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 September 30, 1998

Commission file number 0-26224

INTEGRA LIFESCIENCES 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.)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

[x] - Yes [ ] - No

As of October 10, 1998 the registrant had outstanding 15,752,516 shares of Common Stock, $.01 par value.

INTEGRA LIFESCIENCES CORPORATION

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

(In thousands)

	September 30, 1998	December 31, 1997
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 2,560	$ 2,083
Short-term investments	20,692	24,189
Accounts receivable, net	2,949	2,780
Inventories	3,390	2,350
Prepaid expenses and other current assets	935	400
Total current assets	30,526	31,802
Property and equipment, net	6,506	6,414
Other assets and goodwill	1,502	140
Total assets	$ 38,534	$ 38,356
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable, trade	$ 477	$ 541
Accrued expenses and other current liabilities	3,689	1,854
Total current liabilities	4,166	2,395
Other liabilities	303	206
Total liabilities	4,469	2,601
Stockholders' Equity:		
Preferred stock, $.01 par value (15,000 authorized shares; 500 Series A Convertible shares issued and outstanding at September 30, 1998, $4,000 liquidation preference)	5	--
Common stock, $.01 par value (60,000 authorized shares; 15,753 and 14,952 issued and outstanding at September 30, 1998 and December 31, 1997, respectively)	158	150
Additional paid-in capital	119,904	111,877
Unearned compensation related to stock options	(198)	(266)
Notes receivable - related parties	(35)	(35)
Accumulated other comprehensive income	(104)	(26)
Treasury stock at cost(46 shares at September 30, 1998)	(259)	--
Accumulated deficit	(85,406)	(75,945)
Total stockholders' equity	34,065	35,755
Total liabilities and stockholders' equity	$ 38,534	$ 38,356

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

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

(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1998	1997	1998	1997
REVENUE				
Product sales	$ 3,704	$ 3,754	$ 10,234	$ 10,844
Product license fees	25	6	1,040	11
Contract product development	276	--	776	--
Research grants	233	113	442	411
Royalties	52	73	186	175
Total revenue	4,290	3,946	12,678	11,441
COSTS AND EXPENSES				
Cost of product sales	1,706	1,731	5,036	5,574
Research and development	2,220	1,439	6,436	4,525
Selling and marketing	1,201	1,456	4,280	3,776
General and administrative	2,383	2,289	7,949	5,416
Total costs and expenses	7,510	6,915	23,701	19,291
Operating loss	(3,220)	(2,969)	(11,024)	(7,850)
Other income	310	507	1,589	1,519
Net loss	$ (2,910)	$ (2,462)	$ (9,435)	$ (6,331)
Basic and diluted net loss per share	$ (0.18)	$ (0.17)	$ (0.59)	$ (0.43)
Weighted average number of common and common equivalent shares outstanding	15,952	14,899	15,950	14,756

The accompany notes are an integral part
of the condensed consolidated financial statements

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

(In thousands)

	Nine Months Ended September 30, 1998	1997
OPERATING ACTIVITIES:		
Net loss	$ (9,435)	$ (6,331)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,010	1,426
Gain on sale of assets and litigation settlement	(264)	(115)
Provision for impairment of assets	145	--
Amortization of discount and interest on investments	(327)	(55)
Amortization of unearned compensation	214	92
Changes in assets and liabilities:		
Accounts receivable	51	(75)
Inventories	(151)	711
Prepaid expenses and other current assets	90	(83)
Non-current assets	49	(78)
Deferred revenue	250	--
Accounts payable, accrued expenses and other liabilities	1,524	674
Net cash used in operating activities	(6,844)	(3,834)
INVESTING ACTIVITIES:		
Proceeds from sale of assets	48	128
Purchase of restricted securities	(500)	--
Purchases of available-for-sale investments	(23,274)	(29,151)
Proceeds from sale/maturity of investments	27,020	29,500
Cash acquired in business acquisition	1,224	--
Purchases of property and equipment	(939)	(499)
Net cash provided by (used in) investing activities	3,579	(22)
FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	8	330
Preferred dividend paid	(7)	--
Purchase of treasury stock	(259)	--
Proceeds from sale of preferred stock	4,000	--
Net cash provided by financing activities	3,742	330
Net increase (decrease) in cash and cash equivalents	477	(3,526)
Cash and cash equivalents at beginning of period	2,083	11,762
Cash and cash equivalents at end of period	$ 2,560	$ 8,236

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Supplemental disclosure of non-cash investing and financing activities:

Common stock and warrants issued in business acquisition	$ 3,886	--

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

INTEGRA LIFESCIENCES CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. In the opinion of management, the September 30 unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring accruals) which the Company considers necessary for a fair presentation of the financial position and results of operations of the Company. Operating results for the periods ended September 30, 1998 are not necessarily indicative of the results to be expected for the entire year. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including disclosures of contingent assets and liabilities and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. These unaudited condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 1997 included in the Company's Annual Report on Form 10-K.

2. Inventory

Inventories consist of the following (in thousands):

	September 30, 1998	December 31, 1997
Finished goods............................	$ 1,376	$ 773
Work-in-process...........................	1,440	1,251
Raw materials.............................	574	326
	$ 3,390	$ 2,350

3. Current Liabilities

Accrued expenses and other liabilities consist of the following (in thousands):

	September 30, 1998	December 31, 1997
Legal fees................................	$ 1,407	$ 471
Lease termination.........................	215	--
Contract research.........................	462	252
Vacation	213	214
Deferred revenue..........................	250	--
Other	1,142	917
	$ 3,689	$ 1,854

4. Net loss and loss per share

Since the Company incurred net losses in all periods presented, outstanding options and warrants to purchase an aggregate of 2,445,000 and 1,303,000 shares of common stock at September 30, 1998 and 1997, respectively, and preferred stock convertible into 250,000 shares of common stock at September 30, 1998, were not included in the diluted per share calculations, as their effect would be antidilutive.

The Company adopted Statement of Financial Accounting Standards No. 130 "Reporting Comprehensive Income" ("SFAS 130"). SFAS 130 establishes standards for reporting and display an alternative income measurement and its components (revenue, expenses, gains and losses) in a full set of general-purpose financial statements. The total comprehensive loss for the three and nine months ended September 30, 1998 was $2,943,000 and $9,513,000, respectively, compared to $2,485,000 and $6,355,000 for the three and nine months ended September 30, 1997, respectively. Total comprehensive income includes the net loss and the net unrealized gains and losses on securities.

5. Acquisition

On September 28, 1998, the Company acquired the Rystan Company for 800,000 shares of common stock of the Company and two warrants each having the right to purchase 150,000 shares of the Company's common stock. Each of the Warrants may be exercised for shares of Common Stock at any time after September 28, 1998, for a purchase price per share of $6.00 and $7.00, respectively, subject to customary antidilution adjustments. The $6.00 warrant expires on January 31, 2000, provided that if the average closing price on the Nasdaq National Market for shares of common stock for the thirty trading days ending on the fifth day immediately preceding the then-current expiration date is less than $8.00 per share, then the expiration date shall be extended for one year, but in no event shall be extended beyond January 31, 2003. The $7.00 warrant expires on December 31, 2002.

The purchase price was valued at $3.9 million. The purchase price exceeded the preliminary assessment of the fair value of net assets acquired by approximately $1.5 million, which will be amortized on a straight-line basis over 15 years. The acquisition has been accounted for using the purchase method of accounting.

The unaudited assets and liabilities acquired were as follows (in thousands):

Cash and cash equivalents	$ 1,224
Accounts receivable	225
Inventory	889
Property & equipment	357
Residual goodwill	1,454
Liabilities	(157)
	$ 3,992

The following summarized unaudited pro forma financial information assumes the acquisition had occurred on January 1 of each year:

Pro Forma Information (in thousands, except per share data):

	Nine Months Ended September 30,	
	1998	1997
Total revenue	$14,636	$13,339
Net loss	(9,064)	(6,097)
Basic and diluted loss per share ...	(0.54)	(0.39)

The above amounts include the Rystan Company's actual results for the first nine months of 1998 and 1997. The pro forma amounts are based upon certain assumptions and estimates, and do not reflect any activities that might have occurred as a result of the acquisition. The pro forma results do not necessarily represent results which 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.

6. Stockholders' Equity

The Company's shareholders approved a one-for-two reverse split of the Company's common stock at the annual shareholders meeting held on May 18, 1998. All outstanding common share and per share amounts have been retroactively adjusted to reflect the reverse split.

During the second quarter of 1998, the Company sold 500,000 shares of Series A Preferred Stock ("Preferred Stock") for $4 million to Century Medical, Inc. The Preferred Stock pays an annual dividend of $0.16 per share, payable quarterly, and has a liquidation preference of $4 million. Each share of Preferred Stock is convertible at any time into one-half share of Company common stock and is redeemable at the option of the Company after December 31, 2007.

7. Leases

In June 1998, the Company entered into a Lease Termination Agreement (the "Agreement") related to the closing of the Company's facility in West Chester, Pennsylvania. The Agreement requires an aggregate payment of $330,000 related to the facility's maintenance, certain operating costs and other commitments and is payable through April 1999. As result of the Agreement, the Company incurred an additional asset impairment charge of $145,000 related to the West Chester facility, which charge was included in general and administrative expense in the second quarter of 1998. The West Chester facility is owned by a company controlled by a related party of an officer of the Company.

8. Legal Matters

On or about November 4, 1997, Integra (Artificial Skin) Corporation ("IASC"), a wholly-owned subsidiary of the Company, and the Massachusetts Institute of Technology ("MIT") filed a patent infringement lawsuit against LifeCellCorporation ("LifeCell"). LifeCell filed counterclaims seeking declaratory judgments of non-infringement and patent invalidity and filed a complaint against MIT and IASC in Texas state court claiming tortious interference, business and product disparagement, unfair competition amoung other charges. LifeCell was seeking unspecified actual monetary damages in an amount not less than $12 million together with treble damages, unspecified punitive damages, and other relief. On April 9, 1998, the Company and LifeCell agreed to settle all litigation pending between the parties. Under the terms of the settlement, the Company has agreed not to assert certain patents against LifeCell's current technology or reasonable equivalents thereof and LifeCell has acknowledged the validity of these patents. As part of the settlement agreement, the Company agreed to purchase $500,000 of LifeCell common stock, and LifeCell agreed to a royalty-bearing license for any possible future biomaterials-based matrix products developed by LifeCell that may be covered by the patents.

In January 1994, ABS LifeSciences, Inc., a wholly-owned subsidiary of the Company, entered into a five-year distribution agreement with the distributor of the Company's Chronicure product pursuant to which the distributor is obligated to purchase certain minimum quantities of wound care products. In October 1995, the Company's subsidiary filed a complaint in the United States District Court for the District of New Jersey claiming the distributor breached the distribution agreement by, among other things, not paying the subsidiary for certain products delivered. In November 1995, the distributor filed an affirmative defense and counterclaim alleging, among other things, fraudulent misrepresentation and breach of contract and seeking damages of approximately $1.2 million plus unspecified punitive damages. In June 1998, the Company's subsidiary and the distributor entered into a settlement agreement in which the distributor agreed to pay an aggregate of $550,000 in installments over the remainder of 1998. The Company recorded in other income a net gain of $545,000 as a result of the settlement.

In July 1996, Telios Pharmaceuticals, Inc. ("Telios") filed a patent infringement lawsuit against three parties: Merck KGaA, a German corporation, Scripps Research Institute, a California nonprofit corporation, and David A. Cheresh, Ph.D., a research scientist with Scripps. The lawsuit was filed in the U.S. District Court for the Southern District of California. The complaint charges, among other things, that the defendant Merck KGaA "willfully and deliberately induced, and continues to willfully and deliberately induce, defendants Scripps Research Institute and Dr. David A. Cheresh to infringe United States Letters Patent No. 4,729,255." This patent is one of a group of five patents granted to The Burnham Institute and licensed by Telios that are based on the interaction between a family of cell surface proteins called integrins and the arginine-glycine-aspartic acid (known as "RGD") peptide sequence found in many extracellular matrix proteins. The Company is pursuing numerous medical applications of the RGD technology in the fields of anti-thrombic agents, cancer, osteoporosis, and a cell adhesive coating designed to improve the performance of implantable devices and their acceptance by the body. The defendants have filed a countersuit asking for an award of defendants' reasonable attorney fees. The Company's financial statements do not reflect any significant amounts related to a possible unfavorable outcome of this matter.

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

The following discussion contains trend information and other forward-looking statements related to the future use and revenues of the INTEGRA(Registered) Artificial Skin product, the timing of regulatory approvals for the Company's DuraGen(Trademark) product, anticipated expenditure levels and the potential affect of the Rystan Company acquisition, and are made pursuant to the safe harbor provisions of the Securities Litigation Reform Act of 1995. Such statements involve risks and uncertainties which may cause the results to differ materially from those set forth in these statements. In addition, the economic, competitive, governmental, technological and other factors identified in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission could affect such results.

General

The Company develops, manufactures and markets medical devices, implants and biomaterials primarily used in the treatment of burns and skin defects, spinal and cranial disorders, orthopedics and other surgical applications. The Company seeks to be the world's leading company specializing in implantable medical and biopharmaceutical therapies to target and control cell behavior, and to build shareholder value by acquiring, discovering and developing cost-effective, off-the-shelf products that satisfy unmet medical needs.

On September 28, 1998 the Company acquired the Rystan Company ("Rystan") by issuing 800,000 shares of the Company's common stock and two warrants each having the right to purchase 150,000 shares of the Company's common stock at $7.00 and $6.00 per share, respectively. Although the operating results of Rystan for the post acquisition period covered by this report were immaterial given the acquisition date, the future operating results of Rystan are expected to have a positive net impact on the financial results of the Company.

Results of Operations

Three Months Ended September 30, 1998 Compared to the Three Months Ended September 30, 1997

Total revenues increased to approximately $4.3 million for the three months ended September 30, 1998 from $3.9 million for the three months ended September 30,1997, due primarily to an increase in revenues from contract product development and research grants. Product sales declined by $50,000 to $3.7 million for the three months ended September 30, 1998 as a $100,000 increase in sales of INTEGRA(Registered) Artificial Skin ("INTEGRA") to $1.7 million for the three months ended September 30, 1998 was offset by a decrease in sales of the Company's other medical devices. For the third quarter of 1998, international INTEGRA sales represented 36% of total INTEGRA product sales compared to 33% in the same period of 1997. The Company has clinical data on the use of INTEGRA in reconstructive and wound healing procedures and believes that growth in the use and sale of INTEGRA will depend on its ability to market the product for reconstructive and other additional indications. In March 1998 the Company received CE Mark approval in the European Community to market INTEGRA for use in burns and reconstructive surgery. These additional indications require approval by the FDA before the product can be marketed in the United States, and there can be no assurance the Company will receive any additional indication approval in the United States or any other international markets. The Company plans on submitting a pre-approval market amendment to the FDA seeking the additional indications in the United States.

Sales of the Company's other medical devices were approximately $2.0 million for the three months ended September 30, 1998 down from $2.2 million for the three months ended September 30, 1997. Approximately $60,000 of the decline was related to discontinued products with the remaining decrease related to the timing of orders for the Company's dental line products. Sales of the Company's other medical products can vary significantly on a quarter to quarter basis depending on the timing of shipments to private label customers and contract distributors. Export sales for the three months ended September 30, 1998 were $690,000 (including $600,000 of international INTEGRA sales) compared to sales of $550,000 for the three months ended September 30, 1997.

A substantial portion of Rystan's historical revenues has come from two products, with approximately 67% of its 1997 revenue from its lead product, Panafil(Registered). Panafil(Registered) is an enzymatic debridement agent that is used to remove nacrotic tissue in wounds, including chronic diabetic foot ulcers. Panafil(Registered) sales have historically been seasonally weighted with 38% of 1997 product sales coming in the fourth quarter due to certain pricing and distribution activities.

Other revenue, which includes grant revenue, license fees, product development revenue and royalties, was approximately $590,000 for the three months ended September 30, 1998 compared to $190,000 for the three months ended September 30, 1997. The Company's product development revenue increased by $280,000 with $250,000 in funding received under the Company's development and marketing agreement with Johnson & Johnson Professional, Inc. The Company continues to seek research grants, licensing arrangements and development funding for several of its technologies, although the timing and amount of such revenue, if any, can not be predicted.

Cost of product sales was $1.7 million (46% of product sales) for the three months ended September 30, 1998 and 1997. Lower operating costs due to the closing of the Company's West Chester, Pennsylvania production facility were largely offset by higher unit costs for INTEGRA and higher royalty costs. Due to the relatively high fixed costs of the manufacturing facility for INTEGRA, the Company is anticipating higher unit costs until there is a requirement for higher production volume. The Company believes its current capacity to produce INTEGRA and its other medical products is sufficient to support significant growth, and the utilization of this capacity will affect its gross margin on product sales. The Company is anticipating an increase in cost of product sales and a temporary decline in gross margins for the next two quarters as a result of purchase accounting adjustments associated with the Rystan acquisition. After the sale of acquired inventory, the Rystan acquisition should improve the Company's total gross margin on product sales.

Research and development expense increased to approximately $2.2 million for the three-month period ended September 30, 1998 from $1.4 million for the three-month period ended September 30, 1997. Increases included the addition of development personnel and the funding of several development programs for the skin, neurosurgical and orthopedic business lines. The Company expects that the level of research and development expenditures in 1998 will continue to exceed 1997 levels as the Company continues to expand its development programs. The amount and allocation of resources to fund research and development will vary depending upon a number of factors, including the progress of development of the Company's technologies, the timing and outcome of pre-clinical and clinical results, changing competitive conditions, potential funding opportunities and determinations with respect to the commercial potential of the Company's technologies.

Selling and marketing expense decreased to approximately $1.2 million for the three-month period ended September 30, 1998 from $1.5 million for the three-month period ended September 30, 1997. Declines in both selling and marketing costs for INTEGRA were partially offset by additional costs associated with the Company's planned marketing launch of its DuraGen(Trademark), dural repair product. Domestic cost reductions, which included a decline in sales and marketing personnel, were partial offset by higher international selling costs associated with the launch of INTEGRA in the European Community following its CE mark approval in March 1998. Additional costs included technical personnel and consultants involved in training and promotional activities, international marketing and training materials. The Company is anticipating an increase in selling and marketing costs compared to the current quarter as activities for the DuraGen(Trademark) product continue with an anticipated market launch in early 1999. The Company also expects see an increase in selling and marketing costs in the near term as a result of the marketing of the Rystan products.

General and administrative expense increased to approximately $2.4 million for the three-month period ended September 30, 1998 from $2.3 million for the three-month period ended September 30, 1997 due primarily to slightly higher legal and personnel costs.

Nine Months Ended September 30, 1998 Compared to Nine Months Ended September 30, 1997

Total revenues increased to approximately $12.7 million for the nine months ended September 30, 1998 from $11.4 million for the nine months ended September 30,1997, as a decline in product sales was offset by increases in product license fees and product development revenue. Product sales decreased to $10.2 million for the nine months ended September 30, 1998 from $10.8 million for the nine months ended September 30, 1997. Sales of INTEGRA declined slightly to just over $4.5 million for the nine months ended September 30, 1998 compared to $4.6 million for the six months ended September 30, 1997. International INTEGRA sales increases of 31% to $1.7 million offset a decline in North American sales. Product sales of the Company's other medical products were $5.7 million for the nine months ended September 30, 1998 down from $6.2 million for the nine months ended September 30, 1997. Approximately $590,000 of the decline was related to discontinued products. Export sales, including INTEGRA, for the nine months ended September 30, 1998 increased to $2.0 million from $1.5 million for the nine months ended September 30, 1997.

Other revenue was approximately $2.4 million for the nine months ended September 30, 1998 compared to $600,000 for the nine months ended September 30, 1997. The largest increase was in product license fees due to a $1 million non-refundable licensing fee from Century Medical, Inc. related to the Company's neurosurgical business product line. The Company's product development revenue increased by $780,000 largely as a result of funding received under the Company's development and marketing agreement with Johnson & Johnson Professional, Inc.

Cost of product sales declined to approximately $5.0 million (49% of product sales) for the nine months ended September 30, 1998 from $5.6 million (51% of product sales) for the nine months ended September 30, 1997. The decrease in cost of product sales as a percentage of product sales is attributable to lower inventory write-offs, lower operating costs and higher manufacturing utilization compared to the prior year.

Research and development expense increased to approximately $6.4 million for the nine months ended September 30, 1998 compared to $4.5 million for the nine months ended September 30, 1997 due to additional development personnel and the funding of several contract development programs for the skin, orthopedic, neurosurgical and ventures business lines.

Selling and marketing expense increased to approximately $4.3 million for the nine-month period ended September 30, 1998 from $3.8 million for the nine-month period ended September 30, 1997. Increases included international sales and marketing expenses associated with the addition of technical personnel and consultants involved in training and promotional activities, marketing materials and costs associated with the Company's cost reimbursement training programs. These increases were partially offset by a decline in sales personnel.

General and administrative expense increased to approximately $7.9 million for the nine-month period ended September 30, 1998 from $5.4 million for the nine-month period ended September 30, 1997 due primarily to costs related to the closing of the West Chester, Pennsylvania facility, severance costs, costs associated with the hiring of management personnel during the latter part of 1997 (including the Company's Chief Executive Officer and Chief Operating Officer) and additional legal and other professional costs. These costs are expected to continue to represent an increase over the comparable 1997 periods for the remainder of 1998. The Company settled three litigation matters during the second quarter of 1998, but significant litigation costs are expected to continue due to the Company's patent infringement lawsuit against Merck KGaA.

Liquidity and Capital Resources

At September 30, 1998, the Company had cash, cash equivalents and short-term investments of approximately $23.3 million and no long-term debt. The Company's principal uses of funds during the nine-month period ended September 30, 1998 were $6.8 million for operations and $940,000 in purchases of property and equipment. The Company received $4.0 million in funds from the issuance of Series A preferred stock during the second quarter of 1998 and $1.2 in the acquisition of Rystan in the third quarter of 1998. The Company anticipates that it will continue to use its liquid assets to fund operations until sufficient revenues can be generated through product sales and collaborative arrangements. There can be no assurance that the Company will be able to generate sufficient revenues to obtain positive operating cash flows or profitability.

Year 2000 Disclosure

As is true for most companies, the potential for problems involving existing information systems as we approach and pass January 1, 2000 creates a risk for Integra. These potential problems are the result of the inability of certain date-sensitive computer programs and embedded controls to recognize a two-digit date field designated as "00" as the year 2000 instead of the year 1900, the consequences of which could lead to system failures or miscalculations causing disruptions to operations and normal business activities. This is a significant issue with far reaching implications, some of which cannot be anticipated or predicted with any degree of certainty.

Integra has completed its initial assessment of the magnitude of the impact of Year 2000 on itself and is currently in the process of developing, implementing and monitoring a Year 2000 correction plan in all areas identified as potentially compromised by the advent of the Year 2000. This correction plan includes (i) the assessment of information technology systems ("IT systems") and non-IT systems for Year 2000 compliance, (ii) the modification and/or replacement of non-compliant systems, (iii) the testing of modified and/or replaced systems, and (iv) the deployment of Year 2000 compliant systems. In most cases, Integra anticipates that the Year 2000 correction plan will include upgrading current hardware and software or purchasing additional hardware and software to enhance Integra's information systems. Since January 1, 1997, Integra has spent approximately $370,000 upgrading and/or replacing certain components of its information systems. Integra anticipates spending an additional $60,000 on such information system upgrades and purchases between the date hereof and December 31, 1999. The majority of the capital expenditures and operating costs associated with these upgrades and purchases would have occurred in the normal course of business regardless of the Year 2000 issue, however a portion of such expenditures and costs is attributable to Integra's Year 2000 correction plan. Integra expects that the upgrades and purchases will be implemented and tested by June 1999 and that, in any event, Integra's information systems will be Year 2000 compliant prior to December 31, 1999.

As an additional part of its Year 2000 correction plan, Integra is in the process of communicating with its customers, distributors, suppliers and other material third parties to determine the extent of Integra's vulnerability to the failure of third parties to address their own Year 2000 compliance issues. This process is not yet complete and Integra will not be able to completely assess its Year 2000 readiness until such third parties assure Integra of their Year 2000 compliance or Integra develops a contingency plan for any third party noncompliance. As of the date hereof, Integra has not been notified of any such noncompliance by any material third party.

Integra's products do not contain any materials that would make such products susceptible to disruptions relating to the Year 2000. Given the information available at this time, Integra currently anticipates that the amount that Integra will spend to complete its Year 2000 correction plan should not have a material adverse impact on Integra's business, results of operations, financial position and cash flow beyond the amounts discuss previously. Furthermore, Integra does not currently believe that the effects of any Year 2000 non-compliance on Integra's information systems should have any material adverse impact on Integra's business, results of operations, financial position or cash flows. However, there can be no assurance that Integra will not incur additional expenses or experience business disruption as a result of information system problems associated with the century change, including system and equipment problems of third parties with whom Integra does business.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10	Employment Agreement between John B. Henneman, III and the Company dated September 11, 1998
27	Financial Data Schedule

(b) Reports on Form 8-K

The Company filed with the Securities and Exchange Commission a Report on Form 8-K dated October 13, 1998 with respect to the Company's acquisition of the Rystan Company on September 28, 1998.

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 CORPORATION

Date: November 16, 1998

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

Date: November 16, 1998

By: /s/ David B. Holtz
David B. Holtz
Vice President, Finance and Treasurer

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement") is made as of the 11th day of September, 1998 by and between Integra LifeSciences Corporation, a Delaware Corporation, and John B. Henneman, III ("Executive").

Background

Company desires to employ Executive, and Executive desires to enter into the employ of Company, on the terms and conditions contained in this Agreement. Executive will be substantially involved with Company's operations and management and will learn trade secrets and other confidential information relating to Company and its customers; accordingly, the noncompetition covenant and other restrictive covenants contained in Section 15 of this Agreement constitute essential elements hereof.

NOW, THEREFORE, in consideration of the premises and the mutual agreements contained herein and intending 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 have the meaning set forth in Section 5.

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

(c) "Caruso" shall mean Richard E. Caruso, the Chairman of the Board and principal stockholder of Company as of the date of this Agreement.

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

(1) failed to perform his stated duties and not cured such failure (if curable) within 15 days of his receipt of written notice of the failure;

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

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

(4) engaged in willful misconduct;

(5) engaged in a breach of fiduciary duty;

(6) willfully violated any law, rule or regulation, or final cease-and-desist order (other than traffic violations or similar offenses); or

(7) engaged in other serious misconduct of such a nature that his continued employment may reasonably be expected to affect Company adversely.

(e) 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 Caruso (or any entity controlled by Caruso), 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 Incumbent 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 another entity (a "Business Combination"), in each case, unless immediately following such Business Combination: (i) more than 50% of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors of (x) the corporation resulting from such Business Combination (the "Surviving Corporation"), or (y) 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"), is represented, directly or indirectly, by Company Voting Securities outstanding immediately prior to such Business Combination (or, if applicable, is represented by shares into which such Company Voting Securities were converted pursuant to such Business Combination), and such voting power among the holders thereof is in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the Company Voting Securities; (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.

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

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

(h) "Disability" shall mean Executive's inability to perform his 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.

(i) "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) without Executive's express written consent, the Board reduces Executive's Base Salary or the aggregate fringe benefits provided to Executive (except to the extent permitted by Section 5 or Section 6, respectively) or substantially alters Executive's authority and/or title in a manner reasonably construed to constitute a demotion; provided, Executive resigns within 30 days after the change objected to; or

(3) Company fails to obtain the assumption of this Agreement by any successor to Company.

(j) "Principal Executive Office" shall mean Company's principal office for executives, presently located at 105 Morgan Lane, Plainsboro, New Jersey 08536.

(k) "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.

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

(m) "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 16(h).

2. Employment. Company hereby employs Executive as Senior Vice President, Chief Administrative Officer and General Counsel, and Executive hereby agrees to accept such employment and agrees to render services to Company in such capacity (or in such other capacity in the future as the Board may reasonably deem equivalent to such position) on the terms and conditions set forth in this Agreement. Executive's primary place of employment shall be at the Principal Executive Office.

3. Term.

(a) Term and Renewal of Agreement. Unless earlier terminated by Executive or Company as provided in Section 10 hereof, the term of Executive's employment under this Agreement shall commence on the date of this Agreement and terminate on December 31, 2000. Subject to subsection 3(b), this Agreement shall be deemed automatically, without further action, to extend for an additional year on each January 1 following December 31, 2000.

(b) Annual Review. Prior to the first January 1 renewal date of this Agreement under subsection 3(a), and each January 1 renewal date thereafter, the Board shall consider extending the term of this Agreement. The term shall continue to extend in the manner set forth in subsection 3(a) unless either the Board does not approve the extension and provides written notice to Executive of such event, or Executive gives written notice to Company of Executive's election not to extend the term. In either case, the written notice shall be given not fewer than 30 days prior to any such renewal date. References herein to the term of this Agreement shall refer both to the initial term and successive terms.

4. Duties. Executive shall:

(a) faithfully and diligently do and perform all such acts and duties, and furnish such services as are assigned to Executive as of the date this Agreement is signed, and (subject to Section 1(h)(2)) such additional or different acts, duties and services as the Board may assign in the future; and

(b) devote his full professional time, energy, skill and best efforts to the performance of his duties hereunder, in a manner that will faithfully and diligently further the business and interests of Company, and shall not be employed by or participate or engage in or in any manner be a part of the management or operations of any business enterprise other than Company without the prior written consent of the Chief Executive Officer, which consent may be granted or withheld in his sole discretion; provided, however, that notwithstanding the foregoing, Executive may continue to provide consulting services to Neuromedical Systems, Inc. through December 31, 1999, so long as the performance of such consulting services by Executive does not materially interfere with his obligation pursuant to this Agreement.

5. Compensation. Company shall compensate Executive for his services at a minimum base salary of $160,000 per year (which amount shall be prorated for periods of less than one 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 may be increased from time to time in such amounts as may be determined by the Board, 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). In addition to his Base Salary, Executive shall be entitled to receive such bonus payments as may be determined appropriate by the Board.

6. Benefit Plans. Executive shall be entitled to participate in and receive benefits under any employee benefit plan or stock-based plan of Company, and shall be eligible for any other plans and benefits covering executives of Company, to the extent commensurate with his then duties and responsibilities fixed by the Board. Company shall not make any change in such plans or benefits which would adversely affect Executive's rights thereunder, unless such change affects all, or substantially all, executive officers of Company.

7. Vacation. Executive shall be entitled to paid annual vacation in accordance with the policies established from time to time by the Board, which shall in no event be fewer than three weeks per annum. Regardless of what the Company's standard vacation policy may be, Executive shall not be entitled to extra cash payments for any vacation he does not utilize.

8. Business Expenses. Company shall reimburse Executive or otherwise pay for all reasonable expenses incurred by Executive in furtherance of or in connection with the business of Company, including, but not limited to, automobile and traveling expenses and all reasonable entertainment expenses, subject to such reasonable documentation and other limitations as may be established by the Board.

9. Disability. In the event Executive incurs a Disability, Executive's obligation to perform services under this Agreement will terminate, and the Board may terminate this Agreement upon written notice to Executive.

10. Termination

(a) Termination without Salary Continuation. In the event (i) Executive terminates his employment hereunder other than for Good Reason, or (ii) Executive's employment is terminated by Company due to his Retirement, Disability or death, or for Cause, Executive shall have no right to compensation or other benefits pursuant to this Agreement for any period after his last day of active employment.

(b) Termination with Salary Continuation (No Change in Control). Except as provided in subsection 10(c) in the event of a Change in Control, in the event (i) Executive's employment is terminated by Company for a reason other than Retirement, Disability, death or Cause, or (ii) Executive terminates his employment for Good Reason, or (iii) Company shall fail to extend this Agreement pursuant to the provisions of Section 3, then Company shall:

(1) pay Executive a severance amount equal to the unpaid portion of Executive's Base Salary (determined without regard to any reduction in violation of Section 5) for the remainder of the then current term of this Agreement, but in no event for a period of less than one year; the severance amount shall be paid in a single sum on the first business day of the month following the Termination Date (unless Executive elects, in writing and on, or not later than 30 days after, the date this Agreement is executed, to receive the severance payment divided into 24 equal monthly installments, paid beginning on the first business day of the month following the Termination Date); and

(2) maintain and provide to Executive, at no cost to Executive, for a period ending at the earliest of (i) the expiration of the then current term of this Agreement; (ii) the date of Executive's full-time employment by another employer; or (iii) 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 his 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.

(c) Termination with Salary Continuation (Change in Control). Notwithstanding anything to the contrary set forth in subsection 10(b), in the event within twelve months of a Change in Control: (i) Executive terminates his employment for Good Reason, or (ii) Executive's employment is terminated by Company for a reason other than Retirement, Disability, death or Cause, or (iii) Company shall fail to extend this Agreement pursuant to Section 3, then Company shall:

(1) pay Executive a severance amount equal to 2.99 times Executive's Base Salary (determined without regard to any reduction in violation of Section 5) as of his 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 (unless Executive elects, in writing and on, or not later than 30 days after, the date this Agreement is executed, to receive the severance payment divided into 24 equal monthly installments, paid beginning on the first business day of the month following the Termination Date); and

(2) maintain and provide to Executive, at no cost to Executive, for a period ending at the earliest of (i) the expiration of the then current term of this Agreement; (ii) the date of Executive's full-time employment by another employer; or (iii) 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 his employment with Company continued throughout such period, provided that such participation is not prohibited by the terms of the plan or by Company or legal reasons.

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

11. 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.

12. 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 his rights and duties hereunder shall not be assigned except as expressly agreed to in writing by Company.

13. 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 his estate.

14. Restrictive Covenants.

(a) Covenant Not to Compete. During the term of this Agreement and for a period of two (2) years following the Termination Date, Executive shall not directly or indirectly: (i) engage, anywhere within the geographical areas in which Company is conducting business operations or providing services as of the date of Executive's termination of employment, in the tissue engineering business (the use of implantable absorbable materials, with or without a bioactive component, to attempt to elicit a specific cellular response in order to regenerate tissue or to impede the growth of tissue or migration of cells) (the "Tissue Engineering Business") or any other business the revenues of which constituted at least 30% of Company's revenues during the six (6) month period prior to the Termination Date (together with the Tissue Engineering Business, the "Business"); (ii) be or become a stockholder, partner, owner, officer, director or employee or agent of, or a consultant to or give financial or other assistance to, any person or entity engaged in the Business; (iii) seek in competition with the business of Company to procure orders from or do business with any customer of Company; (iv) solicit or contact with a view to the engagement or employment by any person or entity of any person who is an employee of Company; (v) seek to contract with or engage (in such a way as to adversely affect or interfere with the business of Company) any person or entity who has been contracted with or engaged to manufacture, assemble, supply or deliver products, goods, materials or services to Company; or (vi) engage in or participate in any effort or act to induce any of the customers, associates, consultants, or employees of Company to take any action which might be disadvantageous to Company; provided, however, that nothing herein shall prohibit Executive and his affiliates from owning, as passive investors, in the aggregate not more than 5% of the outstanding publicly traded stock of any corporation so engaged.

(b) Confidentiality. Executive acknowledges a duty of confidentiality owed to Company and shall not, at any time during or after his employment by Company, retain in writing, use, divulge, furnish, or make accessible to anyone, without the express authorization of the Board, any trade secret, private or confidential information or knowledge of Company obtained or acquired by him while so employed. All computer software, business cards, telephone lists, customer lists, price lists, contract forms, catalogs, Company books, records, files and know-how acquired while an employee of Company are acknowledged to be the property of Company and shall not be duplicated, removed from Company's possession or premises or made use of other than in pursuit of Company's business or as may otherwise be required by law or any legal process, or as is necessary in connection with any adversarial proceeding against Company and, upon termination of employment for any reason, Executive shall deliver to Company, without further demand, all copies thereof which are then in his possession or under his control. No information shall be treated as "confidential information" if it is generally available public knowledge at the time of disclosure or use by Executive.

(c) Inventions and Improvements. Executive shall promptly communicate to Company all ideas, discoveries and inventions which are or may be useful to Company or its business. Executive acknowledges that all such ideas, discoveries, inventions, and improvements which heretofore have been or are hereafter made, conceived, or reduced to practice by him at any time during his employment with Company heretofore or hereafter gained by him at any time during his employment with Company are the property of Company, and Executive hereby irrevocably assigns all such ideas, discoveries, inventions, and improvements to Company for its sole use and benefit, without additional compensation. The provisions of this Section 15(c) shall apply whether such ideas, discoveries, inventions, or improvements were or are conceived, made or gained by him alone or with others, whether during or after usual working hours, whether on or off the job, whether applicable to matters directly or indirectly related to Company's business interests (including potential business interests), and whether or not within the specific realm of his duties. Executive shall, upon request of Company, but at no expense to Executive, at any time during or after his employment with Company, sign all instruments and documents reasonably requested by Company and otherwise cooperate with Company to protect its right to such ideas, discoveries, inventions, or improvements including applying for, obtaining, and enforcing patents and copyrights thereon in such countries as Company shall determine.

(d) Breach of Covenant. Any breach or violation of the provisions in this Section 15 by Executive will result in forfeiture by Executive and all other persons of all rights to any further payments or benefits under this Agreement, and in such event Company shall have no further obligation to pay any amounts related thereto. Executive expressly acknowledges that damages alone will be an inadequate remedy for any breach or violation of any of the provisions of this Section 15 and that Company, in addition to all other remedies, shall be entitled as a matter of right to equitable relief, including injunctions and specific performance, in any court of competent jurisdiction. If any of the provisions of this Section 15 are held to be in any respect unenforceable, then they shall be deemed to extend only over the maximum period of time, geographic area, or range of activities as to which they may be enforceable.

15. 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 Company.

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

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

(e) 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 feminine, unless the context clearly indicates otherwise. The singular form, whenever used herein, shall mean or include the plural form where applicable.

(f) 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.

(g) 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.

(h) 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 Corporation
105 Morgan Lane
Plainsboro, New Jersey 08536
Attn: President

To the Executive:

John B. Henneman, III
325 Mastia Place
Ridgewood, NJ 07450

(i) 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.

(j) 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 CORPORATION

By: ________________________________

Title: _____________________________

EXECUTIVE

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