million increase in sales of tissue repair products, or 23% growth over the prior year period, offset by a $0.4 million decline in sales of other medical devices. The increase in sales of tissue repair products was primarily related to increased sales to Wyeth of our Absorbable Collagen Sponges. The decrease in sales of other medical devices was primarily related to reduced orders for the VitaCuff(R) infection control product from one of our OEM customers in the first quarter of 2002.~~

~~Gross margin on product sales in the LifeSciences division increased five percentage points to 51% in the six month period ended June 30, 2002 primarily as a result of increased sales of higher margin orthopedic products and increased capacity utilization.~~

~~The $0.8 million increase in other revenue in the six month period ended June 30, 2002 was primarily related to the $1.0 million in event payments received from Johnson & Johnson, offset by a decrease in grant revenue.~~

~~The decrease in research and development expenses in the six month period ended June 30, 2002 was primarily related to the completion of a grant program in the first quarter of 2001, and is consistent with the decrease in grant revenue. Sales and marketing activities decreased $0.5 million in the six month period ended June 30, 2002 primarily due to the termination of distributors who had been paid commissions during the prior year period.~~

~~ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)~~

~~CORPORATE EXPENSES AND AMORTIZATION~~

	~~Six Month Period Ended June 30, 2002~~	~~2001~~
	~~(in thousands)~~	
~~Total divisional operating costs and expenses ....~~	~~$ 36,843~~	~~$ 33,517~~
~~Corporate general and administrative expenses ....~~	~~3,985~~	~~3,840~~
~~Amortization ....~~	~~714~~	~~1,409~~
~~Consolidated total operating expenses ....~~	~~$ 41,542~~	~~$ 38,766~~

~~Amortization expense decreased $0.7 million in the six month period ended June 30, 2002 to $0.7 million as a result of the full implementation of Statement of Financial Accounting Standard No 142 in January 2002. The reduction in goodwill amortization related to the implementation of Statement 142 had a favorable impact on earnings of approximately $0.02 per share in the six month period ended June 30, 2002.~~

~~We reported operating EBITDA of $13.2 million in the six month period ended June 30, 2002, as compared to $8.7 million in the prior year period.~~

~~NON OPERATING INCOME AND EXPENSES~~

~~Net interest income increased $2.2 million in the six month period ended June 30, 2002 to $2.0 million primarily as a result of the $113.4 million raised in the August 2001 follow on public offering and the subsequent repayment of all outstanding indebtedness.~~

~~INCOME TAXES~~

~~Income tax expense was approximately 35% and 12% of income before income taxes for the six month periods ended June 30, 2002 and 2001, respectively. Income tax expense for the six month period ended June 30, 2002 included a deferred income tax provision of $3.6 million, or 28% of income before income taxes.~~

~~International Product Sales and Operations~~

~~Product sales by major geographic area are summarized below:~~

	~~United States~~	~~Europe~~	~~Asia Pacific~~	~~Other Foreign~~	~~Total~~
	~~(in thousands)~~				
~~Six months ended June 30, 2002 .....~~	~~$ 39,305~~	~~$ 5,850~~	~~$ 2,342~~	~~$ 1,636~~	~~$ 49,133~~
~~Six months ended June 30, 2001 .....~~	~~32,750~~	~~4,714~~	~~2,505~~	~~1,700~~	~~41,669~~

~~In the six month period ended June 30, 2002, sales to customers outside the United States totaled $9.8 million, or 20% of consolidated product sales, of~~

~~which approximately 60% were to European customers. Of this amount, $5.2 million of these sales were generated in foreign currencies from our foreign based subsidiaries in the United Kingdom, Germany and France. In the six month period ended June 30, 2001, sales to customers outside the United States totaled $8.9 million, or 21% of consolidated product sales, of which approximately 53% were to European customers. Of this amount, $3.0 million of these sales were generated in foreign currencies from our subsidiaries.~~

Our international sales and operations are subject to the risk of foreign currency fluctuations, both in terms of exchange risk related to transactions conducted in foreign currencies and the price of our products in those markets for which sales are denominated in the U.S. dollar. We expect that our recent establishment of a direct sales and marketing infrastructure in the United Kingdom, Germany, France and Belgium, the recent transfer of certain distributor accounts to our European operations, and the recent acquisition of the NMT Neurosciences business will cause our sales generated in countries outside the United States and sales denominated in foreign currencies, particularly the Euro and the British pound, to increase as a percentage of total sales in the future. Approximately 55% of sales of the acquired NMT Neurosciences products were generated outside the United States during the year ended December 31, 2001.

We do not currently use any financial instruments to hedge foreign currency fluctuations.

Liquidity and Capital Resources

Historically, we have funded our operations primarily through private and public offerings of equity securities, product revenues, research and collaboration funding, borrowings under a revolving credit line and cash acquired in connection with business acquisitions and dispositions. Since 1999, we have substantially reduced our net use of cash from operations and, in 2001, we generated positive operating cash flows on an annual basis for the first time. For the six month period ended June 30, 2002, we generated $12.3 million in cash flows from operations.

Our principal uses of funds during the six month period ended June 30, 2002 were $3.6 million for the repayment of debt and $1.1 million for purchases of property and equipment. Principal sources of funds were approximately $12.3 million in operating cash flows and $1.5 million from the issuance of common stock through the exercise of stock options.

At June 30, 2002, we had cash, cash equivalents and current and non current investments totaling approximately $139.3 million and no outstanding debt. In July and August 2002, we used approximately $8.2 million of cash for business acquisitions.

Investments consist almost entirely of highly liquid, interest bearing debt securities. Given our objective to grow by acquisition and alliances, our financial position and future financial results could change significantly if we were to use a significant portion of our liquid assets to complete a business acquisition.

In February 2002, our Board of Directors reauthorized our share repurchase program. Under the program, we may repurchase up to 500,000 shares of our common stock for an aggregate purchase price not to exceed $15 million. Shares may be repurchased under this program through December 31, 2002 either in the open market or in privately negotiated transactions. We did not repurchase any shares of our common stock under this program in 2001 or in the six month period ended June 30, 2002.

Other Matters

A valuation allowance of $34.4 million is recorded against net deferred tax assets. However, we may recognize a deferred income tax benefit in future periods if we determine that all or a portion of the remaining deferred tax assets can be realized.

~~ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)~~

~~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" which 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 the Company, including those described under "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2001 filed with the Securities and Exchange Commission. 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.~~

~~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.~~

PART II. OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

On April 15, 2002, we notified the holders of the 54,000 shares of Series C Preferred Stock of our intention to redeem those shares on May 31, 2002 for $6.6 million. On April 16, 2002, all of the holders of the Series C Preferred Stock exercised their right to convert their shares into 600,000 shares of common stock prior to the redemption.

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

The Company's Annual Meeting of Stockholders was held on May 21, 2002 and in connection therewith, proxies were solicited by management pursuant to Regulation 14 under the Securities Exchange Act of 1934. An aggregate of 26,897,253 shares of the Company's common stock were outstanding and entitled to a vote at the meeting. At the meeting the following matters (not including ordinary procedural matters) were submitted to a vote of the holders of shares, with the results indicated below:

1. Election of directors to serve until the 2003 Annual Meeting. The following persons, all of whom were serving as directors and were management's nominees for election, were elected. There was no solicitation in opposition to such nominees. The tabulation of votes was as follows:

Nominee	For	Withheld
Keith Bradley	22,075,219	177,376
Richard E. Caruso	22,028,019	224,576
Stuart M. Essig	20,485,278	1,767,317
Neil Moszkowski	22,075,219	177,376
James M. Sullivan	22,075,219	177,376

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

For	Against	Abstentions
21,635,258	613,998	3,339

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

99.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

None

SIGNATURES

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

INTEGRA LIFESCIENCES HOLDINGS CORPORATION

Date: August 14, 2002 /s/ Stuart M. Essig

Stuart M. Essig
President and Chief Executive Officer

Date: August 14, 2002 /s/ David B. Holtz

David B. Holtz
Senior Vice President, Finance and Treasurer

Exhibit 99.1

Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002

Certification of Chief Executive Officer

Pursuant to 18 U.S.C. ss. 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Integra LifeSciences Holdings Corporation (the "Company") hereby certifies, to such officer's knowledge, that:

(i) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 30, 2002 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 14, 2002 /s/ Stuart M. Essig

Stuart M. Essig
President and Chief Executive Officer

Certification of Chief Financial Officer

Pursuant to 18 U.S.C. ss. 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Integra LifeSciences Holdings Corporation (the "Company") hereby certifies, to such officer's knowledge, that:

(i) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended June 30, 2002 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 14, 2002 /s/ David B. Holtz

David B. Holtz
Senior Vice President, Finance and Treasurer