

INTEGRA LIFESCIENCES HOLDINGS CORP

Form 10-Q

May 06, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2009

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

For the transition period from _____ to _____

COMMISSION FILE NO. 0-26224

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

DELAWARE

51-0317849

(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)

(I.R.S. EMPLOYER IDENTIFICATION NO.)

311 ENTERPRISE DRIVE
PLAINSBORO, NEW JERSEY

08536

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

(ZIP CODE)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

The number of shares of the registrant's Common Stock, \$.01 par value, outstanding as of May 4, 2009 was 28,402,040.

**INTEGRA LIFESCIENCES HOLDINGS CORPORATION
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Item 1. Financial Statements

INTEGRA LIFESCIENCES HOLDINGS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

(In thousands, except per share amounts)

| | Three Months Ended March 31, | |
|---|-------------------------------------|-------------|
| | 2009 | 2008 |
| Total Revenue | \$ 160,950 | \$ 156,008 |
| Costs and Expenses: | | |
| Cost of product revenues | 58,148 | 62,212 |
| Research and development | 10,643 | 7,798 |
| Selling, general and administrative | 66,451 | 62,489 |
| Intangible asset amortization | 3,456 | 2,973 |
| Total costs and expenses | 138,698 | 135,472 |
| Operating income | 22,252 | 20,536 |
| Interest income | 247 | 687 |
| Interest expense | (6,684) | (8,567) |
| Other (expense) income, net | (868) | 1,507 |
| Income before income taxes | 14,947 | 14,163 |
| Income tax expense | 5,380 | 5,113 |
| Net income | \$ 9,567 | \$ 9,050 |
| Basic net income per share | \$ 0.33 | \$ 0.33 |
| Diluted net income per share | \$ 0.32 | \$ 0.32 |
| Weighted average common shares outstanding (See Note 10): | | |
| Basic | 28,943 | 26,889 |
| Diluted | 29,252 | 28,199 |

The accompanying notes are an integral part to these condensed consolidated financial statements.

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INTEGRA LIFESCIENCES HOLDINGS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(In thousands)

| | March 31, 2009 | December 31, 2008 |
|--|---------------------------|------------------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 185,630 | \$ 183,546 |
| Trade accounts receivable, net of allowances of \$9,432 and \$10,052 | 101,610 | 112,417 |
| Inventories, net | 141,582 | 146,103 |
| Deferred tax assets | 21,325 | 24,135 |
| Prepaid expenses and other current assets | 27,420 | 31,191 |
| | | |
| Total current assets | 477,567 | 497,392 |
| Property, plant and equipment, net | 69,783 | 70,382 |
| Intangible assets, net | 220,225 | 225,998 |
| Goodwill | 207,705 | 212,094 |
| Other assets | 20,137 | 20,148 |
| | | |
| Total assets | \$ 995,417 | \$ 1,026,014 |
| | | |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current Liabilities: | | |
| Borrowings under senior credit facility | \$ 100,000 | \$ 100,000 |
| Accounts payable, trade | 22,834 | 22,964 |
| Deferred revenue | 3,173 | 3,053 |
| Accrued compensation | 17,176 | 16,030 |
| Accrued expenses and other current liabilities | 27,488 | 32,704 |
| | | |
| Total current liabilities | 170,671 | 174,751 |
| Long-term borrowings under senior credit facility | 160,000 | 160,000 |
| Long-term convertible securities | 271,307 | 299,480 |
| Other liabilities | 19,170 | 19,474 |
| | | |
| Total liabilities | 621,148 | 653,705 |
| | | |
| Commitments and contingencies (see Footnote 12) | | |
| Stockholders Equity: | | |
| Common stock: \$0.01 par value; 60,000 authorized shares; 34,458 and 34,352 issued at March 31, 2009 and December 31, 2008, respectively | 345 | 344 |
| Additional paid-in capital | 503,130 | 502,784 |
| Treasury stock, at cost; 6,354 shares at March 31, 2009 and December 31, 2008 | (252,380) | (252,380) |
| | | |
| Accumulated other comprehensive income (loss): | | |
| Foreign currency translation adjustment | (1,653) | 6,314 |
| Pension liability adjustment, net of tax | (946) | (959) |

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| | | |
|--|------------|--------------|
| Retained earnings | 125,773 | 116,206 |
| Total stockholders' equity | 374,269 | 372,309 |
| Total liabilities and stockholders' equity | \$ 995,417 | \$ 1,026,014 |

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

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INTEGRA LIFESCIENCES HOLDINGS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(In thousands)

| | Three Months Ended March 31, | |
|---|-------------------------------------|-------------|
| | 2009 | 2008 |
| OPERATING ACTIVITIES: | | |
| Net income | \$ 9,567 | \$ 9,050 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 8,676 | 7,073 |
| Deferred income tax (benefit) | (419) | (3,689) |
| Amortization of bond issuance costs | 824 | 610 |
| Non-cash interest expense | 2,762 | 4,352 |
| Payment of accreted interest | (1,544) | |
| Gain on bond repurchase | (1,213) | |
| Share-based compensation | 3,760 | 3,478 |
| Excess tax benefits from stock-based compensation arrangements | (8) | (66) |
| Other, net | | 18 |
| Changes in assets and liabilities, net of business acquisitions: | | |
| Accounts receivable | 9,141 | (2,616) |
| Inventories | 2,693 | 179 |
| Prepaid expenses and other current assets | 7,247 | (1,899) |
| Other non-current assets | 910 | (535) |
| Accounts payable, accrued expenses and other current liabilities | (5,420) | (2,171) |
| Income taxes payable | | 4,755 |
| Deferred revenue | (191) | 756 |
| Other non-current liabilities | 402 | 1,051 |
| Net cash provided by operating activities | 37,187 | 20,346 |
| INVESTING ACTIVITIES: | | |
| Cash used in business acquisition, net of cash acquired | (4,003) | (6) |
| Purchases of property and equipment | (3,046) | (2,844) |
| Net cash (used in) investing activities | (7,049) | (2,850) |
| FINANCING ACTIVITIES: | | |
| Borrowings under senior credit facility | | 120,000 |
| Repayment of loans | | (178) |
| Repurchase of liability component of convertible notes | (27,988) | |
| Proceeds from exercised stock options | 23 | 1,113 |
| Excess tax benefits from stock-based compensation arrangements | 8 | 66 |
| Net cash (used in) provided by financing activities | (27,957) | 121,001 |

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| | | |
|--|------------|------------|
| Effect of exchange rate changes on cash and cash equivalents | (97) | 3,177 |
| Net increase in cash and cash equivalents | 2,084 | 141,674 |
| Cash and cash equivalents at beginning of period | 183,546 | 57,339 |
| Cash and cash equivalents at end of period | \$ 185,630 | \$ 199,013 |

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

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INTEGRA LIFESCIENCES HOLDINGS CORPORATION
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION**General**

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

In the opinion of management, the March 31, 2009 unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary for a fair statement 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 condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2008 included in the Company's Annual Report on Form 10-K. The December 31, 2008 condensed consolidated balance sheet was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States. Operating results for the three-month period ended March 31, 2009 are not necessarily indicative of the results to be expected for the entire year.

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States 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, fair value estimates of stock-based compensation awards, valuation allowances recorded against deferred tax assets, estimates of amounts to be paid to employees and other exit costs to be incurred in connection with the restructuring of our operations and loss contingencies. These estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the current circumstances. Actual results could differ from these estimates.

Recently Adopted Accounting Standards

Effective January 1, 2009, the Company adopted Financial Accounting Standards Board (FASB) Staff Position No. APB 14-1, *Accounting for Convertible Debt Instruments that May be Settled in Cash Upon Conversion (Including Partial Cash Settlement)* (FSP APB 14-1). FSP APB 14-1 requires that the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) be separately accounted for in a manner that reflects an issuer's nonconvertible debt borrowing rate. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. FSP APB 14-1 is effective for our \$330.0 million aggregate principal amount of our senior convertible notes due June 2010 and June 2012 with an annual rate of 2.75% and 2.375%, respectively, (the 2010 Notes and the 2012 Notes, respectively), and the \$119.5 million exchanged portion of our contingent convertible subordinated notes due March 2008 with an annual rate of 2.5% (the 2008 Notes) and requires retrospective application for all periods presented. FSP APB 14-1 requires the issuer of convertible debt instruments with cash settlement features to separately account for the liability. As of the date of issuance for the 2010 Notes and the 2012 Notes, and the date of modification for the 2008 Notes (collectively, the Covered Notes), the result of the impact of FSP APB 14-1 for each of the Covered Notes is as follows (in millions):

| | 2008 | 2010 | 2012 |
|-------------------------------|--------------|--------------|--------------|
| | Notes | Notes | Notes |
| | September | | |
| | 2006 | June 2007 | June 2007 |
| Date impacted by FSP APB 14-1 | | | |
| Total Amount | \$ 119.5 | \$ 165.0 | \$ 165.0 |

| | | | |
|------------------------|-------|-------|-------|
| Liability Component | 103.0 | 142.2 | 122.5 |
| Equity Component | 11.6 | 16.0 | 29.9 |
| Deferred Tax Component | 4.9 | 6.8 | 12.6 |

The debt component was recognized at the present value of its cash flows discounted using discount rates of 9.70%, 6.47% and 6.81%, our borrowing rate at the date of exchange of the 2008 Notes and the dates of the issuance of the 2010 Notes and the 2012 Notes, respectively, for a similar debt instrument without the conversion feature. For additional information, see Note 6, Debt. FSP APB 14-1 also requires an accretion of the resultant debt discount over the expected life of the Covered Notes, which is March, 2008 to June, 2012.

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The following table sets forth the effect of the retrospective application of FSP APB 14-1 on certain previously reported line items (in thousands, except per share amounts):

Condensed Consolidated Statements of Operations:

| | Three Months Ended March 31, 2008 | | |
|----------------------------|--|--------------------|------------------------|
| | Originally Reported | Adjustments | As Adjusted |
| Interest expense | \$ (4,215) | \$ (4,352) | \$ (8,567) |
| Income tax expense | 6,950 | (1,837) | 5,113 |
| Net income | 11,565 | (2,515) | 9,050 |
| Basic earnings per share | \$ 0.43 | | \$ 0.33 |
| Diluted earnings per share | 0.41 | | 0.32 |

Condensed Consolidated Balance Sheets:

| | December 31, 2008 | | |
|----------------------------------|--------------------------------|--------------------|------------------------|
| | Originally Reported | Adjustments | As Adjusted |
| Other assets | \$ 28,565 | \$ (8,417) | \$ 20,148 |
| Long-term convertible securities | 330,000 | (30,520) | 299,480 |
| Additional paid-in capital | 464,668 | 38,116 | 502,784 |
| Retained earnings | 132,219 | (16,013) | 116,206 |
| Total stockholders' equity | 350,206 | 22,103 | 372,309 |

Condensed Consolidated Statements of Cash Flows:

| | Three Months Ended March 31, 2008 | | |
|-------------------------------|--|--------------------|------------------------|
| | Originally Reported | Adjustments | As Adjusted |
| Net income | \$ 11,565 | \$ (2,515) | \$ 9,050 |
| Deferred income tax (benefit) | (1,852) | (1,837) | (3,689) |
| Non-cash interest expense | | 4,352 | 4,352 |

For the three months ended March 31, 2009, the additional pre-tax non-cash interest expense recognized in the condensed consolidated income statement was \$2.8 million. Accumulated amortization related to the debt discount was \$8.2 million and \$5.5 million as of March 31, 2009 and December 31, 2008, respectively. The pre-tax increase in non-cash interest expense on our condensed consolidated statements of income to be recognized through 2012, the latest maturity date of the Notes, is as follows (in millions):

| | 2009 | 2010 | 2011 | 2012 |
|---|-------------|-------------|-------------|-------------|
| Pre-tax increase in non-cash interest expense | \$ 10.7 | \$ 8.1 | \$ 6.7 | \$ 2.9 |

Effective January 1, 2009, the Company adopted FASB Staff Position No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP 03-6-1). In FSP 03-6-1, unvested share-based payment awards that contain rights to receive nonforfeitable dividends or dividend equivalents (whether paid or unpaid) are participating securities, and thus, should be included in the two-class method of computing earnings per share (EPS). The adoption of this standard did not have a material impact on the Company's disclosure of EPS. See Note 10, *Net Income Per Share* for a further discussion.

Effective January 1, 2009, the Company adopted FASB Statement No. 141(R), Business Combinations (Statement 141(R)), a replacement of FASB Statement No. 141. Statement 141(R) changes the practice for accounting for business combinations, such as requiring that the Company (1) expense transaction costs as incurred, rather than capitalizing them as part of the purchase price; (2) record contingent consideration arrangements and pre-acquisition contingencies, such as legal issues, at fair value at the acquisition date, with subsequent changes in fair value recorded in the income statement; (3) capitalize the fair value of acquired research and development assets separately from goodwill, whereas the Company previously determined the acquisition-date fair value and then immediately charged the value to expense; and (4) limit the conditions under which restructuring expenses can be accrued in the opening balance sheet of a target to only those where the requirements in FASB Statement No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, would have been met at the acquisition date. Additionally, Statement 141(R) provides that, upon initially obtaining control, an acquirer shall recognize 100 percent of the fair values of acquired assets, including goodwill, and assumed liabilities, with only limited exceptions, even if the acquirer has not acquired 100 percent of its target. The implementation of Statement 141(R) could result in an increase or decrease in future selling, general and administrative and other operating expenses, depending upon the extent of the Company s acquisition related activities going forward. No business combination transactions occurred during the three months ended March 31, 2009. The adoption of this standard did not have a material impact on the Company s financial condition and results of operations.

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In April 2008, the FASB issued FASB Staff Position No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* (FAS 142-3). FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). The intent of FAS 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R), and other generally accepted accounting principles. FAS 142-3 is effective for fiscal years beginning after December 15, 2008. The adoption of this standard did not have a material impact on the Company's financial condition and results of operations.

The Company adopted FASB Staff Position No. 157-2, *Effective Date of FASB Statement No. 157* (FSP 157-2), on January 1, 2009, which delayed the effective date of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157), for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value on a recurring basis (at least annually). The adoption of this standard did not have a material impact on the Company's financial condition and results of operations.

The Company adopted FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (FAS 161), which is effective January 1, 2009. FAS 161 requires enhanced disclosures about derivative instruments and hedging activities to allow for a better understanding of their effects on an entity's financial position, financial performance, and cash flows. Among other things, FAS 161 requires disclosure of the fair values of derivative instruments and associated gains and losses in a tabular format. Since FAS 161 requires only additional disclosures about our derivatives and hedging activities, the adoption of FAS 161 does not affect our financial position or results of operations.

In June 2008, the FASB ratified Emerging Issues Task Force (EITF) Issue No. 07-05, *Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock* (EITF 07-05). EITF 07-05 mandates a two-step process for evaluating whether an equity-linked financial instrument or embedded feature is indexed to the entity's own stock, for the purpose of applying the Paragraph 11(a) scope exception in FASB, Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. Equity instruments that a company issues that contain a strike price adjustment feature, upon the adoption of EITF 07-05, may no longer be considered indexed to the company's own stock. Accordingly, adoption of EITF 07-05 may change the current classification (from equity to liability) and the related accounting for such equity instruments outstanding at that date. EITF 07-05 is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The adoption of this standard did not change the classification of the Company's warrants issued in connection with the convertible debt.

Recently Issued Accounting Standards

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS 162). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP in the U.S. Any effect of applying the provisions of SFAS 162 shall be reported as a change in accounting principle in accordance with Statement of Financial Accounting Standards No. 154, *Accounting Changes and Error Corrections*. SFAS 162 is effective 60 days following approval by the Securities and Exchange Commission of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. The Company does not anticipate that the adoption of SFAS 162 will have a material impact on its financial statements.

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In December 2008, the Company acquired Minnesota Scientific, Inc., doing business as Omni-Tract Surgical (Omni-Tract), for \$6.4 million in cash paid at closing, 310,000 unregistered shares of the Company's common stock valued at \$10.7 million (of which 135,000 shares were issued at closing, with the remainder issued in January 2009), and \$0.3 million in transaction related costs, subject to certain adjustments. Omni-Tract is a global leader in the development and manufacture of table mounted retractors and is based in St. Paul, Minnesota. Omni-Tract markets and sells these retractor systems for use in vascular, bariatric, general, urologic, orthopedic, spine, pediatric, and laparoscopic surgery. The Company will integrate Omni-Tract's product lines into its combined offering of JARIT, Padgett, R&B Redmond, and Luxel lines of surgical instruments and illumination systems sold by the Integra Medical Instruments sales organization.

The following summarizes the allocation of the purchase price based on fair value of the assets acquired and liabilities assumed (in thousands):

| | | | |
|--|----|--------|------------|
| Cash | \$ | 1,501 | |
| Accounts receivable | | 1,324 | |
| Inventory | | 544 | |
| Other current assets | | 110 | |
| Property, plant and equipment | | 377 | |
| | | | Wtd. Avg. |
| Intangible assets: | | | Life |
| Technology | | 3,816 | 15 years |
| Tradename | | 13,084 | Indefinite |
| Goodwill | | 2,997 | |
| Total assets acquired | | 23,753 | |
| Accounts payable and other current liabilities | | 335 | |
| Deferred tax liabilities - non current | | 6,030 | |
| Total liabilities assumed | | 6,365 | |
| Net assets acquired | \$ | 17,388 | |

Management determined the preliminary fair value of assets acquired during the fourth quarter of 2008. The purchase price was finalized in the first quarter of 2009 with no changes being recorded. The goodwill recorded in connection with this acquisition is based on the benefits the Company expects to generate from Omni-Tract's future cash flows.

Integra Neurosciences Pty Ltd.

In October 2008, the Company acquired Integra Neurosciences Pty Ltd. in Australia and Integra Neurosciences Pty Ltd. in New Zealand for \$4.0 million (6.0 million Australian Dollars) in cash at closing, \$0.3 million in acquisition expenses and working capital adjustments, and up to \$2.1 million (3.1 million Australian Dollars) in future payments based on the performance of business in the three years after closing. With this acquisition of the Company's long-standing distributor, the Company now has a direct selling presence in Australia and New Zealand.

The following summarizes the preliminary allocation of the purchase price based on fair value of the assets acquired and liabilities assumed (in thousands):

| | | |
|-------------------------------|----|-------|
| Cash | \$ | 630 |
| Inventory | | 1,198 |
| Property, plant and equipment | | 66 |
| Intangible assets: | | |

| | | Wtd. Avg. Life |
|--|----------|-------------------|
| Customer relationships | 4,367 | 15 years |
| Tradename | 90 | 1 year |
| Total assets acquired | 6,351 | |
| Accounts payable and other current liabilities | 70 | |
| Deferred tax liabilities non current | 1,388 | |
| Other non-current liabilities | 628 | |
| Total liabilities assumed | 2,086 | |
| Net assets acquired | \$ 4,265 | |

Management determined the preliminary fair value of assets acquired during the fourth quarter of 2008. Certain elements of the purchase price allocation are considered preliminary, particularly as they relate to the final valuation of certain identifiable intangible assets, deferred taxes and final assessment of certain pre-acquisition tax and other contingencies.

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In August 2008 the Company acquired Theken Spine, LLC, Theken Disc, LLC and Therics, LLC (collectively, Theken) for \$75.0 million in cash, subject to certain adjustments, acquisition expenses of \$2.4 million, working capital adjustments of \$4.0 million, and up to approximately \$121.0 million in future payments based on the revenue performance of the business in the two years after closing. Theken, based in Akron, Ohio, designs, develops and manufactures spinal fixation products, synthetic bone substitute products and spinal arthroplasty products. The following summarizes the allocation of the purchase price based on fair value of the assets acquired and liabilities assumed (in thousands):

| | | | |
|--|----|--------|----------------------|
| Cash | \$ | 167 | |
| Inventory | | 15,130 | |
| Accounts receivable | | 5,969 | |
| Other current assets | | 699 | |
| Property, plant and equipment | | 8,244 | |
| Other assets | | 1 | |
| Intangible assets: | | | Wtd. Avg. Life |
| Technology | | 13,470 | 11 years |
| Customer relationships | | 15,630 | 8 years |
| In-process research and development | | 25,240 | Expensed immediately |
| Goodwill | | 6,533 | |
| Total assets acquired | | 91,083 | |
| Accounts payable and other current liabilities | | 9,716 | |
| Net assets acquired | \$ | 81,367 | |

Management determined the preliminary fair value of assets acquired during the third quarter of 2008. The in-process research and development has not yet reached technological feasibility and has no alternative future use at the date of acquisition. The Company recorded an in-process research and development charge of \$25.2 million in the third quarter of 2008 in connection with this acquisition, which was included in research and development expense. The goodwill recorded in connection with this acquisition is based on the benefits the Company expects to generate from Theken's future cash flows. The purchase price was finalized in the first quarter of 2009 with only minor changes being recorded to goodwill.

The fair value of the in-process research and development was determined by estimating the costs to develop the acquired technology into commercially viable products and estimating the net present value of the resulting net cash flows from these projects. These cash flows were based on our best estimates of revenue, cost of sales, research and development costs, selling, general and administrative costs and income taxes from the development projects. A summary of the estimates used to calculate the net cash flows for the projects is as follows:

| Project | Year net cash In-flows expected to begin | Discount rate including factor to account for uncertainty of success | Acquired In-Process Research and Development |
|--------------------------------|---|---|---|
| eDisc artificial lumbar disc | 2013 | 23% | \$ 13.0 million |
| eDisc artificial cervical disc | 2016 | 23% | 7.2 million |
| Spinal fixation implants | 2009 | 15% | 4.7 million |

| | | | |
|-----------|------|-----|-------------|
| All other | 2009 | 15% | 0.3 million |
|-----------|------|-----|-------------|

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Table of Contents**Pro Forma Results (unaudited)**

The following unaudited pro forma financial information summarizes the results of operations for the three months ended March 31, 2008 as if the acquisitions completed by the Company during 2008 had been completed as of the beginning of the period presented. The pro forma results are based upon certain assumptions and estimates, and they give effect to actual operating results prior to the acquisitions and adjustments to reflect increased interest expense, depreciation expense, intangible asset amortization, and income taxes at a rate consistent with the Company's statutory rate. No effect has been given to cost reductions or operating synergies. As a result, the pro forma results do not necessarily represent results that would have occurred if the acquisitions had taken place on the basis assumed above, nor are they indicative of the results of future combined operations.

| | Three Months Ended March 31, 2008 (in thousands, except per share amounts) | |
|-----------------------|---|---------|
| Total Revenue | \$ | 165,899 |
| Net income | | 7,692 |
| Net income per share: | | |
| Basic | \$ | 0.28 |
| Diluted | \$ | 0.25 |

3. INVENTORIES

Inventories, net consisted of the following:

| | March 31, 2009 | December 31, 2008 |
|-----------------|---------------------------|------------------------------|
| | (in thousands) | |
| Finished goods | \$ 102,410 | \$ 109,033 |
| Work-in process | 23,310 | 21,883 |
| Raw materials | 40,859 | 38,688 |
| Less: reserves | (24,997) | (23,501) |
| | \$ 141,582 | \$ 146,103 |

4. GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amount of goodwill for the three months ended March 31, 2009, were as follows:

| | |
|---------------------------------------|------------|
| Balance at December 31, 2008 | \$ 212,094 |
| Purchase price allocation adjustments | (196) |
| Foreign currency translation | (4,193) |
| Balance at March 31, 2009 | \$ 207,705 |

The components of the Company's identifiable intangible assets were as follows (in thousands):

| | Weighted Average Life | Cost | March 31, 2009 Accumulated Amortization | | | December 31, 2008 Accumulated Amortization | | |
|----------------------|--------------------------------------|-------------|--|-----------|-------------|---|-----------|--|
| | | | Net | | Cost | Net | | |
| Completed technology | 12 years | \$ 66,733 | \$ (16,895) | \$ 49,838 | \$ 67,154 | \$ (15,658) | \$ 51,496 | |

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| | | | | | | | |
|------------------------------|-------------|------------|-------------|------------|------------|-------------|------------|
| Customer relationships | 12 years | 93,893 | (28,415) | 65,478 | 94,487 | (26,104) | 68,383 |
| Trademarks/brand names | 35 years | 34,253 | (6,840) | 27,413 | 34,582 | (6,547) | 28,035 |
| Trademarks/brand names | Indefinite | 50,034 | | 50,034 | 50,034 | | 50,034 |
| Noncompetition agreements | 5 years | 6,398 | (5,991) | 407 | 6,449 | (5,724) | 725 |
| Supplier relationships | 30 years | 29,300 | (2,816) | 26,484 | 29,300 | (2,670) | 26,630 |
| All other | 15 years | 1,531 | (960) | 571 | 1,531 | (836) | 695 |
| | | \$ 282,142 | \$ (61,917) | \$ 220,225 | \$ 283,537 | \$ (57,539) | \$ 225,998 |

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Annual amortization expense is expected to approximate \$18.9 million in 2009, \$16.5 million in 2010, \$16.3 million in 2011, \$16.0 million in 2012, \$13.3 million in 2013 and \$89.2 million thereafter. Identifiable intangible assets are initially recorded at fair market value at the time of acquisition generally using an income or cost approach.

5. RESTRUCTURING ACTIVITIES

In connection with the cost reduction efforts, the Company has recorded the following charges during the three months ended March 31, 2009 (in thousands):

| | Cost of Sales | Research and Development | Selling General and Administrative | Total |
|--|------------------|--------------------------------|--|---------|
| Three months ended March 31, 2009: | | | | |
| Involuntary employee termination costs | \$ | \$ | \$ (37) | \$ (37) |
| Facility exit costs | | 22 | | 22 |

Below is a reconciliation of the restructuring accrual activity recorded during 2009 (in thousands):

| | Employee Termination Costs | Facility Exit Costs | Total |
|------------------------------|----------------------------------|------------------------|--------|
| Balance at December 31, 2008 | \$ 442 | \$ 235 | \$ 677 |
| Additions | 295 | 138 | 433 |
| Change in estimate | (326) | (113) | (439) |
| Payments | (317) | (27) | (344) |
| Effects of Foreign Exchange | (6) | (3) | (9) |
| Balance at March 31, 2009 | \$ 88 | \$ 230 | \$ 318 |

The Company expects to pay all of the remaining costs in 2009.

6. DEBT*2008 Contingent Convertible Subordinated Notes*

The Company paid interest on its \$120 million contingent convertible subordinated notes (the 2008 Notes) at an annual rate of 2.5% each September 15 and March 15. The Company paid contingent interest on the 2008 Notes approximating \$1.8 million during the quarter ended March 31, 2008. The contingent interest paid was for each of the last three years the 2008 Notes remained outstanding in an amount equal to the greater of (1) 0.50% of the face amount of the 2008 Notes and (2) the amount of regular cash dividends paid during each such year on the number of shares of common stock into which each 2008 Note is convertible. Holders of the 2008 Notes could convert the 2008 Notes under certain circumstances, including when the market price of its common stock on the previous trading day was more than \$37.56 per share, based on an initial conversion price of \$34.15 per share. As of December 31, 2008, all of the 2008 Notes had been converted to common stock or cash.

The 2008 Notes were general, unsecured obligations of the Company and were subordinate to any senior indebtedness. The Company could not redeem the 2008 Notes prior to their maturity, and the 2008 Notes holders could have compelled the Company to repurchase the 2008 Notes upon a change of control. There were no financial covenants associated with the convertible 2008 Notes.

Table of Contents*2010 and 2012 Senior Convertible Notes*

On June 11, 2007, the Company issued \$165 million aggregate principal amount of its 2010 Notes and \$165 million aggregate principal amount of its 2012 Notes (the 2010 Notes and the 2012, collectively the Notes). The 2010 Notes and the 2012 Notes bear interest at a rate of 2.75% per annum and 2.375% per annum, respectively, in each case payable semi-annually in arrears on December 1 and June 1 of each year. The fair value of the 2010 Notes and the 2012 Notes at March 31, 2009 was approximately \$121.7 million and \$129.3 million, respectively. The Notes are senior, unsecured obligations of the Company, and are convertible into cash and, if applicable, shares of its common stock based on an initial conversion rate, subject to adjustment, of 15.0917 shares per \$1,000 principal amount of notes for the 2010 Notes and 15.3935 shares per \$1,000 principal amount of notes for the 2012 Notes (which represents an initial conversion price of approximately \$66.26 per share and approximately \$64.96 per share for the 2010 Notes and the 2012 Notes, respectively.) The Company will satisfy any conversion of the Notes with cash up to the principal amount of the applicable series of Notes pursuant to the net share settlement mechanism set forth in the applicable indenture and, with respect to any excess conversion value, with shares of the Company's common stock. The Notes are convertible only in the following circumstances: (1) if the closing sale price of the Company's common stock exceeds 130% of the conversion price during a period as defined in the indenture; (2) if the average trading price per \$1,000 principal amount of the Notes is less than or equal to 97% of the average conversion value of the Notes during a period as defined in the indenture; (3) at any time on or after December 15, 2009 (in connection with the 2010 Notes) or anytime after December 15, 2011 (in connection with the 2012 Notes); or (4) if specified corporate transactions occur. The issue price of the Notes was equal to their face amount, which is also the amount holders are entitled to receive at maturity if the Notes are not converted. As of March 31, 2009, none of these conditions existed and, as a result, the balance of the 2010 Notes and the 2012 Notes is classified as long-term.

Holders of the Notes, who convert their notes in connection with a qualifying fundamental change, as defined in the related indenture, may be entitled to a make-whole premium in the form of an increase in the conversion rate. Additionally, following the occurrence of a fundamental change, holders may require that the Company repurchase some or all of the Notes for cash at a repurchase price equal to 100% of the principal amount of the notes being repurchased, plus accrued and unpaid interest, if any.

The Notes, under the terms of the private placement agreement, are guaranteed fully by Integra LifeSciences Corporation, a subsidiary of the Company. The 2010 Notes will rank equal in right of payment to the 2012 Notes. The Notes will be the Company's direct senior unsecured obligations and will rank equal in right of payment to all of the Company's existing and future unsecured and unsubordinated indebtedness.

In connection with the issuance of the Notes, the Company entered into call transactions and warrant transactions, primarily with affiliates of the initial purchasers of the Notes (the hedge participants), in connection with each series of Notes. The cost of the call transactions to the Company was approximately \$46.8 million. The Company received approximately \$21.7 million of proceeds from the warrant transactions. The call transactions involve the Company's purchasing call options from the hedge participants, and the warrant transactions involve the Company's selling call options to the hedge participants with a higher strike price than the purchased call options.

The initial strike price of the call transactions is (1) for the 2010 Notes, approximately \$66.26 per share of Common Stock, and (2) for the 2012 Notes, approximately \$64.96, in each case subject to anti-dilution adjustments substantially similar to those in the Notes. The initial strike price of the warrant transactions is (x) for the 2010 Notes, approximately \$77.96 per share of Common Stock and (y) for the 2012 Notes, approximately \$90.95, in each case subject to customary anti-dilution adjustments.

In March 2009, the Company repurchased \$32.1 million principal amount of the 2010 Notes and recognized a non-cash gain of \$1.2 million. Total cash paid for this repurchase was \$29.5 million of which \$28.0 million related to repayment of the liability component of the Notes and \$1.5 million for payment of accreted interest. The bond hedge contracts were terminated on a pro-rata basis and the number of options was adjusted to reflect the number of convertible securities outstanding that together have a total principal amount of \$132.9 million. In a separate transaction, we amended the warrant transactions to reduce the number of warrants outstanding to reflect such number of convertible securities outstanding.

See Note 1, Basis of Operation, for a discussion of the liability component associated with the Covered Notes and the retrospective accounting change resulting from the adoption of FSP APB 14-1 effective January 1, 2009.

Senior Secured Revolving Credit Facility

As of March 31, 2009 the Company had \$260.0 million of outstanding borrowings under this credit facility at a weighted average rate of 1.53%. The Company used a portion of the proceeds to repay all of the remaining 2008 Notes totaling approximately \$119.4 million in the second quarter of 2008 and \$3.3 million of related accrued and contingent interest during March 2008. On July 28, 2008 and October 30, 2008, the Company borrowed \$80.0 million and \$60.0 million, respectively, to fund the acquisition of Theken and for other general corporate purposes. The Company regularly borrows under the credit facility and makes payments each month with respect thereto and considers \$100.0 million of such outstanding amounts to be short-term in nature based on its current intent and ability. If additional borrowings are made in connection with, for instance, future acquisitions, such activities could impact the timing of when the Company intends to repay amounts under this credit facility, which runs through December 2011.

Table of Contents**7. STOCK-BASED COMPENSATION**

As of March 31, 2009, the Company had stock options, restricted stock awards, performance stock awards, contract stock awards and restricted stock unit awards outstanding under seven plans, the 1993 Incentive Stock Option and Non-Qualified Stock Option Plan (the 1993 Plan), the 1996 Incentive Stock Option and Non-Qualified Stock Option Plan (the 1996 Plan), the 1998 Stock Option Plan (the 1998 Plan), the 1999 Stock Option Plan (the 1999 Plan), the 2000 Equity Incentive Plan (the 2000 Plan), the 2001 Equity Incentive Plan (the 2001 Plan), and the 2003 Equity Incentive Plan (the 2003 Plan, and collectively, the Plans). No new awards may be granted under the 1993 Plan, the 1996 Plan or the 1998 Plan.

Stock options issued under the Plans become exercisable over specified periods, generally within four years from the date of grant for officers, employees and consultants, and generally expire six years from the grant date. The transfer and non-forfeiture provisions of restricted stock issued under the Plans lapse over specified periods, generally three years after the date of grant.

Stock Options

The Company did not grant stock options during the three months ended March 31, 2009, and March 31, 2008, respectively. As of March 31, 2009, there was approximately \$8.0 million of total unrecognized compensation costs related to unvested stock options. These costs are expected to be recognized over a weighted-average period of approximately 2.2 years. The Company received proceeds of \$0.1 million and \$1.1 million from stock option exercises for the three months ended March 31, 2009 and 2008, respectively.

Awards of Restricted Stock, Performance Stock and Contract Stock

Performance stock awards have performance features associated with them. Performance stock, restricted stock and contract stock awards generally have requisite service periods of three years. The fair value of these awards is being expensed on a straight-line basis over the vesting period or requisite service period, whichever is shorter. As of March 31, 2009, there was approximately \$13.7 million of total unrecognized compensation costs related to unvested awards. These costs are expected to be recognized over a weighted-average period of approximately 2.3 years.

The Company has no formal policy related to the repurchase of shares for the purpose of satisfying stock-based compensation obligations. Independent of these programs, the Company does have a practice of repurchasing shares, from time to time, in the open market.

The Company also maintains an Employee Stock Purchase Plan (the ESPP), which provides eligible employees of the Company with the opportunity to acquire shares of common stock at periodic intervals by means of accumulated payroll deductions. The ESPP was amended in 2005 to eliminate the look-back option and to reduce the discount available to participants to five percent. Accordingly, the ESPP is a non-compensatory plan under FASB Statement No. 123(R), *Share Based Payments*.

8. RETIREMENT BENEFIT PLANS

The Company maintains defined benefit pension plans that cover employees in its manufacturing plants located in Andover, United Kingdom (the UK Plan) and Tuttlingen, Germany (the Germany Plan). The Company had maintained a plan covering its employees located in York, Pennsylvania (the Miltex Plan) which was terminated in the fourth quarter of 2008 with all distributions made to participants. The Miltex Plan was frozen and all future benefits were curtailed prior to the acquisition of Miltex by the Company. Accordingly, the Miltex Plan had no assets or liabilities remaining at December 31, 2008. The Company closed the Tuttlingen, Germany plant in December 2005. However, the Germany Plan was not terminated and the Company remains obligated for the accrued pension benefits related to this plan. The plans cover certain current and former employees. Net periodic benefit costs for the Company's defined benefit pension plans included the following amounts (in thousands):

| | Three Months Ended March 31, | |
|--------------------------------|-------------------------------------|-------------|
| | 2009 | 2008 |
| Service cost | \$ 27 | \$ 71 |
| Interest cost | 139 | 360 |
| Expected return on plan assets | (96) | (305) |
| Recognized net actuarial loss | 108 | 6 |

| | | | | |
|---------------------------|----|-----|----|-----|
| Net periodic benefit cost | \$ | 178 | \$ | 132 |
|---------------------------|----|-----|----|-----|

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The Company made \$90,600 and \$131,000 of contributions to its defined benefit pension plans during the three months ended March 31, 2009 and 2008, respectively.

9. COMPREHENSIVE INCOME

Comprehensive income was as follows (in thousands):

| | Three Months Ended March 31, | |
|---|-------------------------------------|-------------|
| | 2009 | 2008 |
| Net income | \$ 9,567 | \$ 9,050 |
| Foreign currency translation adjustment | (7,967) | 10,130 |
| Comprehensive income | \$ 1,600 | \$ 19,180 |

10. NET INCOME PER SHARE

Basic and diluted net income per share was as follows (in thousands, except per share amounts):

| | Three Months Ended March 31, | |
|---|-------------------------------------|-------------|
| | 2009 | 2008 |
| Basic net income per share: | | |
| Net income attributable to common shares | \$ 9,567 | \$ 9,050 |
| Percentage allocated to common shares | 98.9% | 98.2% |
| Net income attributable to common shares | 9,462 | 8,889 |
| Weighted average common shares outstanding | 28,943 | 26,889 |
| Basic net income per share | \$ 0.33 | \$ 0.33 |
| Diluted net income per share: | | |
| Net income attributable to diluted shares | \$ 9,471 | \$ 8,896 |
| Weighted average common shares outstanding Basic | 28,943 | 26,889 |
| Effect of dilutive securities: | | |
| Stock options and restricted stock | 309 | 609 |
| Shares issuable upon conversion of notes payable | | 701 |
| Weighted average common shares for diluted earnings per share | 29,252 | 28,199 |
| Diluted net income per share | \$ 0.32 | \$ 0.32 |
| Weighted average common shares outstanding | 28,943 | 26,889 |
| Weighted average common shares and other participating securities | 29,251 | 27,377 |
| Common share percentage | 98.9% | 98.2% |
| Diluted share percentage | 99.0% | 98.3% |

As described in Note 1, Basis of Presentation, the Company adopted FSP 03-6-1 on January 1, 2009. Certain of the Company's unvested restricted share units contain rights to receive nonforfeitable dividends, and thus, are participating securities requiring the two-class method of computing EPS. The calculation of earnings per share for common stock shown above excludes the income attributable to the unvested restricted share units from the numerator and excludes the dilutive impact of those units from the denominator.

At March 31, 2009 and 2008, the Company had 2.6 million and 2.9 million of outstanding stock options, respectively. The Company also has warrants outstanding relating to its 2010 Notes and 2012 Notes. Stock options and warrants are included in the diluted earnings per share calculation using the treasury stock method, unless the effect of including the stock options would be anti-dilutive. For the three months ended March 31, 2009 and 2008, 2.3 million and 0.5 million anti-dilutive stock options, respectively, were excluded from the diluted earnings per share calculation. As the strike price of the warrants exceed the Company's average stock price for the period, the warrants are anti-dilutive

and the entire number of warrants, the amount of which is based on the Company's average stock price, were also excluded from the diluted earnings per share calculation.

Table of Contents**11. SEGMENT AND GEOGRAPHIC INFORMATION**

The Company's management reviews financial results and manages the business on an aggregate basis. Therefore, financial results are reported in a single operating segment, the development, manufacture and marketing of medical devices for use in cranial and spinal procedures, peripheral nerve repair, small bone and joint injuries, and the repair and reconstruction of soft tissue.

The Company presents its revenues in three categories: NeuroSciences, Orthopedics and Medical Instruments. The Company's revenues were as follows (in thousands):

| | Three Months Ended March 31, | |
|---------------------|-------------------------------------|-------------|
| | 2009 | 2008 |
| Revenue | | |
| NeuroSciences | \$ 59,731 | \$ 61,704 |
| Orthopedics | 64,366 | 50,355 |
| Medical Instruments | 36,853 | 43,949 |
| | | |
| Total Revenue | \$ 160,950 | \$ 156,008 |

Certain of the Company's products, including the DuraGen® and NeuraGen® product families and the INTEGRA® Dermal Regeneration Template and wound-dressing products, contain material derived from bovine tissue. Products that contain materials derived from animal sources, including food as well as pharmaceuticals and medical devices, are increasingly subject to scrutiny from the press and regulatory authorities. These products constituted 23% and 22% of total revenues in each of the three-month periods ended March 31, 2009 and 2008, respectively. Accordingly, widespread public controversy concerning collagen products, new regulation, or a ban of the Company's products containing material derived from bovine tissue could have a material adverse effect on the Company's current business or its ability to expand its business.

Total revenues by major geographic area are summarized below (in thousands):

| | United States | Europe | Asia Pacific | Other Foreign | Total |
|--------------------------------------|--------------------------|---------------|-------------------------|--------------------------|--------------|
| Three months ended March 31, 2009 | \$ 122,585 | \$ 23,394 | \$ 7,194 | \$ 7,777 | \$ 160,950 |
| Three months ended March 31, 2008 | 113,375 | 26,662 | 7,219 | 8,752 | 156,008 |

12. COMMITMENTS AND CONTINGENCIES

In 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 May 2006, Codman & Shurtleff, Inc., a division of Johnson & Johnson, commenced an action in the United States District Court for the District of New Jersey for declaratory judgment against the Company with respect to United States Patent No. 5,997,895 (the '895 Patent') held by the Company. The Company's patent covers dural repair technology related to the Company's DuraGen® family of duraplasty products.

The action seeks declaratory relief that Codman's DURAFORM® product does not infringe the Company's patent and that the Company's patent is invalid. Codman does not seek either damages from the Company or injunctive relief to prevent the Company from selling the DuraGen® Dural Graft Matrix. The Company has filed a counterclaim against Codman, alleging that Codman's DURAFORM® product infringes the '895 Patent, seeking injunctive relief preventing

the sale and use of DURAFORM[®], and seeking damages, including treble damages, for past infringement.

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

The Company accrues for loss contingencies in accordance with SFAS 5; that is, when it is deemed probable that a loss has been incurred and that loss is estimable. The amounts accrued are based on the full amount of the estimated loss before considering insurance proceeds, and do not include an estimate for legal fees expected to be incurred in connection with the loss contingency. The Company consistently accrues legal fees expected to be incurred in connection with loss contingencies as those fees are incurred by outside counsel as a period cost, as permitted by EITF Topic D-77.

In March 2009, the Company entered into the First Amendment to Lease Agreement dated as of January 1, 2009 with 109 Morgan Lane, LLC. (the Amendment) relating to the Company's general office, lab and warehouse facility located at 109 Morgan Lane, Plainsboro, New Jersey (the Facility). The Company entered into the original Lease Agreement, dated as of May 15, 2008 (the Lease) for the expansion of the Company's headquarters in Plainsboro.

The Amendment changed the base rent terms and extended the term of the Lease through March 31, 2019. Effective on January 1, 2009, the annual rent for the initial approximately 26,750 square feet of space of the Facility (the Initial Space) is approximately \$270,000 per year and, effective April 1, 2009, the rent for the remaining approximately 31,261 square feet of the Facility (the Remaining Space), which will be added to the Lease on such date if certain conditions are met, is approximately \$316,000 per year, subject to adjustments. Additional rent is also required for, among other things, operating expenses and taxes. The Company has a five year renewal option to extend the term of the Lease through March 31, 2024.

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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 condensed consolidated financial statements and the related notes thereto appearing elsewhere in this report and our consolidated financial statements for the year ended December 31, 2008 included in our Annual Report on Form 10-K.

We have made statements in this report 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 (the Exchange Act). These forward-looking statements are subject to a number of risks, uncertainties and assumptions about the Company. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including but not limited to those set forth above under the heading Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2008.

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 the

GENERAL

Integra is a market-leading, innovative medical device company focused on helping the medical professional enhance the standard of care for patients. Integra provides customers with clinically relevant, innovative and cost-effective products that improve the quality of life for patients. We focus on cranial and spinal procedures, small bone and joint injuries, the repair and reconstruction of soft tissue, and instruments for surgery.

We present revenues in three market categories: NeuroSciences, Orthopedics and Medical Instruments. Our neurosurgical products group includes, among other things, dural grafts that are indicated for the repair of the dura mater, ultrasonic surgery systems for tissue ablation, cranial stabilization and brain retraction systems, systems for measurement of various brain parameters and devices used to gain access to the cranial cavity and to drain excess cerebrospinal fluid from the ventricles of the brain. Our orthopedics products include specialty metal implants for surgery of the extremities and spine, orthobiologics products for repair and grafting of bone, dermal regeneration products and tissue engineered wound dressings and nerve and tendon repair products. Our medical instruments products include a wide range of specialty and general surgical and dental instruments and surgical lighting for sale to hospitals, outpatient surgery centers, and physician, veterinarian and dental practices.

We manage these product groups and distribution channels on a centralized basis. Accordingly, we report our financial results under a single operating segment—the development, manufacture and distribution of medical devices. We manufacture many of our products in plants located in the U.S., Puerto Rico, France, Germany, Ireland, the United Kingdom and Mexico. We also source most of our handheld surgical instruments through specialized third-party vendors.

In the U.S., we have three sales channels. The largest, Integra NeuroSciences, sells products through directly employed sales representatives. Within our Integra Orthopedics sales channel, there are three sales organizations: Integra Extremity Reconstruction, which sells through a large direct sales organization; Integra OrthoBiologics and Integra Spine, which sell through specialty distributors focused on their respective surgical specialties. The Integra Medical Instruments market sales channel sells through two main sales organizations: Integra Surgical, which sells both directly and through distributors and Miltex, which sells through distributors and wholesalers.

We also market certain products through strategic partners or original equipment manufacturer customers.

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

We aim to achieve this growth in revenues while maintaining strong financial results. While we pay attention to any meaningful trend in our financial results, we pay particular attention to measurements that are indicative of long-term profitable growth. These measurements include revenue growth (derived through acquisitions and products developed internally), gross margins on total revenues, operating margins (which we aim to continually expand on as we

leverage our existing infrastructure), operating cash flows (which we aim to increase through improved working capital management), and earnings per diluted share of common stock.

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We believe that we are particularly effective in the following aspects of our business:

Developing, manufacturing and selling specialty regenerative technology products. We have a broad technology platform for developing products that regenerate or repair soft tissue and bone. We believe that we have a particular advantage in developing, manufacturing and selling tissue repair products derived from bovine collagen. These products comprised 23% and 22% of revenues for the three months ended March 31, 2009 and 2008, respectively. Products that contain materials derived from animal sources, including food, pharmaceuticals and medical devices, have been subject to scrutiny from the media and regulatory authorities. Accordingly, widespread public controversy concerning collagen products, new regulations, or a ban of our products containing material derived from bovine tissue, could have a material adverse effect on our current business and our ability to expand.

Developing metal implants for bone and joint repair, fixation and fusion. Through acquisitions, particularly those of Theken in 2008 and Newdeal Technologies SAS in 2005, we have acquired significant expertise in developing metal implants for use in bone and joint repair, fixation and fusion and in successfully bringing those products to market.

Acquiring and integrating new product lines and complementary businesses. Since 1999, we have acquired and integrated more than 30 product lines or businesses through an acquisition program that focuses on acquiring companies or product lines at reasonable valuations which complement our existing product lines or can be used to leverage our broad technology platform in tissue regeneration and metal implants. We also employ a team of seasoned managers and executives who have demonstrated their ability to successfully integrate the acquired product lines and businesses.

ACQUISITIONS

Our strategy for growing our business includes the acquisition of complementary product lines and companies. Our recent acquisitions of businesses, assets and product lines may make our financial results for the three months ended March 31, 2009 not directly comparable to those of the corresponding prior-year period. See Note 2 to the unaudited condensed consolidated financial statements for a further discussion. Since the beginning of 2008, we have acquired the following businesses:

In August 2008, we acquired Theken Spine, LLC, Theken Disc, LLC and Therics, LLC (collectively, Theken) for \$75.0 million in cash, subject to certain adjustments, acquisition expenses of \$2.4 million, working capital adjustments of \$4.0 million, and up to approximately \$121.0 million in future payments based on the revenue performance of the business in the two years after closing. Theken, based in Akron, Ohio, designs, develops and manufactures spinal fixation products, synthetic bone substitute products and spinal arthroplasty products. With Theken, we acquired a unique and comprehensive portfolio of spinal implant products and a robust technology pipeline and demonstrated product development capacity, an established network of spinal hardware distributors with established access to the orthopedic spine market, and a strong management team with extensive experience in the orthopedic spine market. Theken does not currently sell its products outside of the U.S. Accordingly, we expect that the business will benefit from Integra's large international presence. The Theken products are now being marketed under the name Integra Spine .

In October 2008, we acquired Integra Neurosciences Pty Ltd. in Australia and Integra Neurosciences Pty Ltd. in New Zealand for \$4.0 million (6.0 million Australian Dollars) in cash at closing, \$0.3 million in acquisition expenses and working capital adjustments, and up to \$2.1 million (3.1 million Australian Dollars) in future payments based on the performance of business in the three years after closing. With this acquisition of the Company's long-standing distributor, the Company now has a direct selling presence in Australia and New Zealand.

In December 2008, we acquired Minnesota Scientific, Inc., doing business as Omni-Tract Surgical (Omni-Tract), for \$6.4 million in cash paid at closing, 310,000 unregistered shares of our common stock valued at \$10.7 million (of which 135,000 shares were issued at closing, with the remainder issued in January 2009), and \$0.3 million in transaction related costs, subject to certain adjustments. Omni-Tract is a global leader in the development and manufacture of table mounted retractors and is based in St. Paul, Minnesota. Omni-Tract markets and sells these retractor systems for use in vascular, bariatric, general, urologic, orthopedic, spine, pediatric, and laparoscopic surgery. We will integrate Omni-Tract's product lines into our combined offering of JARIT, Padgett , R&B Redmond , and Luxtec® lines of surgical instruments and illumination systems sold by the Integra Medical Instruments sales organization.

Table of Contents**RESULTS OF OPERATIONS**

Net income for the three months ended March 31, 2009 was \$9.6 million, or \$0.32 per diluted share, as compared to net income of \$9.1 million, or \$0.32 per diluted share, for the three months ended March 31, 2008. These amounts include the following pre-tax charges (in thousands):

| | Three Months Ended March 31, | |
|---|-------------------------------------|-----------------|
| | 2009 | 2008 |
| Employee termination and related costs | \$ 450 | \$ 3,208 |
| Inventory fair market value purchase accounting adjustments | 2,007 | 3,208 |
| Facility consolidation, acquisition integration, manufacturing transfer, enterprise business system integration and related costs | 203 | 364 |
| Incremental professional and bank fees related to the delayed 10-K filing | | 548 |
| Administrative bank fees related to consideration of waiver | 350 | |
| Gain related to early extinguishment of convertible note | (1,213) | |
| Non-cash interest expense related to the application of FSP APB 14-1 | 2,762 | 4,352 |
| Foreign exchange loss on intercompany loan* | 1,876 | |
| Total | \$ 6,435 | \$ 8,472 |

* This foreign exchange loss is associated with our intercompany loan set up in connection with the restructuring of a German subsidiary in the fourth quarter of 2008. Net income for the first quarter of 2009 and prior periods include foreign exchange gains and losses associated with intercompany loans not related to any restructuring.

Of these amounts, \$2.2 million and \$3.4 million were charged to cost of product revenues in the three-month periods ended March 31, 2009 and 2008, respectively. The remaining amounts were primarily charged to selling, general and administrative and interest expenses.

We believe that, given our ongoing, active strategy of seeking new acquisitions and integrating recent acquisitions, our current focus on rationalizing our existing manufacturing and distribution infrastructure, our recent review of

various product lines in relation to our current business strategy, and a renewed focus on enterprise business systems integrations, charges similar to those discussed above could recur with similar materiality in the future. We believe that the delineation of these costs provides useful information to measure the comparative performance of our business operations.

Revenues and Gross Margin on Product Revenues

Our revenues and gross margin on product revenues were as follows (in thousands):

| | Three Months Ended March 31 | |
|--|------------------------------------|-------------|
| | 2009 | 2008 |
| NeuroSciences | \$ 59,731 | \$ 61,704 |
| Orthopedics | 64,366 | 50,355 |
| Medical Instruments | 36,853 | 43,949 |
| | | |
| Total revenue | \$ 160,950 | \$ 156,008 |
| Cost of product revenues | 58,148 | 62,212 |
| Gross margin on total revenues | \$ 102,802 | \$ 93,796 |
| Gross margin as a percentage of total revenues | 64% | 60% |

THREE MONTHS ENDED MARCH 31, 2009 AS COMPARED TO THE THREE MONTHS ENDED MARCH 31, 2008

Revenues and Gross Margin

For the three-month period ended March 31, 2009, total revenues increased by \$5.0 million, or 3%, to \$161.0 million from \$156.0 million for the same period last year. Domestic revenues increased by \$9.2 million to \$122.6 million from \$113.4 million, increasing to 76% of total revenues for the three-month period ended March 31, 2009, compared to 73% of total revenues in the same period last year.

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In the NeuroSciences category, sales of our hospital capital equipment decreased from 2008, particularly in our CUSA[®] ultrasonic surgical systems, and Radionics[®] image-guided surgery and stereotactic radio surgery systems. Implants and service revenues continued to grow in this category. In the Orthopedics category, sales of our spine products provided most of the year-over-year growth, and sales of extremity reconstruction products for mid/hindfoot, upper extremity and skin/wound applications also demonstrated rapid growth. In the Medical Instruments category, sales decreased due to eliminated distributed product lines related to the LXU Healthcare business that we acquired in May 2007, contractions in distribution chain inventories, and from reductions in hospital and healthcare provider spending.

Foreign exchange fluctuations, due to the weakening of the of the euro, pound, and Canadian dollar versus the dollar, accounted for a \$5.2 million decrease in first quarter of 2009 revenues as compared to the same period last year.

We expect that the following factors will continue to temper sales growth in the short term: reduced spending by hospitals on capital equipment, the occurrence of fewer elective surgical procedures in the current global recessionary economic environment, the recent strengthening of the U.S. dollar against the foreign currencies that we generate revenues in, and our recent elimination of many of the product lines we distributed for third parties. However, we do expect these factors to produce a benefit in our gross margin as a percentage of revenue, as most of our capital equipment products and products distributed for third parties tend to generate lower gross margins as compared to our other products and because the U.S. dollar cost of those products we manufacture outside the U.S. or procure in foreign currencies will also be reduced as the U.S. dollar strengthens against those foreign currencies.

While most of our products are not used in elective surgical procedures, approximately 9% of our revenues in the three-month period ended March 31, 2009 consisted of sales of capital equipment. Given the current economic conditions, lower hospital spending on capital equipment is expected to continue throughout 2009 and potentially beyond then. With our large installed base of capital equipment, such as Camino[®] intracranial pressure monitors, CUSA[®] ultrasonic surgical systems, and Radionics[®] image-guided surgery and stereotactic radio surgery systems, we expect to continue to generate revenue growth from the related disposable products and we plan to focus on generating more revenues from service and repair agreements on the installed base of capital equipment as hospitals reduce spending on new capital equipment. We are also exploring other revenue generating alternatives with respect to our capital equipment.

We expect to drive future revenue growth by continuing to launch new products and acquire businesses and products that can be sold through our existing sales organizations, and by gaining additional market share through the expansion of our Integra Extremity Reconstruction and Integra Spine sales organizations in the U.S. and leveraging the distribution channels in our Integra Spine, Integra NeuroSciences, and Integra OrthoBiologics sales organizations to broaden each organization's access to spine surgeons. We believe that the biggest opportunities for revenue growth exist in the extremity reconstruction and spine markets.

Gross margin increased by \$9.0 million to \$102.8 million for the three-month period ended March 31, 2009, from \$93.8 million for the same period last year. Gross margin as a percentage of total revenue was 64% for the first quarter 2009 compared to 60% for the same period last year. This increase results from a higher portion of product sales coming from higher margin implants, particularly spine and extremity reconstruction, in combination with reduced sales of lower margin instrument products. There was also improvement from a reduction in inventory purchase accounting adjustments, where charges related to our IsoTis and Precise Dental acquisitions affected the first quarter of 2008 by \$3.2 million, versus charges of \$2.0 million related to Theken, Integra Neurosciences Pty Ltd. in Australia and New Zealand, and Omni-Tract in the first quarter of 2009.

We expect our consolidated gross margin to further increase throughout 2009 as sales of our higher gross margin implant products, particularly those from the recently acquired Theken business, are expected to continue to increase as a proportion of total revenues. Additionally, we expect that our gross margin as a percentage of sales will improve further if the U.S. dollar continues to strengthen against the euro and British pound, as such a strengthening would lower the U.S. dollar cost of products we manufacture at our European plants and the large proportion of the handheld surgical instruments that we procure in euros. Although we continuously identify and implement programs to reduce costs at our manufacturing plants and to manage our inventory more efficiently, gross margin improvements in our business are expected to continue to result primarily from changes in sales mix to a larger proportion of sales of our

higher gross margin implant products.

Table of Contents**Other Operating Expenses**

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

| | Three Months Ended March 31 | |
|-------------------------------------|------------------------------------|-------------|
| | 2009 | 2008 |
| Research and development | 7% | 5% |
| Selling, general and administrative | 41% | 40% |
| Intangible asset amortization | 2% | 2% |
| Total other operating expenses | 50% | 47% |

Total other operating expenses, which consist of research and development expense, selling, general and administrative expense and amortization expense, increased \$7.3 million, or 10%, to \$80.6 million in the first quarter of 2009, compared to \$73.3 million in the first quarter of 2008.

Research and development expenses in the first quarter of 2009 increased by \$2.8 million to \$10.6 million, compared to \$7.8 million in the same period last year. The increase was due largely to the purchase of Theken in August 2008 and to increased spending on our multi-center clinical trial being conducted under a Food and Drug Administration (FDA) Investigational Device Exemption initiated in 2006 to support FDA approval of the DuraGen Plus Adhesion Barrier Matrix product.

Excluding acquisition-related and other special charges, we target 2009 spending on research and development to be between 5% and 7% of total revenues. Most of this planned spending for 2009 is concentrated on product development efforts for our spine, neurosurgery and extremity reconstruction product lines. Additionally, we are continuing the Adhesion Barrier Matrix clinical trial and the clinical trial to support FDA approval of expanded claims for our INTEGRA® Dermal Regeneration Template product.

Selling, general and administrative expenses in the first quarter of 2009 increased by \$4.0 million to \$66.5 million, compared to \$62.5 million in the same period last year. Selling expenses increased by \$5.6 million primarily due to increase in revenues and the corresponding commission costs, particularly in connection with our Theken revenues, which generate relatively higher distributor commission costs. General and administrative costs decreased \$1.6 million primarily due to decreases in cash bonuses and lower professional fees. Selling, general and administrative expenses also increased in the first quarter of 2009 compared to the same period last year in connection with the acquisitions of the Theken, Integra Neurosciences Pty Ltd. in Australia and New Zealand, and Omni-Tract businesses.

We will continue to expand our direct sales organizations in our direct selling platforms where business opportunities are most attractive, including extremity reconstruction, and increase corporate staff to support our information infrastructure to facilitate future growth. We expect to incur costs related to these activities in 2009 as we continue these ongoing activities.

Amortization expense in the first quarter of 2009 increased by \$0.5 million to \$3.5 million, compared to \$3.0 million in the same period last year. The increase was primarily related to the acquisitions of the Theken, Integra Neurosciences Pty Ltd. in Australia and New Zealand, and Omni-Tract businesses.

Non-Operating Income and Expenses

The following is a summary of non-operating income and expenses (in thousands):

| | Three Months Ended March 31 | |
|------------------------|------------------------------------|-------------|
| | 2009 | 2008 |
| Interest income | \$ 247 | \$ 687 |
| Interest expense | (6,684) | (8,567) |
| Other income (expense) | (868) | 1,507 |

Interest Income

Interest income decreased in the three-month period ended March 31, 2009, compared to the same period last year, primarily due to lower interest rates and lower average cash and investment balances.

Table of Contents**Interest Expense**

Interest expense for the three months ended March 31, 2009 and 2008 included the impact of the additional interest expense from the adoption of FSP APB 14-1 (see Note 1 for more information). Interest expense decreased in the three-month period ended March 31, 2009, compared to the same period last year, primarily due to the settlement of our 2008 Notes, which were fully repaid in April 2008.

Our reported interest expense for the three-month periods ended March 31, 2009 and 2008, respectively, includes \$1.8 million and \$3.8 million of cash interest expense. The remainder of the expense represents non-cash interest expense related to the adoption of FSP APB 14-1 and the amortization of debt issuance costs.

On March 17, 2008, our 2008 Notes matured and we paid \$1.8 million of contingent interest because our common stock price was greater than \$37.56 at thirty days prior to the maturity date. The value of this contingent interest obligation was marked to its fair value at each balance sheet date, with changes in the fair value recorded to interest expense. In accordance with the terms of the 2008 Notes we paid approximately \$0.2 million and \$119.4 million and issued 12,000 and 756,000 shares of our common stock in March and April 2008, respectively. We borrowed \$120 million under our credit facility in March 2008 in order to repay the 2008 Notes, which were entirely repaid in April 2008. The changes in the estimated fair value of the contingent interest obligation increased interest expense by \$25,000 for the three months ended March 31, 2008.

Other Income

Other income decreased in the three-month period ended March 31 2009, compared to the same period last year, primarily due to foreign exchange gains of \$1.5 million in the first quarter of 2008 and foreign exchange losses of \$2.1 million in the first quarter of 2009. The foreign exchange gain in the first quarter of 2008 primarily related to an intercompany liability of the Company's Ireland manufacturing company. The foreign exchange loss in the first quarter of 2009 primarily related to an intercompany loan set up in connection with the restructuring of a German subsidiary in the fourth quarter of 2008. Reducing this loss in 2009 was a \$1.2 million gain related to the March 2009 repurchase of a face amount of \$32.1 million of our 2010 Notes (as defined below).

Income Taxes

| (in thousands) | Three Months Ended March 31, | |
|----------------------------|-------------------------------------|-------------|
| | 2009 | 2008 |
| Income before income taxes | \$ 14,947 | \$ 14,162 |
| Income tax expense | 5,380 | 5,112 |
| Net income | \$ 9,567 | \$ 9,050 |

Effective tax rate 36% 36%

Our effective income tax rate for the three months ended March 31, 2009 and 2008 was 36% for both periods. Income tax expense included certain discrete items in the quarter, including the gain on the buyback of our 2010 Notes.

Our effective tax rate may vary from period to period depending on, among other factors, the geographic and business mix of taxable earnings and losses. We consider these factors and others, including our history of generating taxable earnings, in assessing our ability to realize deferred tax assets. We expect our effective income tax rate for the full year to be approximately 35-36%.

INTERNATIONAL PRODUCT REVENUES AND OPERATIONS

Product revenues by major geographic area are summarized below (in thousands):

| | United States | Europe | Asia Pacific | Other Foreign | Total |
|-----------------------------------|----------------------|---------------|---------------------|----------------------|--------------|
| Three months ended March 31, 2009 | \$ 122,585 | \$ 23,394 | \$ 7,194 | \$ 7,777 | \$ 160,950 |
| Three months ended March 31, 2008 | 113,375 | 26,662 | 7,219 | 8,752 | 156,008 |

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For the three months ended March 31, 2009, revenues from customers outside the United States totaled \$38.4 million, or 24% of total revenues, of which approximately 61% were from European customers. Revenues from customers outside the United States included \$29.7 million of revenues generated in foreign currencies. For the three months ended March 31, 2008, revenues from customers outside the United States totaled \$42.6 million, or 27% of total revenues, of which approximately 63% were from European customers. Revenues from customers outside the United States included \$30.3 million of revenues generated in foreign currencies. Because we have operations based in Europe and we generate revenues and incur operating expenses in euros, British pounds, Swiss francs, Canadian dollars, Mexican pesos, and the Japanese yen, we experience currency exchange risk with respect to those foreign currency denominated revenues or expenses. We currently do not hedge our exposure to foreign currency risk. Accordingly, a weakening of the dollar against the euro, British pound, Swiss franc, Canadian dollar, Mexican peso, and the Japanese yen could negatively affect future gross margins and operating margins. We will continue to assess the potential effects that changes in foreign currency exchange rates could have on our business. If we believe this potential impact presents a significant risk to our business, we may enter into derivative financial instruments to mitigate this risk.

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

Local economic conditions, regulatory or political considerations, the effectiveness of our sales representatives and distributors, local competition and changes in local medical practice all may combine to affect our sales into markets outside the United States.

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

LIQUIDITY AND CAPITAL RESOURCES**Cash and Cash Equivalents**

We had cash and cash equivalents totaling approximately \$185.6 million and \$183.5 million as of March 31, 2009 and December 31, 2008, respectively.

Cash Flows

| (in thousands) | Three Months Ended March 31, | |
|---|------------------------------|------------|
| | 2009 | 2008 |
| Net cash provided by operating activities | \$ 37,187 | \$ 20,346 |
| Net cash (used in) investing activities | (7,049) | (2,850) |
| Net cash (used in) provided by financing activities | (27,957) | 121,001 |
| Effect of exchange rate fluctuations on cash | (97) | 3,177 |
| Net increase in cash and cash equivalents | \$ 2,084 | \$ 141,674 |

Cash Flows Provided by Operating Activities

We generated positive operating cash flows of \$37.2 million and \$20.3 million at March 31, 2009 and 2008, respectively. Operating cash flows for the year ended December 31, 2008 were \$72.6 million. Cash provided by operations has recently been and is expected to continue to be our primary means of funding existing operations and capital expenditures. Operating cash flows improved primarily due to improved working capital management, especially the collection of accounts receivable.

Cash Flows (Used in) Provided by Investing and Financing Activities

Our principal use of funds during the first quarter ended March 31, 2009 was \$28.0 million used to repurchase the liability component of the 2010 Notes. These Notes had a face value amount of \$32.1 million, and their purchase will result in overall reduced net interest costs. Other uses in the period included \$3.0 million in capital expenditures, and \$4.0 million related to payments related to business acquisitions.

Working Capital

At March 31, 2009 and December 31, 2008, working capital was \$306.9 million and \$322.6 million, respectively. The decrease in working capital was primarily related to reductions in accounts receivable, stemming from collections activity, and to reduced inventories mainly due to changes in foreign currency exchange rates.

Table of Contents**Convertible Debt and Senior Secured Revolving Credit Facility**

We pay interest each June 1 and December 1 on our \$132.9 million senior convertible notes due June 2010 (2010 Notes) at an annual rate of 2.75% and on our \$165 million senior convertible notes due June 2012 (2012 Notes) and, collectively with the 2010 Notes , the Notes) at an annual rate of 2.375%.

The Notes are senior, unsecured obligations of Integra, and are convertible into cash and, if applicable, shares of our common stock based on an initial conversion rate, subject to adjustment, of 15.0917 shares per \$1,000 principal amount of notes for the 2010 Notes and 15.3935 shares per \$1,000 principal amount of notes for the 2012 Notes (which represents an initial conversion price of approximately \$66.26 per share and approximately \$64.96 per share for the 2010 Notes and the 2012 Notes, respectively.) We expect to satisfy any conversion of the Notes with cash up to the principal amount of the applicable series of Notes pursuant to the net share settlement mechanism set forth in the applicable indenture and, with respect to any excess conversion value, with shares of our common stock. The Notes are convertible only in the following circumstances: (1) if the closing sale price of our common stock exceeds 130% of the conversion price during a period as defined in the indenture; (2) if the average trading price per \$1,000 principal amount of the Notes is less than or equal to 97% of the average conversion value of the Notes during a period as defined in the indenture; (3) at any time on or after December 15, 2009 (in connection with the 2010 Notes) or anytime after December 15, 2011 (in connection with the 2012 Notes); or (4) if specified corporate transactions occur. The issue price of the Notes was equal to their face amount, which is also the amount holders are entitled to receive at maturity if the Notes are not converted. As of March 31, 2009, none of these conditions existed and, as a result, the entire balance of the 2010 Notes and the 2012 Notes is classified as long-term.

The Notes, under the terms of the private placement agreement, are guaranteed fully by Integra LifeSciences Corporation, a subsidiary of Integra. The 2010 Notes will rank equal in right of payment to the 2012 Notes. The Notes will be Integra's direct senior unsecured obligations and will rank equal in right of payment to all of our existing and future unsecured and unsubordinated indebtedness.

In connection with the issuance of the Notes, we entered into call transactions and warrant transactions, primarily with affiliates of the initial purchasers of the Notes (the hedge participants), in connection with each series of Notes. The cost of the call transactions to us was approximately \$46.8 million. We received approximately \$21.7 million of proceeds from the warrant transactions. The call transactions involved our purchasing call options from the hedge participants, and the warrant transactions involved us selling call options to the hedge participants with a higher strike price than the purchased call options.

The initial strike price of the call transactions is (1) for the 2010 Notes, approximately \$66.26 per share of Common Stock, and (2) for the 2012 Notes, approximately \$64.96, in each case subject to anti-dilution adjustments substantially similar to those in the Notes. The initial strike price of the warrant transactions is (i) for the 2010 Notes, approximately \$77.96 per share of Common Stock and (ii) for the 2012 Notes, approximately \$90.95, in each case subject to customary anti-dilution adjustments.

In March 2009, the Company repurchased \$32.1 million principal amount of the 2010 Notes and recognized a non-cash gain of \$1.2 million. The bond hedge contracts were terminated on a pro-rata basis and the number of options was adjusted to reflect the number of convertible securities outstanding that together have a total principal amount of \$132.9 million. In a separate transaction, we amended the warrant transactions to reduce the number of warrants outstanding to reflect such number of convertible securities outstanding.

We may from time to time seek to retire or purchase additional outstanding Notes through cash purchases and/or exchanges for equity securities, in open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. Under certain circumstances, the call options associated with any repurchased Notes may terminate early, but only with respect to the number of Notes that cease to be outstanding. The amounts involved may be material.

As of March 31, 2009 we had \$260 million of outstanding borrowings under our credit facility at a weighted average rate of 1.53%. The Company used a portion of the proceeds to repay all of the remaining 2008 Notes totaling approximately \$119.4 million in the second quarter of 2008 and \$3.3 million of related accrued and contingent interest during March 2008. On July 28, 2008 and October 30, 2008, the Company borrowed \$80.0 million and \$60.0 million,

respectively, to fund the acquisition of Theken and for other general corporate purposes. The Company considers \$100.0 million of such outstanding amounts to be short-term in nature based on its current intent and ability to repay this borrowing. If additional borrowings are made in connection with, for instance, future acquisitions, such activities could impact the timing of when the Company intends to repay amounts under this credit facility, which runs through December, 2011. We believe that our cash and borrowings under the senior secured revolving credit facility are sufficient to finance our operations and capital expenditures in the near term.

Table of Contents**Share Repurchase Plan**

In October 2007, our Board of Directors adopted a program that authorized us to repurchase shares of our common stock for an aggregate purchase price not to exceed \$75.0 million through December 31, 2008. On October 30, 2008, our Board of Directors terminated the repurchase authorization it adopted in October 2007 and authorized us to repurchase shares of our common stock for an aggregate purchase price not to exceed \$75.0 million through December 31, 2010. Shares may be purchased either in the open market or in privately negotiated transactions. We did not repurchase any shares of our common stock in 2009 or 2008 under either of these programs.

Dividend Policy

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

Contractual Obligations and Commitments

As of March 31, 2009, we were obligated to pay the following amounts under various agreements:

| | Total | Less than 1 Year | 1-3 Years (in millions) | 3-5 Years | More than 5 years |
|------------------------------------|-----------------|-----------------------------|--|----------------------|----------------------------------|
| Convertible Securities Long Term | \$ 297.9 | \$ | \$ 132.9 | \$ 165.0 | \$ |
| Revolving Credit Facility (1) | 260.0 | 100.0 | 160.0 | | |
| Interest on Convertible Securities | 23.6 | 8.5 | 10.2 | 4.9 | |
| Employment Agreements (2) | 5.5 | 3.1 | 2.4 | | |
| Operating Leases | 29.2 | 5.2 | 11.2 | 5.6 | 7.2 |
| Purchase Obligations | 11.3 | 7.0 | 4.3 | | |
| Warranty Obligations | 0.1 | 0.1 | | | |
| Pension Contributions | 0.5 | 0.4 | | | 0.1 |
| Total | \$ 628.1 | \$ 124.3 | \$ 321.0 | \$ 175.5 | \$ 7.3 |

(1) The Company makes regular borrowing and payments each month against the credit facility and considers \$100 million of such outstanding amounts to be short-term in nature based on its current intent and ability. If additional borrowings are made in connection with,

for instance,
future
acquisitions, this
could impact the
timing of when
the Company
intends to repay
amounts under
this credit
facility which
runs through
December 2011.

- (2) Amounts shown
under
Employment
Agreements do
not include
executive
compensation or
compensation
resulting from a
change in control
relating to our
executive
officers.

Excluded from the contractual obligations table is the liability for unrecognized tax benefits totaling \$11.7 million. This liability for unrecognized tax benefits has been excluded because we cannot make a reliable estimate of the period in which the unrecognized tax benefits will be realized.

In addition, the terms of the purchase agreements executed in connection with certain acquisitions we closed in the last several years require us to make payments to the sellers of those businesses based on the performance of such businesses after the acquisition.

OTHER MATTERS

Critical Accounting Policies

The critical accounting estimates included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 has not materially changed.

Table of Contents**Recently Adopted Accounting Standards**

Effective January 1, 2009, the Company adopted Financial Accounting Standards Board (FASB) Staff Position No. APB 14-1, *Accounting for Convertible Debt Instruments that May be Settled in Cash Upon Conversion (Including Partial Cash Settlement)* (FSP APB 14-1). FSP APB 14-1 requires that the liability and equity components of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) be separately accounted for in a manner that reflects an issuer's nonconvertible debt borrowing rate. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. FSP APB 14-1 is effective for our \$330.0 million aggregate principal amount of our senior convertible notes due June 2010 and June 2012 with an annual rate of 2.75% and 2.375%, respectively, (the 2010 Notes and the 2012 Notes, respectively), and the \$119.5 million exchanged portion of our contingent convertible subordinated notes due March 2008 with an annual rate of 2.5% (the 2008 Notes) and requires retrospective application for all periods presented. FSP APB 14-1 requires the issuer of convertible debt instruments with cash settlement features to separately account for the liability. As of the date of issuance for the 2010 Notes and the 2012 Notes, and the date of modification for the 2008 Notes (collectively, the Covered Notes), the result of the impact of FSP APB 14-1 for each of the Covered Notes is as follows (in millions):

| | 2008 | 2010 | 2012 |
|-------------------------------|--------------|--------------|--------------|
| | Notes | Notes | Notes |
| | September | | |
| Date impacted by FSP APB 14-1 | 2006 | June 2007 | June 2007 |
| Total Amount | \$ 119.5 | \$ 165.0 | \$ 165.0 |
| Liability Component | 103.0 | 142.2 | 122.5 |
| Equity Component | 11.6 | 16.0 | 29.9 |
| Deferred Tax Component | 4.9 | 6.8 | 12.6 |

The debt component was recognized at the present value of its cash flows discounted using discount rates of 9.70%, 6.47% and 6.81%, our borrowing rate at the date of exchange of the 2008 Notes and the dates of the issuance of the 2010 Notes and the 2012 Notes, respectively, for a similar debt instrument without the conversion feature. For additional information, see Note 6, Debt.

FSP APB 14-1 also requires an accretion of the resultant debt discount over the expected life of the Covered Notes, which is March, 2008 to June, 2012.

For the three months ended March 31, 2009, the additional pre-tax non-cash interest expense recognized in the condensed consolidated income statement was \$2.8 million. Accumulated amortization related to the debt discount was \$8.2 million and \$5.5 million as of March 31, 2009 and December 31, 2008, respectively. The pre-tax increase in non-cash interest expense on our condensed consolidated statements of income to be recognized through 2012, the latest maturity date of the Notes, is as follows (in millions):

| | 2009 | 2010 | 2011 | 2012 |
|---|-------------|-------------|-------------|-------------|
| Pre-tax increase in non-cash interest expense | \$ 10.7 | \$ 8.1 | \$ 6.7 | \$ 2.9 |

Effective January 1, 2009, we adopted FASB Staff Position No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (FSP 03-6-1). In FSP 03-6-1, unvested share-based payment awards that contain rights to receive nonforfeitable dividends or dividend equivalents (whether paid or unpaid) are participating securities, and thus, should be included in the two-class method of computing earnings per share (EPS). The adoption of this standard did not have a material impact on our disclosure of EPS. See Note 10, Net Income Per Share.

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Effective January 1, 2009, we adopted FASB Statement No. 141(R), Business Combinations (Statement 141(R)), a replacement of FASB Statement No. 141. Statement 141(R) changes the practice for accounting for business combinations, such as requiring that we (1) expense transaction costs as incurred, rather than capitalizing them as part of the purchase price; (2) record contingent consideration arrangements and pre-acquisition contingencies, such as legal issues, at fair value at the acquisition date, with subsequent changes in fair value recorded in the income statement; (3) capitalize the fair value of acquired research and development assets separately from goodwill, whereas we previously determined the acquisition-date fair value and then immediately charged the value to expense; and (4) limit the conditions under which restructuring expenses can be accrued in the opening balance sheet of a target to only those where the requirements in FASB Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities, would have been met at the acquisition date. Additionally, Statement 141(R) provides that, upon initially obtaining control, an acquirer shall recognize 100 percent of the fair values of acquired assets, including goodwill, and assumed liabilities, with only limited exceptions, even if the acquirer has not acquired 100 percent of its target. The implementation of Statement 141(R) could result in an increase or decrease in future selling, general and administrative and other operating expenses, depending upon the extent of our acquisition related activities going forward. No business combination transactions occurred during the three months ended March 31, 2009. The adoption of this standard did not have a material impact on our financial condition and results of operations.

In April 2008, the FASB issued FASB Staff Position No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* (FAS 142-3). FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). The intent of FAS 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R), and other generally accepted accounting principles. FAS 142-3 is effective for fiscal years beginning after December 15, 2008. The adoption of this standard did not have a material impact on our financial condition and results of operations.

We adopted FASB Staff Position No. 157-2, *Effective Date of FASB Statement No. 157* (FSP 157-2), on January 1, 2009, which delayed the effective date of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157), for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value on a recurring basis (at least annually). The adoption of this standard did not have a material impact on our financial condition and results of operations.

We adopted FASB Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (FAS 161), which is effective January 1, 2009. FAS 161 requires enhanced disclosures about derivative instruments and hedging activities to allow for a better understanding of their effects on an entity's financial position, financial performance, and cash flows. Among other things, FAS 161 requires disclosure of the fair values of derivative instruments and associated gains and losses in a tabular format. Since FAS 161 requires only additional disclosures about our derivatives and hedging activities, the adoption of FAS 161 does not affect our financial position or results of operations.

In June 2008, the FASB ratified Emerging Issues Task Force (EITF) Issue No. 07-05, *Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock* (EITF 07-05). EITF 07-05 mandates a two-step process for evaluating whether an equity-linked financial instrument or embedded feature is indexed to the entity's own stock, for the purposes of applying the Paragraph 11(a) scope of exception in FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. Equity instruments that a company issues that contain a strike price adjustment feature, upon the adoption of EITF 07-05, may no longer be considered indexed to the company's own stock. Accordingly, adoption of EITF 07-05 may change the current classification (from equity to liability) and the related accounting for such equity instruments outstanding at that date. EITF 07-05 is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. We are currently evaluating the impact the adoption of EITF 07-05 will have on its financial statement presentation and disclosures.

Recently Issued Accounting Standards

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS 162). SFAS 162 identifies the sources of accounting principles and the

framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP in the U.S. Any effect of applying the provisions of SFAS 162 shall be reported as a change in accounting principle in accordance with Statement of Financial Accounting Standards No. 154, *Accounting Changes and Error Corrections*. SFAS 162 is effective 60 days following approval by the Securities and Exchange Commission of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. The Company does not anticipate that the adoption of SFAS 162 will have a material impact on its financial statements.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Foreign Currency Exchange Rate Risk

A discussion of foreign currency exchange risks is provided under the caption International Product Revenues and Operations under Management's Discussion and Analysis of Financial Condition and Results of Operations.

Interest Rate Risk Senior Secured Credit Facility

We are exposed to the risk of interest rate fluctuations on the interest paid under the terms of our senior secured credit facility. A hypothetical 100 basis point movement in interest rates applicable to this credit facility would increase or decrease interest expense by approximately \$2.6 million on an annual basis.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

As required by Exchange Act Rule 13a-15(b), we have carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2009. Based upon this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of March 31, 2009 to provide such reasonable assurance.

Changes in Internal Control Over Financial Reporting

There were no material changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the quarter ended March 31, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

In May 2006, Codman & Shurtleff, Inc., a division of Johnson & Johnson, commenced an action in the U.S. District Court for the District of New Jersey for declaratory judgment against us with respect to our U.S. Patent No. 5,997,895 (the '895 Patent'). This patent covers dural repair technology related to our DuraGen® family of duraplasty products.

The action seeks declaratory relief that Codman's DURAFORM® product does not infringe our patent and that our patent is invalid. Codman does not seek either damages from us or injunctive relief to prevent us from selling the DuraGen® Dural Graft Matrix. We have filed a counterclaim against Codman, alleging that Codman's DURAFORM® product infringes the '895 Patent, seeking injunctive relief preventing the sale and use of DURAFORM®, and seeking damages, including treble damages, for past infringement.

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

could be materially affected by these contingencies.

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ITEM 1A. RISK FACTORS

The Risk Factors included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008 have not materially changed other than the modifications to the risk factors as set forth below.

Our operating results may fluctuate.

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

current economic conditions, which could affect the ability of hospitals and other customers to purchase our products and could result in a reduction in elective and non-reimbursed operative procedures;

the impact of acquisitions;

the impact of our restructuring activities;

the timing of significant customer orders, which tend to increase in the second and fourth quarters to coincide with the end of budget cycles for many hospitals;

market acceptance of our existing products, as well as products in development;

the timing of regulatory approvals;

changes in the rates of exchange between the U.S. dollar and other currencies of foreign countries in which we do business, such as the euro and the British pound;

expenses incurred and business lost in connection with product field corrections or recalls;

changes in the cost or decreases in the supply of raw materials, including energy and steel;

our ability to manufacture our products efficiently;

the timing of our research and development expenditures; and

reimbursement for our products by third-party payors such as Medicare, Medicaid and private health insurers.

The industry and market segments in which we operate are highly competitive, and we may be unable to compete effectively with other companies.

In general, there is intense competition among medical device companies. We compete with established medical technology companies in many of our product areas. Competition also comes from early-stage companies that have alternative technological solutions for our primary clinical targets, as well as universities, research institutions and other non-profit entities. Many of our competitors have access to greater financial, technical, research and development, marketing, manufacturing, sales, distribution services and other resources than we do. Our competitors may be more effective at implementing their technologies to develop commercial products. Our competitors may be able to gain market share by offering lower-cost products or by offering products that enjoy better reimbursement methodologies from third-party payors, such as Medicare, Medicaid and private healthcare insurance.

Our competitive position will depend on our ability to achieve market acceptance for our products, develop new products, implement production and marketing plans, secure regulatory approval for products under development, obtain and maintain reimbursement coverage under Medicare, Medicaid and private healthcare insurance and obtain patent protection. We may need to develop new applications for our products to remain competitive. Technological

advances by one or more of our current or future competitors or their achievement of superior reimbursement from Medicare, Medicaid and private healthcare insurance could render our present or future products obsolete or uneconomical. Our future success will depend upon our ability to compete effectively against current technology as well as to respond effectively to technological advances. Competitive pressures could adversely affect our profitability. For example, competitors have launched and have been developing products to compete with our duraplasty products, extremity reconstruction implants, neuro critical care monitors and ultrasonic tissue ablation devices, among others.

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Our largest competitors in the neurosurgery markets are the Medtronic Neurosurgery division of Medtronic, Inc., the Codman division of Johnson & Johnson, the Stryker Craniomaxillofacial division of Stryker Corporation and the Aesculap division of B. Braun Medical Inc. In addition, many of our neurosurgery product lines compete with smaller specialized companies or larger companies that do not otherwise focus on neurosurgery. Our competitors in extremity reconstruction include the DePuy division of Johnson & Johnson, Synthes, Inc. and Stryker Corporation, as well as other major orthopedic companies that carry a full line of reconstructive products. We also compete with Wright Medical Group, Inc., Small Bone Innovations, Inc., Tornier, Inc. and other companies in the extremity reconstruction market category. Our competitors in the spinal implant business include Medtronic, Inc., the DePuy division of Johnson & Johnson, Synthes, Inc., Stryker Corporation, Zimmer, NuVasive, Inc., Globus Medical, Inc., Alphatec Spine, Inc. and Orthofix. In surgical instruments, we compete with V. Mueller, a division of Cardinal Healthcare, as well as Aesculap. In addition, we compete with Codman and many smaller instrument companies in the reusable and disposable specialty instruments markets. The competitors in our orthobiologics business include such well-established companies as Medtronic, Inc., Synthes Inc. and Johnson & Johnson and also include several smaller, biologic-focused companies, such as Osteotech and Orthovita. Our private-label products face diverse and broad competition, depending on the market addressed by the product. Finally, in certain cases our products compete primarily against medical practices that treat a condition without using a device or any particular product, such as the medical practices that use autograft tissue instead of our dermal regeneration products, duraplasty products and nerve repair products.

Our future financial results could be adversely affected by impairments or other charges.

Since we have grown through acquisitions, we had \$207.7 million of goodwill and \$50.0 million of indefinite-lived intangible assets as of March 31, 2009. Under Statement of Financial Accounting Standards (SFAS) No. 142,

Goodwill and Other Intangible Assets, we are required to test both goodwill and indefinite-lived intangible assets for impairment on an annual basis based upon a fair value approach, rather than amortizing them over time. We are also required to test goodwill and indefinite-lived intangible assets for impairment between annual tests if an event occurs such as a significant decline in revenues or cash flows for certain products or circumstances change that would more likely than not reduce our enterprise fair value below its book value. See Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and the Use of Estimates Valuation of Identifiable Intangible Assets, In-Process Research and Development Charges, and Goodwill of this report.

SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, requires that we assess the impairment of our long-lived assets, including definite-lived intangible assets, whenever events or changes in circumstances indicate that the carrying value may not be recoverable as measured by the sum of the expected future undiscounted cash flows. As of March 31, 2009, we had \$170.2 million of other intangible assets.

The value of biotechnology and medical device businesses is often volatile, and the assumptions underlying our estimates made in connection with our assessments under SFAS No. 142 or 144 may change as a result of that volatility or other factors outside our control and may result in impairment charges. The amount of any such impairment charges under SFAS No. 142 or 144 could be significant and could have a material adverse effect on our reported financial results for the period in which the charge is taken and could have an adverse effect on the market price of our securities, including the notes and the common stock into which they may be converted.

Current economic conditions may adversely affect the ability of hospitals, other customers, suppliers and distributors to access funds or otherwise have available liquidity, which could reduce orders for our products or interrupt our production or distribution or result in a reduction in elective and non-reimbursed operative procedures.

Current economic conditions may adversely affect the ability of hospitals and other customers to access funds to enable them to fund their operating and capital budgets. As a result, hospitals and other customers may reduce budgets or put all or part of their budgets on hold or close their operations, which could have a negative effect on our sales, particularly the sales of more expensive capital equipment such as our ultrasonic surgical aspirators, neuromonitors and stereotactic products, or result in a reduction in elective and non-reimbursed procedures.

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If any of our manufacturing facilities were damaged and/or our manufacturing or business processes interrupted, we could experience lost revenues and our business could be seriously harmed.

We manufacture our products in a limited number of facilities. Damage to our manufacturing, development or research facilities because of fire, natural disaster, power loss, communications failure, unauthorized entry or other events, such as a flu or other health epidemic, could cause us to cease development and manufacturing of some or all of our products. In particular, our San Diego and Irvine, California facilities are susceptible to earthquake damage, wildfire damage and power losses from electrical shortages as are other businesses in the Southern California area. Our Anasco, Puerto Rico plant, where we manufacture collagen, silicone and our private-label products, is vulnerable to hurricane, storm and wind damage. Although we maintain property damage and business interruption insurance coverage on these facilities, our insurance might not cover all losses under such circumstances, and we may not be able to renew or obtain such insurance in the future on acceptable terms with adequate coverage or at reasonable costs. In addition, certain of our surgical instruments have some manufacturing processes performed in Pakistan, which is subject to political instability and unrest, and we purchase a much smaller amount of instruments directly from vendors there. Such instability could interrupt our ability to sell surgical instruments to our customers and could have a material adverse effect on our revenues and earnings. While we have developed a relationship with an alternative provider of these services in another country, and continue to work to develop other providers in other countries, we cannot guarantee that we will be completely successful in achieving all of these relationships. Even if we are successful in establishing all of these alternative relationships, we cannot guarantee that we will be able to do so at the same level of costs or that we will be able to pass along additional costs to our customers.

We implemented an enterprise business system to support certain of our transaction processing for accounting and financial reporting, supply chain and manufacturing. The system is hosted and maintained by a third party. Currently, we do not have a comprehensive disaster recovery plan for the Company's infrastructure but we have adopted alternative solutions to mitigate business risk, including backup equipment, power and communications. We also implemented a comprehensive backup and recovery process for our key software applications. Our global production and distribution operations are dependent on the effective management of information flow between facilities. An interruption of the support provided by our enterprise business systems could have a material adverse effect on the business.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In October 2008, our Board of Directors adopted a new program that authorizes us to repurchase shares of our common stock for an aggregate purchase price not to exceed \$75 million through December 31, 2010. Shares may be repurchased either in the open market or in privately negotiated transactions.

There were no such repurchases of our common stock during the quarter ended March 31, 2009 under this program.

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ITEM 6. EXHIBITS

- 10.1 Form of Restricted Stock Agreement with Annual Vesting for Executive Officers (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 25, 2009)
- 10.2 Form of Restricted Stock Agreement for Non-Employee Directors (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 13, 2009)
- 10.3 2009-1 Amendment to Employment Agreement, dated as of April 13, 2009, to the Second Amended and Restated Employment Agreement, between the Company and Mr. Essig, which is filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 filed on November 9, 2004, and previously amended by Amendment 2006-1, which is filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 22, 2006, Amendment 2008-1, which is filed as Exhibit 10.12(c) to the Company's Annual Report on Form 10-K for the year ended December 31, 2007 filed on May 16, 2008 and Amendment 2008-2, which is filed as Exhibit 10.7 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2008 filed on August 11, 2008 (Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on April 13, 2009)
- 10.4 Form of Restricted Stock Agreement for Mr. Essig for 2009 (Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on April 13, 2009)
- 10.5 2009-1 Amendment to Employment Agreement, dated as of April 13, 2009, to Mr. Carlozzi's Amended and Restated 2005 Employment Agreement, between the Company and Mr. Carlozzi, which is filed as Exhibit 10.17 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005 filed on March 15, 2006, and previously amended by Amendment 2008-1 filed as Exhibit 10.16(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 2007 filed on May 16, 2008 and Amendment 2008-2, filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed on December 24, 2008 (Incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on April 13, 2009)
- 10.6 2009-1 Amendment to Employment Agreement, dated as of April 13, 2009, to Mr. Henneman's Amended and Restated 2005 Employment Agreement between the Company and Mr. Henneman, which is filed as Exhibit 10.16 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005 filed on March 15, 2006, and previously amended by Amendment 2008-1 filed as Exhibit 10.15(b) to the Company's Annual Report on Form 10-K for the year ended December 31, 2007 filed on May 16, 2008 and Amendment 2008-2, filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed on December 24, 2008 (Incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed on April 13, 2009)
- 10.7 Form of Restricted Stock Agreement for 2008 and 2009 for Messrs. Carlozzi and Henneman (Incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K filed on April 13, 2009)

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| | |
|-------|---|
| +10.8 | Form of Restricted Stock Agreement with Cliff Vesting for Executive Officers |
| +10.9 | First Amendment to Lease Agreement between 109 Morgan Lane, LLC and Integra LifeSciences Corporation, dated March 9, 2009 |
| +31.1 | Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| +31.2 | Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| +32.1 | Certification of Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
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+ Indicates this document is filed as an exhibit herewith.

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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: May 6, 2009

*/s/ Stuart M. Essig
Stuart M. Essig
President and Chief Executive Officer*

Date: May 6, 2009

*/s/ John B. Henneman, III
John B. Henneman, III
Executive Vice President, Finance and
Administration, and Chief Financial
Officer*

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