ARTES MEDICAL INC
Form 10-Q
November 14, 2007

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2007

OR

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

For the transition period from to

Commission file number 001-33205

ARTES MEDICAL, INC.

(Exact name of registrant as specified in its charter)

Delaware	**33-0870808**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

5870 Pacific Center Boulevard
San Diego, California
(Address of principal executive offices, including zip code)
(858) 550-9999
(Registrant s telephone number, including area code)
N/A
(Former name, former address and former fiscal year, if changed since last report)

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 þ No o

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

Large accelerated filer o Accelerated filer o Non-accelerated filer þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

As of September 30, 2007, there were 16,514,163 shares of the registrant s common stock outstanding.

ARTES MEDICAL, INC.
QUARTERLY REPORT ON FORM 10-Q
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Artes Medical, Inc.
Condensed Consolidated Balance Sheets
(unaudited and in thousands, except share data)

	September 30, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 22,981	$ 46,258
Accounts receivable (net of allowance for doubtful accounts and product exchanges of $870 and $0 at September 30, 2007 and December 31, 2006, respectively)	279	
Inventory, net	6,546	4,761
Prepaid expenses and other assets	6,258	406
Total current assets	36,064	51,425
Property and equipment, net	4,966	5,271
Intellectual property, net	2,683	3,578
Deposits and other assets	750	339
Total assets	$ 44,463	$ 60,613
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 2,300	$ 2,981
Accrued compensation and benefits	1,918	2,694
Revolving credit line	5,000	5,000
Term note payable, current portion	1,250	1,250
Capital lease obligations, current portion	33	45
Deferred rent, current portion	106	49
Total current liabilities	10,607	12,019
Term note payable (net of discount of $194 and $305 at September 30, 2007 and December 31, 2006, respectively)	2,514	3,341
Capital lease obligations, less current portion		21
Deferred rent, less current portion	582	678
Deferred tax liability	1,226	1,368
Commitments and contingencies		
Stockholders equity:		
Common stock, $0.001 par value 200,000,000 shares authorized at September 30, 2007 and December 31, 2006; 16,514,163 and 16,361,246 shares issued and outstanding at September 30, 2007 and December 31, 2006, respectively	17	16
Additional paid-in capital	125,866	122,572
Accumulated deficit	(96,349)	(79,402)

Total stockholders equity		29,534		43,186
Total liabilities and stockholders equity	$	44,463	$	60,613

See accompanying notes to unaudited condensed consolidated financial statements

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Artes Medical, Inc.
Condensed Consolidated Statements of Operations
(unaudited and in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenues:				
Product sales	$ 1,220	$	$ 4,716	$
License revenues	5,500		6,232	390
Total revenues	6,720		10,948	390
Cost of product sales	3,002		6,880	
Gross profit	3,718		4,068	390
Operating expenses:				
Research and development	1,541	1,219	3,709	5,698
Selling, general and administrative	5,868	3,401	17,765	11,463
Total operating expenses	7,409	4,620	21,474	17,161
Loss from operations	(3,691)	(4,620)	(17,406)	(16,771)
Interest income	310	201	1,181	503
Interest expense	(342)	(23)	(873)	(2,410)
Other income (expense), net	(10)	(8)		(39)
Net loss before benefit for income taxes	(3,733)	(4,450)	(17,098)	(18,717)
Benefit for income taxes	51	48	151	148
Net loss	$ (3,682)	$ (4,402)	$ (16,947)	$ (18,569)
Net loss per share:				
Basic and diluted	$ (0.22)	$ (0.75)	$ (1.03)	$ (3.25)
Weighted average shares basic and diluted	16,493,767	5,894,903	16,444,915	5,714,139

See accompanying notes to unaudited condensed consolidated financial statements

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Artes Medical, Inc.
Condensed Consolidated Statements of Cash Flows
(unaudited and in thousands)

	Nine Months Ended September 30,	
	2007	**2006**
Operating activities		
Net loss	$ (16,947)	$ (18,569)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,983	1,786
Provision for doubtful accounts	29	
Benefit for income taxes	(142)	(142)
Non-cash interest expense associated with issuance of warrants and convertible notes	111	2,348
Warrant modification expense		899
Stock-based compensation	2,772	1,805
Issuance of common stock for services		90
Issuance of common stock for intellectual property		49
Loss on disposal of property and equipment		32
Deferred rent	(39)	32
Changes in operating assets and liabilities:		
Inventory	(1,785)	(3,327)
Accounts receivable	(308)	
Prepaid expenses and other assets	(5,852)	226
Accounts payable and accrued liabilities	(681)	(2,085)
Accrued compensation and benefits	(776)	326
Net cash used in operating activities	(21,635)	(16,530)
Investing activities		
Purchases of property and equipment	(783)	(1,415)
Deposits and other assets	(411)	(1,878)
Net cash used in investing activities	(1,194)	(3,293)
Financing activities		
Payments on capital lease obligations	(33)	(40)
Payments on term note payable	(938)	
Payments on convertible notes payable		(6,525)
Proceeds from issuance of preferred stock, net		31,816
Proceeds from issuance of common stock	(13)	
Proceeds from exercise of stock options and warrants	536	431
Net cash (used in) provided by financing activities	(448)	25,682
Net (decrease) increase in cash and cash equivalents	(23,277)	5,859
Cash and cash equivalents at beginning of period	46,258	6,930
Cash and cash equivalents at end of period	$ 22,981	$ 12,789
Noncash financing activities		

Issuance of subscribed preferred stock	$	$ 6,900
Issuance of warrants and common stock in connection with intellectual property acquisition	$	$ 49
Supplemental activities		
Cash paid for income taxes	$ 1	$ 6
Cash paid for interest	$ 762	$ 60

See accompanying notes to unaudited condensed consolidated financial statements

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Artes Medical, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements

1. Organization and Summary of Significant Accounting Policies

Organization and Business

Artes Medical, Inc. (the Company), formerly known as Artes Medical USA, Inc., was incorporated in Delaware on August 24, 1999, and is focused on the development, manufacture and commercialization of a new category of injectable aesthetic products for the dermatology and plastic surgery markets. The Company s initial product, ArteFill®, is a non-resorbable aesthetic injectable implant for the correction of facial wrinkles known as smile lines, or nasolabial folds. The Company received FDA approval to market ArteFill on October 27, 2006, and commenced commercial shipment of ArteFill during the first quarter of 2007.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of the Company and Artes Medical Germany GmbH, formerly Mediplant GmbH Biomaterials & Medical Devices, since its acquisition effective January 1, 2004. All intercompany accounts have been eliminated in consolidation.

On June 11, 2007, the Company announced the formation of a new wholly-owned subsidiary named Spheris Medical, Inc. to develop and commercialize new and innovative therapeutic medical applications of its proprietary microsphere tissue bulking technology through collaborative agreements with third parties. As of September 30, 2007, there were no tangible assets or accounting transactions involving Spheris Medical, Inc.

Initial Public Offering and Conversion of Preferred Stock

On December 26, 2006, the Company closed its initial public offering. Immediately prior to the closing of the Company s initial public offering, all outstanding shares of the Company s preferred stock were converted into shares of common stock and certain outstanding warrants to purchase shares of common stock were exercised. The impact of the Company s initial public offering on its common stock outstanding is as follows at December 31, 2006:

Capitalization summary upon closing of initial public offering:

Common stock issued and outstanding prior to initial public offering	1,427,400
Initial public offering sale of common stock	5,290,000
Conversion of preferred stock upon initial public offering into common stock	9,367,512
Cash exercise of warrants to purchase common stock upon initial public offering	276,334
Total shares	16,361,246

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of FASB Statement No. 109, *Accounting for Income Taxes* (FIN 48). FIN 48 creates a single model to address accounting for uncertainty in income tax positions. FIN 48 prescribes a minimum threshold that an income tax position is required to meet before being recognized in the financial statements. The interpretation also provides guidance on derecognition and measurement criteria in addition to classification, interest and penalties and interim period accounting, and it significantly expands disclosure provisions for uncertain tax positions that have been or are expected to be taken in a company s tax return. The Company adopted this statement as of January 1, 2007.

As a result of the adoption of FIN 48, the Company has not recorded any change to retained earnings at January 1, 2007 as the Company had no unrecognized tax benefits that, if recognized, would favorably affect the Company s effective income tax rate in future periods. At September 30, 2007, the Company had no unrecognized tax benefits. The Company s continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company had no accrued interest or penalties at January 1, 2007 and no accrued interest or penalties at September 30, 2007.

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In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Management has not yet completed its evaluation of the impact of adopting SFAS No. 157.

On February 15, 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS No. 159 permits all entities to choose, at specified election dates, to measure eligible items at fair value (the fair value option). A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date. Upfront costs and fees related to items for which the fair value option is elected shall be recognized in earnings as incurred and not deferred. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007, with early adoption permitted. The Company is currently evaluating whether SFAS No. 159 will have a material effect on its consolidated financial statements.

2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Pursuant to these rules and regulations, the Company has condensed or omitted certain information and footnote disclosures it normally includes in its annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP). In management s opinion, the consolidated financial statements include all adjustments necessary, which are of a normal and recurring nature, for the fair presentation of the Company s financial position and of the results of operations and cash flows for the periods presented.

These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2006 included in Artes Medical, Inc. s Annual Report on Form 10-K filed with the Securities and Exchange Commission. Operating results for the three and nine months ended September 30, 2007 are not necessarily indicative of the results that may be expected for any other interim period or for the full year ended December 31, 2007. The consolidated balance sheet at December 31, 2006 has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by GAAP for complete financial statements.

Certain reclassifications to prior period information have been made for consistent presentation. Prior to 2006, stock compensation expense was disclosed in the statement of operations as a separate element of operating expense. In 2006, stock compensation expense is included in total operating expense for the related expense category.

3. Net Loss Per Common Share

Basic net loss per common share is calculated by dividing the net loss by the weighted-average number of common shares outstanding for the period, without consideration for common stock equivalents. Diluted net loss per common share is computed by dividing the net loss by the weighted-average number of common share equivalents outstanding for the period determined using the treasury-stock method. For purposes of this calculation, convertible preferred stock, stock options and the outstanding warrants are considered to be common stock equivalents and are only included in the calculation of diluted net loss per share when their effect is dilutive.

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The following table shows the historical outstanding anti-dilutive securities that have not been included in the diluted net loss per share calculation:

	September 30.	
	2007	2006
	(unaudited)	
Convertible preferred stock		9,367,511
Warrants to purchase preferred and common stock	2,445,638	3,365,534
Options to purchase common stock	3,147,140	1,869,676
	5,592,778	14,602,721

4. Comprehensive Income (Loss)

SFAS No. 130, *Reporting Comprehensive Income*, requires that all components of comprehensive income (loss), including net income (loss), be reported in the financial statements in the period in which they are recognized.

Comprehensive income (loss) is defined as the change in equity during a period from transactions and other events and circumstances from nonowner sources. Net income (loss) and other comprehensive income (loss), including foreign currency translation adjustments and unrealized gains and losses on investments are reported net of their related tax effect, to arrive at comprehensive income (loss). There are no differences between the Company s net losses as recorded and its comprehensive losses for the periods ended September 30, 2007 and 2006.

5. Balance Sheet Details

Inventory

Inventory consists of raw materials used in the manufacture of ArteFill. Inventory is carried at the lower of cost or market. Cost is determined using the average-cost method with provisions made for obsolete or slow moving goods.

Inventory consisted of the following at (in thousands):

	September 30, 2007 (unaudited)	December 31, 2006
Raw materials	$ 945	$ 727
Work in process	2,142	1,619
Unpackaged finished goods	4,806	3,169
Finished Goods	1,348	
	9,241	5,515
Less: reserve for obsolete inventory	(2,695)	(754)
Total	$ 6,546	$ 4,761

6. Stock-based Compensation

For purposes of calculating stock-based compensation under SFAS No. 123(R), the Company estimates the fair value of stock options using a Black-Scholes option-pricing model which is consistent with the model used for pro forma disclosures under SFAS No. 123 prior to the adoption of SFAS No. 123(R). The Black-Scholes option-pricing model incorporates various and highly sensitive assumptions including expected volatility, expected term and interest rates. In accordance with SFAS No. 123(R) share-based compensation expense recognized in the statement of operations for the first quarter of 2006 is based on awards ultimately expected to vest and is reduced for estimated

forfeitures. Prior to the adoption of SFAS No. 123(R), the Company used the minimum value method for valuing stock options granted to employees and directors. In the Company s pro forma information required under SFAS No. 123 for the periods prior to 2006, the Company accounted for forfeitures as they occurred.

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The assumptions used to estimate the fair value of stock options granted to employees and directors during the three and nine months ended September 30, 2007 and 2006 are as follows:

	Three and Nine Months Ended September 30,	
	2007	2006
Volatility	48%	60%
Expected term (years)	6.0	6.0
Risk free interest rate	4.75%	4.55%
Expected dividend yield	0%	0%

The risk-free interest rate assumption was based on the United States Treasury s rates for U.S. Treasury zero-coupon bonds with maturities similar to those of the expected term of the award being valued. The assumed dividend yield was based on the Company s expectation of not paying dividends in the foreseeable future. The weighted average expected life of options was calculated using the simplified method as prescribed by the SEC s Staff Accounting Bulletin (SAB) No. 107 (SAB No. 107).

This decision was based on the lack of relevant historical data due to the Company s limited historical experience. In addition, due to the Company s limited historical data, the estimated volatility also reflects the application of SAB No. 107, incorporating the historical volatility of comparable companies whose share prices are publicly available.

The weighted average grant-date fair value of stock options granted during the three and nine months ended September 30, 2007 was $6.31 and $8.19 per share, respectively.

During the three and nine months ended September 30, 2007, the Company recorded approximately $866,000 and $2,326,000 respectively, of stock compensation expense under SFAS No. 123(R).

Total unrecognized stock-based compensation costs related to non-vested stock options at September 30, 2007 was approximately $7,284,000. This unrecognized cost is expected to be recognized on a straight-line basis over a weighted average period of approximately 2.76 years.

Equity instruments issued to non-employees are recorded at their fair values as determined in accordance with SFAS No. 123 and Emerging Issues Task Force (EITF) 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods and Services*, and are periodically revalued as the stock options vest and are recognized as expense over the related service period. During the three and nine months ended September 30, 2007, the Company recognized $41,000 and $131,000, respectively, for stock options and warrants issued to non-employees.

Deferred Stock-Based Compensation

No employee related stock-based compensation expense was reflected in the Company s reported net loss in any period prior to 2004, as all stock options granted to employees had an exercise price equal to the estimated fair value of the underlying common stock on the date of grant. Stock-based compensation was recognized in 2004 for warrants granted to a member of the Board of Directors as the exercise price of the warrants was less than the estimated fair value of the underlying common stock on the date of grant.

On September 13, 2005, the Company commenced the initial public offering process, and based on discussions with its investment bankers, reassessed the fair value of its common stock going back to July 1, 2004. The Company s management, all of whom qualify as related parties, determined that the stock options granted from July 1, 2004 forward were granted at exercise prices that were below the reassessed fair value of the common stock on the date of grant. The Company completed the reassessment of its fair value without the use of an unrelated valuation specialist and started with the proposed valuation from its investment bankers, considering a number of accomplishments in 2004 and 2005 that would impact its valuation, including achievement of key clinical milestones, hiring executive officers, and the increased possibility of completing an initial public offering. Accordingly, deferred stock-based compensation of $740,000 was recorded within Stockholders Equity during 2004 which represented the difference between the weighted-average exercise price of $4.25 and the weighted-average fair value of $6.38 on stock options to purchase 324,705 shares of common stock granted to employees during 2004. Deferred stock-based compensation of

$2,383,000, net of forfeitures, was recorded within Stockholders Equity during 2005 which represented the difference between the weighted-average exercise price of $5.31 and the weighted-average fair value of $9.18 on stock options to purchase 620,000 shares of common stock granted to employees during 2005.

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The Company is amortizing deferred stock-based compensation on a straight-line basis over the vesting period of the related awards, which is generally four years.

During the three and nine months ended September 30, 2007 and 2006, the Company recognized $147,000 and $445,000 and $174,000 and $561,000, respectively, in amortization of deferred stock-based compensation which was provided for prior to the adoption of SFAS No. 123(R).

Unrecognized deferred stock-based compensation related to non-vested stock option and warrant awards granted prior to January 1, 2006 was approximately $1,018,000 at September 30, 2007.

The expected future amortization expense for deferred stock-based compensation for stock options granted through September 30, 2007, is as follows (in thousands):

2007	$ 120
2008	527
2009	371
Total	$ 1,018

Upon the adoption of SFAS No. 123(R) on January 1, 2006, the Company reclassified deferred stock-based compensation against additional paid-in capital.

The Company has included stock-based compensation expense in the statement of operations for all stock-based compensation arrangements as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(in thousands, except per share amounts)		(in thousands, except per share amounts)	
Capitalized to inventory	$ 159	$	$ 408	$
Research and development expense	$ 134	$ 192	$ 339	$ 477
Sales, general and administrative expense	720	511	2,024	1,294
	$ 854	$ 703	$ 2,363	$ 1,771
Net effect on basic and diluted net loss per share	$ 0.05	$ 0.12	$ 0.14	$ 0.31

Common Shares Reserved

The following table summarizes the number of shares of common stock reserved for issuance at September 30, 2007 upon exercise of:

Warrants for common stock	2,445,638
Common stock options:	
Common stock options outstanding	3,147,140
Common stock options available for future grant	2,539,569
Total common shares reserved for issuance	8,132,347

7. License Agreement

On September 21, 2007, the Company entered into a Second License Agreement (the Second Agreement) with BioForm Medical, Inc. and BioForm Medical Europe B.V. (together, BioForm). Under the Second Agreement, BioForm elected to pre-pay all future royalty obligations to the Company by making two payments totaling $5.5 million. These payments will replace any future royalty obligation of BioForm to the Company under the Settlement and License Agreement, dated October 31, 2005. In the

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event that BioForm does not make the required payments when due, the Company s royalty release shall be ineffective until such time as such payments are made in full.

The Company recognized license revenue of $5.5 million related to this agreement in September 2007. The first payment of $2.0 million was received in October 2007 and the Company believes that collectibility is assured for the second payment of $3.5 million which BioForm is required to pay in December 2007. The $5.5 million receivable is included in Prepaid expenses and other assets on the Balance Sheet as of September 30, 2007.

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

You should read the following discussion of our financial condition and results of operations in conjunction with the consolidated financial statements and related notes to those statements included in this report. This discussion contains forward-looking statements that involve risks, uncertainties, and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of a variety of factors, such as those set forth under heading Risk Factors, and elsewhere in this report, and in our Annual Report on Form 10-K for the year ending December 31, 2006. In light of these risks, uncertainties and assumptions, readers are cautioned not to place undue reliance on such forward-looking statements. These forward looking statements represent beliefs and assumptions only as of the date of this report. Except as required by applicable law, we do not intend to update or revise forward-looking statements contained in this report to reflect future events or circumstances.

Overview

We are a medical technology company focused on developing, manufacturing and commercializing a new category of injectable aesthetic products for the dermatology and plastic surgery markets. On October 27, 2006, the FDA approved ArteFill, our non-resorbable aesthetic injectable implant for the correction of facial wrinkles known as smile lines, or nasolabial folds. Prior to the FDA s approval of ArteFill as the first and only non-resorbable injectable aesthetic product there were two categories of injectable aesthetic products used for the treatment of facial wrinkles: temporary muscle paralytics, which block nerve impulses to temporarily paralyze the muscles that cause facial wrinkles, and temporary dermal fillers, which are injected into the skin or deeper facial tissues beneath a wrinkle to help reduce the appearance of the wrinkle. Unlike existing temporary muscle paralytics and temporary dermal fillers, which are comprised of materials that are completely metabolized and absorbed by the body, ArteFill is a proprietary formulation comprised of polymethylmethacrylate, or PMMA, microspheres and bovine collagen, or collagen derived from calf hides. PMMA is one of the most widely used artificial materials in implantable medical devices, and is not absorbed or degraded by the human body. Following injection, the PMMA microspheres in ArteFill remain intact at the injection site and provide a permanent support structure to fill in the existing wrinkle and help prevent further wrinkling. As a result, we believe that ArteFill will provide patients with aesthetic benefits that may last for years.

We commenced commercial shipments of ArteFill during the first quarter of 2007. Our strategy is to establish ArteFill as a leading injectable aesthetic product. We plan to drive the adoption of our product through a direct sales and marketing effort to dermatologists, plastic surgeons and cosmetic surgeons in the United States. We have initially and intend to continue to target dermatologists, plastic surgeons and cosmetic surgeons whom we have identified as having performed a significant number of procedures involving injectable aesthetic products. In connection with our product launch, we have and intend to continue to provide these physicians with comprehensive education and training programs. We believe our education and training programs will enable physicians to improve patient outcomes and satisfaction. We have and expect to continue to use targeted marketing, advertising and promotional activities to educate consumers about the benefits of ArteFill. We may expand our product offering by acquiring complementary products, technologies or businesses.

Since our inception in 1999, we have incurred significant losses and have never been profitable. We have devoted substantially all of our efforts to product development and clinical trials, to acquire international rights to certain intangible assets and know-how related to our technology, and to establish commercial manufacturing capabilities. As of September 30, 2007, our accumulated deficit was approximately $98.4 million. We expect our Selling, General and Administrative expenses to increase over the next several quarters as we expand the size of our direct sales and marketing force and continue to focus on our direct to consumer marketing, advertising and promotional activities.

Financial Operations Overview

Product Sales

We commenced commercial shipments of ArteFill during the first quarter of 2007 and began generating product sales from ArteFill. From our inception in 1999 through September 30, 2007, we have generated $4.7 million in ArteFill product sales.

License Revenues

We generated $5.5 million and $6.2 million, respectively, in license revenue during the $6.2 nine months ended September 30, 2007 compared to $0.4 million during the nine months ended September 30, 2006. We recognized

$5.5 million in revenue related to the Second Agreement with BioForm in September 2007. The first payment of $2.0 million was received in October 2007 and the Company believes that collectibility is assured for the second payment of $3.5 million which BioForm is required to pay in December 2007.

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Cost of Product Sales

Cost of sales consist primarily of expenses related to the manufacturing and distribution of ArteFill, including expenses related to our direct and indirect manufacturing personnel, quality assurance and quality control, manufacturing and engineering, supply chain management, facilities and occupancy costs. We also incur expenses related to manufacturing yield losses, product exchanges and rejects, procurement from our manufacturing materials supply and distribution partners and amortization of deferred stock-based compensation for our direct and indirect manufacturing personnel.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses are comprised of the following:

sales and marketing expenses, which primarily consist of the personnel and related costs of our U.S. sales force, customer service, marketing and brand management functions, including direct costs for advertising and promotion of our product; and

general and administrative costs, which primarily consist of corporate executive, finance, legal, human resources, information systems, investor relations and general administrative functions.

Research and Development Expenses

A significant majority of our research and development expenses consist of expenses incurred by external service providers for preclinical, clinical trials, technology and regulatory development projects.

Research and development expenses also include costs incurred for process development and validation to scale up our commercial operations to meet cGMP manufacturing requirements prior to final approval from the FDA to market our product. We have also incurred personnel costs related to internal development of our product.

Because we have been focused on obtaining final FDA approval for ArteFill, we currently maintain a limited in-house research and development organization for new product development and have concentrated our resources on manufacturing and process development to meet FDA cGMP requirements. In January 2004, we received an approvable letter from the FDA for our PMA application, indicating that ArteFill is safe and effective for the correction of facial wrinkles known as smile lines, or nasolabial folds. In January 2006, we submitted an amendment to our PMA application to address certain conditions to final marketing approval set forth in the FDA s approvable letter, and in April 2006, the FDA completed comprehensive pre-approval inspections of our manufacturing facilities in San Diego, California and Frankfurt, Germany. On May 3, 2006, the FDA issued an EIR, indicating that its inspection of our facilities was completely closed, requiring no further action on the part of our company related to the inspection. On October 27, 2006, the FDA approved ArteFill for commercial sale in the United States.

Amortization of Acquired Intangible Assets

Acquired intangible assets, consisting of core technology and international patents, are recorded at fair market value as of the acquisition date. Fair market value is determined by an independent third party valuation and is amortized over the estimated useful life. This determination is based on factors such as technical know-how and trade secret development of our core PMMA technology, patent life, forecasted cash flows, market size and growth, barriers to competitive entry and existence and the strength of competing products.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations is based upon our unaudited condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) and regulations of the Securities and Exchange Commission. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, we evaluate our estimates including those related to bad debts, inventories, long-term assets and income taxes. We base

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our estimates on historical experience and on various other assumptions we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

We believe the following accounting policies to be critical to the judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition

We follow the provisions of the Securities and Exchange Commission Staff Accounting Bulletin (SAB) No. 104, *Revenue Recognition*, which sets forth guidelines for the timing of revenue recognition based upon factors such as passage of title, installation, payment and customer acceptance. We recognize revenue from product sales when all four of the following criteria are met: (i) there is persuasive evidence that an arrangement exists, (ii) delivery of the product has occurred and title has transferred to our customers, (iii) the selling price is fixed and determinable and (iv) collection is reasonably assured. Provisions for discounts to customers, returns, exchanges or other adjustments will be recorded as a reduction of revenue and provided for in the same period that the related product sales are recorded based upon analysis of historical discounts and exchanges.

When terms of sale are Free on Board, or FOB, shipping point, revenue will be recognized at the time of shipment and when the terms of sale are FOB destination point, revenue will be recognized when the products have reached the destination point and other criteria for revenue recognition have been met.

We expect a substantial amount of our business to be transacted using credit cards. We may offer an early payment discount to certain customers.

We also may provide customers with certain product return rights in the case of expired, damaged or defective product. We determine our product return and exchange reserves based on our experience with actual product sales and customer returns and product exchanges. Our inability to accurately estimate product returns and exchanges in the future may cause us to defer recognition of revenue.

Allowance for Doubtful Accounts

We determine our allowance for doubtful accounts based on our analysis of the collectibility of our accounts receivable, historical bad debts, customer concentrations, customer credit-worthiness, current economic trends and changes in customer payment terms. The expense related to the allowance for doubtful accounts is recorded in selling, general and administrative.

Valuation of Inventory

Inventories are stated at the lower of cost or market, with cost being determined under a standard cost method, which approximates a first-in, first-out basis. Our inventories are evaluated and any non-usable inventory is expensed. In addition, we reserve for any inventory that may be excess or potentially non-usable. Charges for such write-offs and reserves are recorded as a component of cost of sales. Changes in demand in the future could cause us to have additional write-offs and reserves.

Impairment of Long-Lived Assets

We review long-lived assets, including property and equipment and intangibles, for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. An impairment loss would be recognized when estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. Impairment, if any, is measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value. To date, we have not recorded any impairment losses.

Intangible Assets

Intangible assets are comprised of acquired core technology and patents recorded at fair market value less accumulated amortization. Amortization is recorded on the straight-line method over the estimated useful lives of the intangible assets.

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Deferred Taxes

Asset Valuation Allowance

Significant management judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowances recorded against our net deferred tax assets.

We have historically had net losses and have not been required to provide for income tax liabilities. We have established a valuation allowance with respect to all of our U.S. deferred tax assets. Changes in our estimates of future taxable income may cause us to reduce the valuation allowance and require us to report income tax expense in amounts approximating the statutory rates.

Deferred Tax Liability

A deferred tax liability was created on the date of purchase of our wholly-owned German-based manufacturing subsidiary as there was no allocation of the purchase price to the intangible asset for tax purposes, and the foreign subsidiary s tax basis in the intangible asset remained zero.

Emerging Issues Task Force (EITF) Issue No. 98-11, *Accounting for Acquired Temporary Differences in Certain Purchase Transactions That Are Not Accounted for as Business Combinations*, requires the recognition of the deferred tax impact of acquiring an asset in a transaction that is not a business combination when the amount paid exceeds the tax basis of the asset on the acquisition date. Further, EITF 98-11 requires the use of simultaneous equations to determine the assigned value of an asset and the related deferred tax liability.

Valuation of Stock-Based Compensation

Effective January 1, 2006, we adopted Statement of Financial Accounting Standards (SFAS) No. 123R, *Share-Based Payment* (SFAS No. 123(R)), which revises SFAS No. 123, *Accounting for Stock-Based Compensation* and (SFAS No. 123). SFAS No. 123(R) requires that share-based payment transactions with employees and directors be recognized in the financial statements based on their grant-date fair value and recognized as compensation expense over the requisite service period. In March 2005, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) 107, which provided supplemental implementation guidance for SFAS No. 123 (R). We have applied to provisions of SAB 107 in our adoption of SFAS No. 123 (R). Equity instruments issued to non-employees are recorded at their fair values as determined in accordance with SFAS No. 123, *Accounting for Stock-Based Compensation*, and Emerging Issues Task Force (EITF) 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods and Services*, and are periodically revalued as the options vest and are recognized as expense over the related service period.

Deferred Stock-Based Compensation

Deferred stock-based compensation, which is a non-cash charge, results from employee stock option grants at exercise prices that, for financial reporting purposes, are deemed to be below the estimated fair value of the underlying common stock on the date of grant. Given the absence of an active market for our common stock through 2005, our board of directors considered, among other factors, the liquidation preferences, anti-dilution protection and voting preferences of the preferred stock over the common stock in determining the estimated fair value of the common stock for purposes of establishing the exercise prices for stock option grants.

As a result of initiating the public offering process, in 2005, and based on discussions with our investment bankers, we have revised our estimate of the fair value of our common stock for periods beginning on and after July 1, 2004 for financial reporting purposes. Our management, all of whom qualify as related parties, determined that the stock options granted on and after July 1, 2004 were granted at exercise prices that were below the reassessed fair value of our common stock on the date of grant. We completed the reassessment of the fair value without the use of an unrelated valuation specialist and started with the proposed valuation from our investment bankers, considering a number of accomplishments in 2004 and 2005 that would impact our valuation, including achievement of key clinical milestones, hiring executive officers, and the increased possibility of completing the offering. Accordingly, deferred stock-based compensation of $740,000 was recorded within stockholders equity (deficit) during 2004 which represented the difference between the weighted-average exercise price of $4.25 and the weighted-average fair value of $6.38 on stock options to purchase 324,705 shares of common stock granted to employees during 2004. Deferred stock-based compensation of

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$2,383,000, net of forfeitures, was recorded within stockholders equity (deficit) during 2005 which represented the difference between the weighted-average exercise price of $5.31 and the weighted-average fair value of $9.18 on stock options to purchase 620,000 shares of common stock granted to employees during 2005. The deferred stock-based compensation is being amortized on a straight-line basis over the vesting period of the related awards, which is generally four years.

The above listing is not intended to be a comprehensive list of all of our accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by generally accepted accounting principles, or GAAP. See our consolidated financial statements and notes thereto included in this report, which contain accounting policies and other disclosures required by GAAP.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of FASB Statement No. 109, *Accounting for Income Taxes* (FIN 48). FIN 48 creates a single model to address accounting for uncertainty in income tax positions. FIN 48 prescribes a minimum threshold that an income tax position is required to meet before being recognized in the financial statements. The interpretation also provides guidance on derecognition and measurement criteria in addition to classification, interest and penalties and interim period accounting, and it significantly expands disclosure provisions for uncertain tax positions that have been or are expected to be taken in a company s tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006 and we adopted this statement as of January 1, 2007.

As a result of the adoption of FIN 48, we have not recorded any change to retained earnings. At January 1, 2007 we did not have any unrecognized tax benefits that, if recognized, would favorably affect our effective income tax rate in future periods. At September 30, 2007, we had no unrecognized tax benefits. Our continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense. We had no accrued interest or penalties at January 1, 2007 and no accrued interest or penalties at September 30, 2007.

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Management has not yet completed its evaluation of the impact of adopting SFAS No. 157.

On February 15, 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS No. 159 permits all entities to choose, at specified election dates, to measure eligible items at fair value (the fair value option). A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings (or another performance indicator if the business entity does not report earnings) at each subsequent reporting date. Upfront costs and fees related to items for which the fair value option is elected shall be recognized in earnings as incurred and not deferred. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007, with early adoption permitted. The Company is currently evaluating whether SFAS No. 159 will have a material effect on its consolidated financial statements.

Results of Operations

Comparison of the Three and Nine Months Ended September 30, 2007 to September 30, 2006

Product sales. We commenced commercial shipments of ArteFill during the first quarter of 2007 and began generating product sales from ArteFill. Revenues increased by $1.2 million and $4.7 million to $1.2 million and $4.7 million, respectively, for the three and nine months ended September 30, 2007 from no revenues for the three and nine months ended September 30, 2006.

License revenues. We generated $5.5 million and $6.2 million in license revenue during the three and nine months ended September 30, 2007 compared to $0.4 million during the nine months ended September 30, 2006 related to our technology license agreement with BioForm. The increase in license revenue is related to the Second Agreement we entered into with BioForm, in which BioForm has elected to pre-pay all future royalty obligations to us by making two payments totaling $5.5 million. We recognized $5.5 million in revenue in September 2007.

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Cost of product sales. Cost of sales increased by $3.0 million and $6.9 million to $3.0 million and $6.9 million, respectively, for the three and nine months ended September 30, 2007, from no cost of sales for the three and nine months ended September 30, 2006. The increase was attributable to the commercial launch of ArteFill during the first quarter of 2007, as well as increases to our excess and obsolete inventory reserve of $1.7 million and $2.7 million, respectively, for the three and nine months ended September 30, 2007, primarily related to product produced that may not be utilized in the future.

Research and development. Research and development expense increased by $0.3 million and decreased by $2.0 million to $1.5 million and $3.7 million, respectively, for the three and nine months ended September 30, 2007, from $1.2 million and $5.7 million for the three and nine months ended September 30, 2006. The decrease for the nine months ended September 30, 2007 was primarily attributable to our transition from the process development stage to the manufacturing of our product. The increase for the three months ended September 30, 2007 was primarily due to increased expenses related to the initiation of a five year post-marketing study and product development activities. Included in our research and development expenses are $0.3 million and $0.9 million of amortization of core technology and patents for each of the three and nine months ended September 30, 2007 and 2006.

Selling, general and administrative. The following table sets forth our selling, general and administrative expense for the three and nine months ended September 30, 2007 and 2006 (in thousands):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2007	2006	Amount of Change	2007	2006	Amount of Change
Sales and marketing	$ 2,846	$ 1,218	$ 1,628	$ 8,252	$ 4,157	$ 4,095
General and administrative	3,022	2,183	839	9,513	7,306	2,207
Total selling, general and administrative	$ 5.868	$ 3,401	$ 2,467	$ 17,765	$ 11,463	$ 6,302

Sales and marketing expense increased by $1.6 million and $4.1 million to $2.8 million and $8.3 million, respectively, for the three and nine months ended September 30, 2007, from $1.2 million and $4.2 million for the three and nine months ended September 30, 2006. The increase was primarily attributable to increases of (i) $1.2 million and $3.2 million in payroll and travel expenses for additional personnel, primarily for our direct U.S. sales force (ii) $0.4 million and $1.1 million for the development of marketing and promotion programs, and (iii) $0.1million and $0.3 million in professional services, partially offset by decreases of $0.1 million and $0.4 million in non-cash compensation.

General and administrative expense increased by $0.8 million and $2.2 million to $3.0 million and $9.5 million, respectively, for the three and nine months ended September 30, 2007, from $2.2 million and $7.3 million for the three and nine months ended September 30, 2006. The increase was primarily attributable to increases of (i) $0.1 million and $0.5 million due to additional personnel and related travel expenses, (ii) $0.3 million and $0.9 million in occupancy and office costs, (iii) $0.3 million and $0.6 million in professional service fees primarily related to increases in public company expenses and legal expenses and (iv) $0.2 million and $0.2 million in non-cash compensation.

Interest, net. Net interest expense decreased by $0.6 million and $2.3 million to $0.1 million of interest expense and $0.3 million of net interest income, respectively, for the three and nine months ended September 30, 2007 from $0.5 million of net interest income and $1.9 million of net interest expense for the three and nine months ended September 30, 2006. The net decrease was primarily attributable to a decrease in non-cash interest expense associated with common stock warrants issued with promissory notes offset by an increase in interest income earned on our cash balances.

Income tax benefit. We recognized an income tax benefit of $51,000 and $151,000, respectively, for the three and nine months ended September 30, 2007 and $48,000 and $148,000, respectively, for the three and nine months ended September 30, 2006. The income tax benefit arose from the amortization of the deferred tax liability attributable to the intangible asset acquired in the purchase of our wholly-owned German-based manufacturing subsidiary. A deferred tax liability was created on the date of purchase as there was no allocation of the purchase price to the intangible asset for tax purposes, and the foreign subsidiary s tax basis in the intangible asset remained zero. EITF 98-11 requires the recognition of the deferred tax impact of acquiring an asset in a transaction that is not a business combination when the amount paid exceeds the tax basis of the asset on the acquisition date. Further, EITF 98-11 requires the use of simultaneous equations to determine the assigned value of an asset and the related deferred tax liability.

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Liquidity and Capital Resources

Sources of Liquidity

Since our inception in 1999, our operations have never been profitable and we have an accumulated deficit of approximately $96.3 million as of September 30, 2007.

We have financed our operations through sales of our preferred stock and common stock, options and warrants exercisable for our preferred and common stock, convertible and nonconvertible debt and through the initial public offering of our common stock. Since inception, we have raised $61.7 million through private equity financings, $1.6 million through the exercise of options and warrants, $28.1 million through convertible and nonconvertible debt, and $25.3 million through the initial public offering of our common stock. In November 2006, we entered into a loan and security agreement with Comerica Bank consisting of a revolving line of credit for up to $5,000,000 and a term loan for up to $5,000,000. At September 30, 2007, $9.0 million was outstanding under the loan and security agreement. As of September 30, 2007, our cash and cash equivalents were $23.0 million.

Cash Flow

Net cash used in operating activities. During the nine months ended September 30, 2007, our operating activities used cash of approximately $21.6 million, compared to approximately $16.5 million for the nine months ended September 30, 2006, an increase of $5.1 million. The increase in cash used was due primarily to a) a decrease in the net loss of approximately $1.6 million, primarily attributable to the license revenue received from BioForm, offset by expenses related to the launch of our product in 2007, b) a $2.2 million decrease in adjustments for non-cash expenses, primarily related to non-cash interest expense and c) a $4.5 million net increase in operating assets and liabilities primarily due to increases in prepaid expenses and other assets and accounts receivable, offset by a decrease in inventory and decreased payments on accounts payable and accrued liabilities.

Net cash used in investing activities. Our investing activities used cash of approximately $1.2 million during the nine months ended September 30, 2007, compared to $3.3 million for the nine months ended September 30, 2006.

Investing activities during the nine months ended September 30, 2007 and 2006 were comprised of $0.8 million and $1.4 million, respectively, of purchases of plant and production equipment and tenant improvements and $0.4 million and $1.9, respectively, for long-term deposits and other assets. During the nine months ended September 30, 2006, we used cash of $1.9 million, for long-term deposits and other assets, primarily capitalized initial public offering costs.

Net cash used in financing activities. Cash used in financing activities was approximately $0.4 million for the nine months ended September 30, 2007, compared to cash provided by financing activities of approximately $25.7 million for the nine months ended September 30, 2006. Financing activities during the nine months ended September 30, 2007 resulted in $0.5 million in proceeds from the exercise of stock options and warrants, $0.9 million in repayments on our Comerica Bank loan and security agreement, and $46,000 in repayments on capital lease obligations and other equity related offering costs. During the nine months ended September 30, 2006, our financing activities resulted in $31.8 million in proceeds from the issuance of preferred stock, $0.4 million in proceeds from the exercise of stock options, offset by $6.6 million in repayments of convertible promissory notes and repayments of our capital lease obligations.

Funding Requirements

We believe that our cash and cash equivalents at September 30, 2007, together with the interest thereon, proceeds from sales of ArteFill, the funds available under our credit facility, and the license payments from BioForm under the Second Agreement will be sufficient to meet our anticipated cash requirements with respect to the commercial launch of ArteFill, the automation and scale-up of our manufacturing capabilities and our research and development activities and to meet our other anticipated cash needs through at least the second quarter of 2008. Changes in our operating plan, lower than anticipated sales, increased expenses, or other events and uncertainties, including those described in Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2006, may cause us to seek additional debt or equity financing on an accelerated basis. Financing may not be available on acceptable terms, or at all, and our failure to raise capital when needed could negatively impact our growth plans and our financial condition.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Our exposure to interest rate risk is primarily the result of borrowings under our existing credit facility. At September 30, 2007, $9.0 million was outstanding under our credit facility.

Borrowings under our credit facility are secured by first priority security interests in substantially all of our tangible and intangible assets. Our results of operations are not materially affected by changes in market interest rates on these borrowings.

The primary objective of our cash management activities is to preserve our capital for the purpose of funding operations while at the same time maximizing the income we receive from our investments without significantly increasing risk. As of September 30, 2007, we had cash and cash equivalents in a bank operating account that provides daily liquidity and through an overnight sweep account that is a money market mutual fund and invests primarily in money market investments and corporate and U.S. government debt securities. Due to the liquidity of our cash, cash equivalents and investment securities, a 1% movement in market interest rates would not have a significant impact on the total value of our cash, cash equivalents and investment securities. We do not have any holdings of derivative financial or commodity instruments, or any foreign currency denominated transactions.

We will continue to monitor changing economic conditions. Based on current circumstances, we do not expect to incur a substantial increase in costs or a material adverse effect on cash flows as a result of changing interest rates.

Item 4. Controls and Procedures.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, or the Exchange Act, as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report on Form 10-Q in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed in the reports that we file or furnish under the Exchange Act and were effective in ensuring that information required to be disclosed by us in the reports that we file or furnish under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting:

During the quarter ended September 30, 2007, there were no changes in our internal control over financial reporting 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.

Sandor Litigation

In August 2005, Elizabeth Sandor, an individual residing in San Diego, California, filed a complaint against us, Drs. Gottfried Lemperle, Stefan Lemperle and Steven Cohen in the Superior Court of the State of California for the County of San Diego. The complaint, as amended, set forth various causes of action against us, including product liability, fraud, negligence and negligent misrepresentation, and alleged that Dr. Gottfried Lemperle, our co-founder, former Chief Scientific Officer and a former director, treated Ms. Sandor with Artecoll and/or ArteFill in violation of medical licensure laws, that the product was defective and unsafe because it had not received FDA approval at the time it was administered to Ms. Sandor, and that Ms. Sandor suffered adverse reactions as a result of the injections.

In addition, the complaint alleged that Dr. Gottfried Lemperle and his son, Dr. Stefan Lemperle, our co-founder, former Chief Executive Officer and a former director, falsely represented to her that the product had received an approvability letter from the FDA and was safe and without the potential for adverse reactions.

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The complaint also alleged medical malpractice against Dr. Cohen, the lead investigator in our U.S. clinical trial, for negligence in treating Ms. Sandor for the adverse side effects she experienced. Ms. Sandor sought damages in an unspecified amount for pain and suffering, medical and incidental expenses, loss of earnings and earning capacity, punitive and exemplary damages, reasonable attorneys fees and costs of litigation. On June 1, 2006, the parties filed a stipulation to dismiss the case without prejudice and to toll the statute of limitations. The court dismissed the case on June 5, 2006 as stipulated by the parties, and Ms. Sandor is allowed to refile her case at any time within 18 months from that date. We have no information with respect to whether or not Ms. Sandor will refile her case prior to that time.

FDA Investigation

During the Sandor litigation discussed above, Dr. Gottfried Lemperle s counsel informed us that she had contacted an investigator in the FDA s Office of Criminal Investigations to determine whether any investigation of Dr. Gottfried Lemperle was ongoing. She also informed us that the FDA investigator informed her that the FDA has an open investigation regarding us, Dr. Gottfried Lemperle and Dr. Stefan Lemperle, that the investigation had been ongoing for many months, that the investigation would not be completed within six months, and that at such time the investigation is completed, it could be referred to the U.S. Attorney s Office for criminal prosecution. In November 2006, we contacted the FDA s Office of Criminal Investigation. That office confirmed the ongoing investigation, but declined to provide any details of the investigation, including the timing, status, scope or targets of the investigation.

To our knowledge, prior to, or following this inquiry, none of our current or former officers or directors had been contacted by the FDA in connection with an FDA investigation. As a result, we have no direct information from the FDA regarding the subject matter of this investigation. We believe that the investigation may relate to the facts alleged in the Sandor litigation and the matters identified in the following correspondence from the FDA. In July 2004, we received a letter from the FDA s Office of Compliance indicating that the FDA had received information suggesting that we may have improperly marketed and promoted ArteFill prior to obtaining final FDA approval. We also received a letter from the FDA s MedWatch program, the FDA s safety information and adverse event reporting program, on April 21, 2005, which included a Manufacturer and User Facility Device Experience Database, or MAUDE, report.

The text of the MAUDE report contained facts similar to those alleged by the plaintiff in the Sandor litigation. In May 2006, we received the FDA s EIR for its investigation of our San Diego manufacturing facility. The EIR referenced two anonymous consumer complaints received by the FDA. The first complaint, received by the FDA in December 2003, alleges that Dr. Stefan Lemperle promoted the unapproved use of ArteFill, providing, upon request, a list of local doctors who could perform injections of ArteFill.

The second complaint, received by the FDA in June 2004, alleges complications experienced by an individual who had been injected with ArteFill by Dr. Gottfried Lemperle in his home. The second complaint further alleges that Dr. Stefan Lemperle marketed unapproved use of ArteFill.

We responded to the FDA s correspondence in August 2004 and again in May 2006. In our responses, we informed the FDA that based on our internal investigations; Dr. Gottfried Lemperle had used Artecoll, a predecessor product to ArteFill, on four individuals in the United States. In July 2006, the FDA requested us to submit an amendment to our pre-market approval application for ArteFill containing a periodic update covering the time period between January 16, 2004, the date of our approvable letter, and the date of the amendment. In response to this request, we completed additional inquiries regarding Dr. Gottfried Lemperle s unauthorized uses of Artecoll outside our clinical trials in contravention of FDA rules and regulations. In August 2006, we filed an amendment to our pre-market approval application that included the periodic update requested by the FDA. In the amendment, we informed the FDA that as a result of our additional inquiries, we had identified nine individuals who had been treated with Artecoll in the United States by Dr. Gottfried Lemperle, four of whom we had disclosed to the FDA in our prior correspondence. We also informed the FDA that 16 individuals had been treated with Artecoll by physicians in Mexico or Canada, where Artecoll is approved for treatment, in connection with physician training sessions conducted in those countries. Further, we informed the FDA that Dr. Stefan M. Lemperle had been injected with Artecoll in the United States in 2004 by his father, Dr. Gottfried Lemperle.

We intend to cooperate fully with any inquiries by the FDA or any other authorities regarding these and any other matters. Since initiating a call in November 2006, we have not received any communications from the FDA s Office of Criminal Investigation regarding the investigation. As a result, we have no information regarding when any investigation may be concluded, and we are unable to predict the outcome of the foregoing matters or any other inquiry by the FDA or any other authorities. In May 2006, we

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terminated our consulting relationship with Dr. Gottfried Lemperle, and in November 2006, Dr. Stefan Lemperle resigned as a director and employee. Neither Dr. Stefan Lemperle nor Dr. Gottfried Lemperle provide services to us in any capacity.

Item 1A. Risk Factors.

An investment in our common stock involves a high degree of risk. Set forth below and elsewhere in this report and in other documents that we file with the Securities and Exchange Commission are risks and uncertainties that could cause our actual results to differ materially from the results contemplated by the forward-looking statements contained in this report and the other public statements we make. If any of the following risks or uncertainties actually occurs, our business, financial condition, results of operations and our future growth prospects could be materially and adversely affected. Under these circumstances, the trading price of our common stock could decline, and you may lose all or part of your investment.

Risks Related to Our Business

We have limited commercial operating experience and a history of net losses, and we may never achieve or maintain profitability.

We have a limited commercial operating history and have focused primarily on research and development, product engineering, clinical trials, building our manufacturing capabilities and seeking FDA approval to market ArteFill. We received FDA approval to market ArteFill on October 27, 2006, and we commenced commercial shipments of ArteFill during the first quarter of 2007. All of our other product candidates are still in the early stages of research and development. We have incurred significant net losses since our inception, including net losses of approximately $12.4 million in 2004, $22.2 million in 2005, $26.3 million in 2006 and $16.9 million for the nine months ended September 30, 2007. At September 30, 2007, we had an accumulated deficit of approximately $96.3 million. For the nine months ended September 30, 2007, we used net cash in operating activities of $21.6 million. We have and will need to continue to incur significant sales, marketing and manufacturing expenses in connection with the commercial distribution of ArteFill and expect to incur significant operating losses for the foreseeable future. We cannot predict the extent of our future operating losses and accumulated deficit, and we may never generate sufficient revenues to achieve or sustain profitability. Even if we do achieve profitability, we may not be able to sustain or increase profitability. Further, because of our limited operating history and because the market for injectable aesthetic products is relatively new and rapidly evolving, we have limited insight into the trends that may emerge and affect our business. We may make errors in predicting and reacting to relevant business trends, which could harm our business. We may not be able to successfully address any or all of the risks, uncertainties and difficulties frequently encountered by early-stage companies in new and rapidly evolving markets such as ours. Failure to adequately do so could cause our business, results of operations and financial condition to suffer.

Our operating results may fluctuate significantly in the future, and we may not be able to correctly estimate our future operating expenses, which could lead to cash shortfalls.

Our operating results may fluctuate significantly in the future as a result of a variety of factors, many of which are outside of our control. These factors include:

- the level of demand for ArteFill, including seasonality in patient elective procedures and physician ordering;
- the costs of our sales and marketing activities;
- the introduction of new technologies and competing products that may make ArteFill a less attractive treatment option for physicians and patients;
- negative publicity concerning ArteFill, including concerns expressed about ArteFill based on negative perceptions of non-FDA approved dermal fillers sold outside the United States;
- our pricing strategy and ability to protect the price of ArteFill against price erosion due to the availability of alternative treatments;

our ability to attract and retain personnel with the skills required for effective operations;

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product liability and other litigation;

the amount and timing of capital expenditures and other costs relating to conducting our long-term, post-market safety study for ArteFill, further automating and expanding capacity at our manufacturing facilities and conducting further studies regarding the use of ArteFill for other aesthetic applications;

government regulation and legal developments regarding our products in the United States and in the foreign countries in which we operate;

general economic conditions affecting the ability of patients to pay for elective cosmetic procedures.

Because we only commenced commercial shipments of ArteFill in February 2007, and due to the emerging nature of the injectable aesthetic product market in which we will compete, our historical financial data is of limited value in estimating future revenues. Our projected expense levels are based in part on our expectations concerning future revenues. However, our ability to generate any revenues depends on the successful commercial launch of ArteFill. Moreover, the amount of any future revenues will depend on the choices and demand of physicians and patients, which are difficult to forecast accurately. We believe that patients are more likely to pay for elective cosmetic procedures when the economy is strong, and as a result, any material adverse change in economic conditions may negatively affect our revenues. We may be unable to reduce our expenditures in a timely manner to compensate for any unexpected or continued shortfall in revenues. Accordingly, a significant shortfall in demand for our products or a significant delay in the market acceptance of ArteFill will have a material adverse effect on our business, results of operations and financial condition. Further, our manufacturing costs and sales and marketing expenses will increase as we continue to expand our operations in connection with the commercialization of ArteFill. To the extent that expenses precede or are not followed by increased revenue, our business, results of operations and financial condition will be harmed.

We need to raise additional funds to support our operations, and these funds may not be available on a timely basis or on acceptable terms.

We believe that our cash and cash equivalents at September 30, 2007, together with the interest thereon, proceeds from sales of ArteFill, the funds available under our credit facility, and the license payments from BioForm under the Second Agreement will be sufficient to meet our anticipated cash requirements with respect to the commercial launch of ArteFill, the automation and scale-up of our manufacturing capabilities and our research and development activities and to meet our other anticipated cash needs through at least the second quarter of 2008. We will need to raise additional capital to fund our operations beyond June 2008. Any future funding transaction may require us to relinquish rights to some of our intellectual property or product royalties, and any debt or equity financing would be dilutive to our existing stockholders. We cannot guarantee that we will be able to complete any such transaction or secure additional capital on a timely basis, or at all, and we cannot assure that such transaction will be on reasonable terms. If we are unable to secure additional capital, we would need to significantly curtail our business activities and may be unable to sustain operations beyond June 2008, and you may lose your entire investment in our company.

We expect to derive substantially all of our future revenue from sales of ArteFill, and if we are unable to achieve and maintain market acceptance of ArteFill among physicians and patients, our business, operating results and financial condition will be harmed.

We expect sales of ArteFill to account for substantially all of our revenue for at least the next several years. Accordingly, our success depends on the acceptance among physicians and patients of ArteFill as a preferred injectable aesthetic treatment. Even though we have received FDA approval to market ArteFill in the United States, we may not achieve and maintain market acceptance of ArteFill among physicians or patients. ArteFill is the first product in a new category of non-resorbable aesthetic injectable products in the United States. As a result, the degree of market acceptance of ArteFill by physicians and patients is unproven and difficult to predict. We believe that market acceptance of ArteFill will depend on many factors, including:

the perceived advantages or disadvantages of ArteFill compared to other injectable aesthetic products and alternative treatments;

the safety and efficacy of ArteFill and the number and severity of reported adverse side effects, if any;

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the availability and success of other injectable aesthetic products, including newly introduced injectable aesthetic products, and alternative treatments;

the price of ArteFill relative to other injectable aesthetic products and alternative treatments;

our success in building a sales and marketing organization and the effectiveness of our marketing, advertising and commercialization initiatives;

the willingness of patients to wait 28 days for treatment following the bovine collagen skin test that is required in connection with ArteFill;

our ability to provide additional clinical data to the satisfaction of the FDA regarding the potential long-term aesthetic benefits provided by ArteFill;

our success in training physicians in the proper use of the ArteFill injection technique and the convenience and ease of administration of ArteFill;

the success of our physician practice support programs; and

negative publicity concerning ArteFill or competing products, including negative publicity concerning non-FDA approved dermal fillers sold outside the United Sates, and alternative treatments.

We cannot assure you that ArteFill will achieve and maintain market acceptance among physicians and patients. Because we expect to derive substantially all of our revenue for the foreseeable future from sales of ArteFill, any failure of this product to satisfy physician or patient demands or to achieve meaningful market acceptance will seriously harm our business.

We face significant competition from companies with greater resources and well-established sales channels, which may make it difficult for us to achieve market penetration.

The market for injectable aesthetic products is extremely competitive, subject to rapid change and significantly affected by new product introductions and other market activities of industry participants. Our competitors primarily consist of companies that offer non-permanent injectable aesthetic products approved by the FDA for the correction of facial wrinkles, as well as companies that offer products that physicians currently use off-label for the correction of facial wrinkles. These companies include:

Allergan, Inc., which markets and sells Botox® Cosmetic, a temporary muscle paralytic and the most widely used injectable aesthetic product in the United States, CosmoDerm® and CosmoPlast®, which are human collagen-based temporary dermal fillers, Zyderm® and Zyplast®, which are bovine collagen-based temporary dermal fillers, and Hylaform®, Hylaform® Plus, Captique® and Juvederm, which are temporary dermal fillers comprised primarily of hyaluronic acid, a jelly-like substance that is found naturally in living organisms and acts to hydrate and cushion skin tissue;

Medicis Pharmaceutical Corporation, which markets and sells Restylane®, the leading temporary dermal filler comprised primarily of hyaluronic acid;

BioForm Medical, Inc., which markets and sells Radiesse , a calcium hydroxylapatite based dermal filler;

Galderma, a joint venture between L Oreal and Nestle, which received FDA approval in 2007 for its temporary dermal filler, Elevess, which is comprised primarily of hyaluronic acid; and

Dermik Laboratories, a subsidiary of sanofi-aventis, which markets and sells Sculptra®, which is approved by the FDA for restoration and/or correction of the signs of facial fat loss in people with human immunodeficiency virus.

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Some of these companies are publicly traded and enjoy competitive advantages, including:

- superior name recognition;
- established relationships with physicians and patients;
- integrated distribution networks;
- large-scale FDA-approved manufacturing facilities; and
- greater financial resources for product development, sales and marketing and patent litigation.

In addition, in March 2006, Allergan completed its acquisition of INAMED Corporation, which was a manufacturer of various temporary dermal fillers. As a result of this transaction, the market for injectable aesthetic products experienced a significant concentration of products within a single entity with greater resources and the ability to provide an expanded range of products and services. These companies and others have developed and will continue to develop new products that compete with our products, and the consolidation of such companies may result in competition from entities with even greater financial and other resources.

Many of our competitors spend significantly greater funds on the research, development, promotion and sale of new and existing products. These resources can enable them to respond more quickly to new or emerging technologies and changes in customer requirements. Even if we attempt to expand our technological capabilities in order to remain competitive, research and discoveries by others may make ArteFill a less attractive alternative for physicians and patients. For all the foregoing reasons, we may not be able to compete successfully against our current and future competitors. If we cannot compete effectively in the marketplace, our potential for profitability and our results of operations will suffer.

We have never commercialized any product, and the successful commercialization of ArteFill will require us to build and maintain a sophisticated sales and marketing organization.

We have no prior experience with commercializing any product, and we will need to deploy and maintain a sophisticated sales and marketing organization in order to successfully commercialize ArteFill. We currently have a direct sales force comprised of over 25 sales professionals, and intend to increase our direct sales force over the next several quarters. We have and intend to continue to target dermatologists, plastic surgeons and cosmetic surgeons whom we have identified as having significant experience with the tunneling injection technique used in ArteFill treatments. Selling ArteFill to physicians requires us to educate them on the comparative advantages of ArteFill over other injectable aesthetic products and alternative treatments. Experienced sales representatives may be difficult to locate and retain, and all new sales representatives will need to undergo extensive training. We anticipate that it will take up to six months for each of our new sales representatives to achieve full productivity. We will need to incur significant costs to continue building our internal sales force. There is no assurance that we will be able to recruit and retain sufficiently skilled sales representatives, or that any new sales representatives will ultimately become productive. If we are unable to recruit and retain qualified and productive sales personnel, our ability to commercialize ArteFill and to generate revenues will be impaired, and our business and financial prospects will be harmed.

Potential sales of ArteFill could be delayed or lost due to patients allergic reactions to the bovine collagen component of ArteFill, the need to test for such allergic reactions before treatment with ArteFill or patients reluctance to use animal-based products.

ArteFill contains bovine collagen. Although the bovine collagen that we use is purified, patients can experience an allergic reaction. Accordingly, the instructions for use that accompany ArteFill require that all patients must be tested for any such allergies at least 28 days prior to treatment with ArteFill. If patients test positive for allergic reactions to the bovine collagen at higher rates than we expect, sales of ArteFill will be lower than anticipated. The need for a skin test in advance of treatment with ArteFill also may render ArteFill less attractive to patients who seek an immediate aesthetic treatment. The 28-day interval between testing and treatment may also result in the loss of some potential patients who, regardless of test results, fail to reappear for treatment after administration of the skin test. In addition, physicians who are concerned that patients may not return for an ArteFill treatment have an incentive to provide an immediate treatment option to patients. We believe a number of these physicians recommend that

patients get treated with a temporary dermal filler first, and then return for ArteFill treatment in the future, which could delay our sales to these patients by six months or more. Further, some potential patients may have reservations regarding the use of animal-based products. As a result of these factors, physicians may recommend alternative aesthetic treatments over ArteFill, which would limit or delay our sales and harm our ability to generate revenues.

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We have in the past and may continue to experience negative publicity concerning our product ArteFill, including concerns expressed about ArteFill based on negative perceptions of non-FDA approved dermal fillers sold outside the United States, and this negative publicity may harm our reputation and business.

ArteFill is a proprietary formulation comprised of polymethylmethacrylate, or PMMA, microspheres and bovine collagen, and is the only PMMA-based injectable product that has been approved by the FDA for the treatment of facial wrinkles. We are the sole manufacturer and distributor of ArteFill, and ArteFill is only available in the United States. We do not sell any other PMMA-based products, and we have not entered into distribution or licensing arrangements anywhere in the world with any third party for the distribution or sale of ArteFill or any other PMMA-based products. ArteFill is a third-generation product that resulted from agreements with the FDA regarding product formulation improvements and improvements to the manufacturing process used to generate the predecessor products.

There are a large number of dermal fillers offered in Europe and in other international markets that contain a permanent component, and are marketed as providing long-lasting or permanent treatment results. Several of these permanent dermal fillers contain some form of PMMA, including a dermal filler currently marketed as Artecoll. Artecoll is a predecessor product to ArteFill, and has been manufactured by third parties over the past 11 years using materials from various sources and with various specifications. None of the PMMA-based products marketed in other countries, including Artecoll, have the same formulation as ArteFill and are not manufactured using the same processes or material sources we utilize to prepare ArteFill. In addition, none of the parties offering dermal fillers containing a permanent component, including the PMMA-based products, have completed clinical trials in the United States, none have received FDA approval, and none have obtained FDA approval of their manufacturing facilities and quality control processes.

Several permanent dermal fillers, including Artecoll, have and may continue to generate or receive negative publicity in the news and other media. Statements by our competitors and other publicity regarding our company or ArteFill may include coverage that is negative in nature based on the negative perceptions of the permanent dermal fillers that are offered outside the United States. In addition, any negative side effects, or alleged or perceived negative side effects, relating to the use of ArteFill may result in negative publicity. Negative publicity regarding our company or ArteFill could reduce or delay market acceptance of ArteFill, and harm our reputation and business.

Countries within the European Union, or EU, may request the EU to more strictly regulate permanent dermal fillers based on the negative side effects, alleged or perceived negative side effects or concerns about the safety of the current permanent dermal fillers being offered in Europe. A number of the permanent dermal fillers offered in Europe obtained a CE mark based on limited review and approval requirements. We are aware that stricter registration processes for dermal fillers in the EU have been implemented over the last five years, and further requirements may be imposed in the EU. We support these initiatives and are cooperating with the regulatory bodies in Europe to ensure that all manufacturers of permanent dermal fillers comply with strict and rigorous requirements that ensure patient safety, similar to the processes currently employed by the FDA and to which ArteFill was subject to, during our FDA review and approval process. We have also sent cease and desist letters to the entities we have knowledge of that are manufacturing and distributing PMMA-based dermal fillers that infringe our patent, and will forward such letters to appropriate European authorities.

We have been involved in product litigation in the past, and we may become involved in product litigation in the future, and any liability resulting from product liability or other related claims may negatively affect our results of operations.

Dermatologists, plastic surgeons, cosmetic surgeons and other practitioners who administer ArteFill, as well as patients who have been treated with ArteFill or any of our future products, may bring product liability and other claims against us. In August 2005, Elizabeth Sandor, an individual residing in San Diego, California, filed a complaint against us and Drs. Gottfried Lemperle, Stefan Lemperle and Steven Cohen in the Superior Court of the State of California for the County of San Diego. The complaint, as amended, set forth various causes of action against us, including product liability, fraud, negligence and negligent misrepresentation. The complaint also alleged that Dr. Gottfried Lemperle, our co-founder, former Chief Scientific Officer and a former member of our board of directors, treated Ms. Sandor with Artecoll and/or ArteFill in violation of medical licensure laws, that the product was

defective and unsafe because it had not received FDA approval at the time it was administered to Ms. Sandor, and that Ms. Sandor suffered adverse reactions as a result of the injections. In addition, the complaint alleged that Drs. Gottfried Lemperle and Stefan Lemperle, our other co-founder, former Chief Executive Officer and a former director, falsely represented to her that the product had received an approvability letter from the FDA, and was safe and without the potential for adverse reactions. The complaint also alleged medical

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malpractice against Dr. Cohen, the lead investigator in our U.S. clinical trial, for negligence in treating Ms. Sandor for the adverse side effects she experienced. We notified our directors and officers liability insurance carrier of Ms. Sandor s claims and requested both a defense and indemnification for all claims advanced by Ms. Sandor. Our insurance carrier declined coverage. On June 1, 2006, the parties filed a stipulation to dismiss the case without prejudice and toll the statute of limitations. The court dismissed the case on June 5, 2006 as stipulated by the parties, and Ms. Sandor is allowed to refile her case at any time within 18 months from that date. See Item 1. Legal Proceedings contained in Part II of this report.

Any negative publicity surrounding these events or any refiling of this case may harm our business and negatively impact the price of our stock. Additionally, if it is determined that Dr. Gottfried Lemperle or Dr. Stefan Lemperle did not act in his individual capacity or that we are liable because of the actions of Dr. Cohen, we may need to pay damages, which would reduce our cash and could cause a decline in our stock price. Further, if any of the individuals injected with Artecoll by Dr. Gottfried Lemperle in the United States, or if any of those individuals injected with Artecoll during the physician training sessions conducted in Mexico and Canada bring claims against our company as a result of these injections, we may need to pay damages, which would reduce our cash and could cause a decline in our stock price. As of the date of this filing, none of these individuals has filed a claim against our company in connection with an injection of Artecoll, except for Ms. Sandor. There could be other individuals who were injected with Artecoll who are not known to us, who could bring similar claims against our company.

To limit our product liability exposure, we have developed a physician training and education program. We cannot provide any assurance that our training and education program will help avoid complications resulting from the administration of ArteFill. In addition, although we intend to sell our product only to physicians, we will not be able to control whether other medical professionals, such as nurse practitioners or other cosmetic specialists, administer ArteFill to their patients, and we may be unsuccessful at avoiding significant liability exposure as a result. We maintained limited product liability insurance in an amount of up to $5 million per incident through December 1, 2006, and as of December 1, 2006, we increased our coverage to $20 million per incident, but any insurance we maintain may not sufficient to provide coverage against any asserted claims. In addition, our insurance may not be sufficient to provide coverage for claims which may be asserted in the future by individuals injected with Artecoll by Dr. Gottfried Lemperle or during the physician training sessions conducted in Mexico and Canada. We also may be unable to maintain our insurance or obtain insurance in the future on acceptable terms, or at all. In addition, regardless of merit or eventual outcome, product liability and other claims may result in:

- the diversion of management s time and attention from our business and operations;
- the expenditure of large amounts of cash on legal fees, expenses and payment of settlements or damages;
- decreased demand for ArteFill among physicians and patients;
- voluntary or mandatory recalls of our products; or
- injury to our reputation.

If any of the above consequences of product liability litigation occur, it could adversely affect our results of operations, harm our business and cause the price of our stock to decline.

An investigation by the FDA or other regulatory agencies, including the current investigation by the FDA s Office of Criminal Investigations, which we believe may concern improper uses of our product before FDA approval, could harm our business.

During negotiations with the parties involved in the litigation with Elizabeth Sandor discussed above, Dr. Gottfried Lemperle s counsel informed us that she had contacted an investigator at the FDA s Office of Criminal Investigations to determine whether any investigation of Dr. Gottfried Lemperle was ongoing. She also informed us that the FDA investigator had informed her that the FDA has an open investigation regarding us, Dr. Gottfried Lemperle and Dr. Stefan Lemperle, that the investigation had been ongoing for many months, that the investigation would not be completed within six months, and that at such time the investigation is completed, it could be referred to

the U.S. Attorney s Office for criminal prosecution. In November 2006, we contacted the FDA s Office of Criminal Investigation. That office confirmed the ongoing investigation but declined to provide any details of the investigation, including the timing, status, scope or targets of the investigation.

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To our knowledge, prior to or following this inquiry, none of our current or former officers or directors had been contacted by the FDA in connection with an FDA investigation. As a result, we have no direct information from the FDA regarding the subject matter of this investigation. We believe that the investigation may relate to the facts alleged in the Sandor litigation and the matters identified in the following correspondence from the FDA. In July 2004, we received a letter from the FDA s Office of Compliance indicating that the FDA had received information suggesting that we may have improperly marketed and promoted ArteFill prior to obtaining final FDA approval. We also received a letter from the FDA s MedWatch program, the FDA s safety information and adverse event reporting program, on April 21, 2005, which included a Manufacturer and User Facility Device Experience Database, or MAUDE, report. The text of the MAUDE report contained facts similar to those alleged by the plaintiff in the Sandor litigation.

In May 2006, we received the FDA s EIR, for its investigation of our San Diego manufacturing facility. The EIR referenced two anonymous consumer complaints received by the FDA. The first complaint, received by the FDA in December 2003, alleges that Dr. Stefan Lemperle promoted the unapproved use of ArteFill, providing, upon request, a list of local doctors who could perform injections of ArteFill. The second complaint, received by the FDA in June 2004, alleges complications experienced by an individual who had been injected with ArteFill by Dr. Gottfried Lemperle in his home. The second complaint further alleges that Dr. Stefan Lemperle marketed unapproved use of ArteFill.

We responded to the FDA s correspondence in August 2004 and again in May 2006. In our responses, we informed the FDA that based on our internal investigations, Dr. Gottfried Lemperle had used Artecoll, a predecessor product to ArteFill, on four individuals in the United States. In July 2006, the FDA requested us to submit an amendment to our pre-market approval, application for ArteFill containing a periodic update covering the time period between January 16, 2004, the date of our approvable letter, and the date of the amendment. In response to this request, we completed additional inquiries regarding Dr. Gottfried Lemperle s unauthorized uses of Artecoll outside our clinical trials in contravention of FDA rules and regulations. In August 2006, we filed an amendment to our pre-market approval application that included the periodic update requested by the FDA. In the amendment, we informed the FDA that as a result of our additional inquiries, we had identified nine individuals who had been treated with Artecoll in the United States by Dr. Gottfried Lemperle, four of whom we had disclosed to the FDA in our prior correspondence. We also informed the FDA that 16 individuals had been treated with Artecoll by physicians in Mexico or Canada, where Artecoll is approved for treatment, in connection with physician training sessions conducted in those countries. Further, we informed the FDA that Dr. Stefan M. Lemperle, had been injected with Artecoll in the United States in 2004 by his father, Dr. Gottfried Lemperle.

We intend to cooperate fully with any inquiries by the FDA or any other authorities regarding these and any other matters. We have no information regarding when any investigation may be concluded, and we are unable to predict the outcome of the foregoing matters or any other inquiry by the FDA or any other authorities. If the FDA or any other authorities elect to request additional information from us or to commence further proceedings, responding to such requests or proceedings could divert management s attention and resources from our operations. We would also incur additional costs associated with complying with any such requests or responding to any such proceedings. Additionally, any negative developments arising from such requests or the investigation could potentially harm our relationship with the FDA. Any adverse finding resulting from the ongoing FDA investigation could result in a warning letter from the FDA that requires us to take remedial action, fines or other criminal or civil penalties, the referral of the matter to another governmental agency for criminal prosecution and negative publicity regarding our company. Any of these events could harm our business and negatively affect our stock price.

We have limited manufacturing experience, and if we are unable to manufacture ArteFill in commercial quantities successfully and consistently to meet demand, our growth will be limited.

Prior to receiving FDA approval, we manufactured ArteFill, including the PMMA microspheres used in the product, in limited quantities sufficient only to meet the needs for our clinical studies. To be successful, we will need to manufacture ArteFill in substantial quantities at acceptable costs. To produce ArteFill in the quantities that we believe will be required to meet anticipated market demand, we will need to increase and automate the production process compared to our current manufacturing capabilities, which will involve significant challenges and may require

additional regulatory approvals. The development of commercial-scale manufacturing capabilities will require the investment of substantial additional funds and hiring and retaining additional technical personnel who have the necessary manufacturing experience. For example, we currently use a manual process to fill syringes with ArteFill and may need to hire additional personnel for this process in order to meet commercial demand if we are unable to automate the process as intended. The implementation of an automated manufacturing process is a significant manufacturing change that will require development, validation and documentation, and the preparation and submission to the FDA of a Prior Approval Supplement to our PMA application. The FDA s review of a Prior Approval Supplement typically does not require a facility inspection, but the FDA will have six months to review the supplement. We may not successfully complete any required increase or automation of our

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manufacturing process in a timely manner or at all. If there is a disruption to our manufacturing operations at either facility, we would have no other means of producing ArteFill until we restore and re-qualify our manufacturing capability at our facilities or develop alternative manufacturing facilities. Additionally, any damage to or destruction of our U.S. or German facilities or our equipment, prolonged power outage or contamination at either of our facilities would significantly impair our ability to produce ArteFill. Our lack of manufacturing experience may adversely affect the quality of our product when manufactured in large quantities and therefore result in product recalls. Any recall could be expensive and generate negative publicity, which could impair our ability to market ArteFill and further affect our results of operations. If we are unable to produce ArteFill in sufficient quantities to meet anticipated customer demand, our revenues, business and financial prospects would be harmed. In addition, if our automated production process is not efficient or does not produce ArteFill in a manner that meets quality and other standards, our future gross margins, if any, will be harmed.

The results provided by ArteFill are highly dependent on its technique of administration, and the acceptance of ArteFill will depend on the training, skill and experience of physicians.

The administration of ArteFill to patients requires significant training, skill and experience with the tunneling injection technique. We provide training to physicians in order to ensure that they are trained to inject ArteFill using the tunneling injection technique, and intend to offer ArteFill only to physicians who have completed our training program. However, untrained or inexperienced physicians may obtain supplies of ArteFill from third parties without our authorization and may perform injections using an improper technique, causing suboptimal aesthetic results or adverse side effects in patients.

In addition, even physicians who have been trained by us and have significant experience may administer ArteFill using an improper technique or in areas of the body where it is not approved for use by the FDA. This may lead to negative publicity, regulatory action or product liability claims regarding ArteFill or our company, which could reduce market acceptance of ArteFill and harm our business.

Our ability to manufacture and sell ArteFill could be harmed if we experience problems with the supply of calf hides from the closed herd of domestic cattle from which we derive the bovine collagen component of ArteFill.

We derive the bovine collagen component of ArteFill from calf hides supplied through a herd that is isolated, bred and monitored in accordance with both FDA and United States Department of Agriculture, or USDA, guidelines to minimize the risk of contamination from bovine spongiform encephalopathy, or BSE, commonly referred to as mad cow disease. BSE is a chronic, degenerative disorder that affects the central nervous system. We currently rely on a sole domestic supplier, Lampire Biological Labs, Inc., for the calf hides from which we produce the purified bovine collagen used in ArteFill. If this herd were to suffer a significant reduction or become unavailable to us through disease, natural disaster or otherwise for a prolonged period, we would have a limited ability to access a supply of acceptable calf hides from a similarly segregated source. In addition, if there were to be any widespread discovery of BSE in the United States, our ability to access bovine collagen may be impaired even if our herd is unaffected by the disease, if third parties begin to demand calf hides from our herd. Although we have not experienced any problems with our supply of calf hides in the past, a significant reduction in the supply of acceptable calf hides due to contamination of our supplier s herd, a supply shortage or interruption, or an increase in demand beyond our current supplier s capabilities could harm our ability to produce and sell ArteFill until a new source of supply is identified, established and qualified with the FDA. Any delays or disruptions in the supply of calf hides would negatively affect our revenues. We currently have more than a two year supply of calf hides in stock and intend to maintain a supply of calf hides that will last for more than two years. If our stockpiled supply is damaged or contaminated, and we are unable to obtain acceptable calf hides in the time frames desired, or at all, our business and results of operations will be harmed.

We are limited to marketing and advertising ArteFill for the treatment of nasolabial folds with efficacy benefits of six months under the label approved by the FDA, and we may not be able to obtain FDA approval to enhance our labeling for ArteFill.

Our U.S. clinical trial demonstrated the efficacy of ArteFill for the treatment of nasolabial folds, or smile lines, at primary efficacy endpoints of up to six months by comparison to the control products. As a result, the FDA requires us to label, advertise and promote ArteFill only for the treatment of nasolabial folds with an efficacy of six months.

This limitation restricts our ability to market or advertise ArteFill and could negatively affect our growth. If we wish to market and promote ArteFill for other indications or claim efficacy benefits beyond six months, we may have to conduct further clinical trials or studies to gather clinical information for submission to the FDA, which would be costly and take a number of years. In early 2007, we completed a five-year follow-up study of 145 patients who were treated with ArteFill in our U.S. clinical trial. Dr. Mark G. Rubin, presented the results of this study at a

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meeting of the American Academy of Dermatology in Washington, D.C. in February 2007. We submitted the results of the five-year follow-up study to the FDA in March 2007 to seek approval to enhance product labeling that would allow us to claim efficacy benefits of ArteFill beyond six months. The Company received the FDA s comments to our submission and their request for additional information in August 2007. We are currently supplying this information to the FDA for consideration to complete their review of the supplement and enabling us to enhance the product label. There can be no assurance, however, that we will be successful in obtaining FDA approval to claim that the aesthetic benefits of ArteFill extend beyond six months or to expand our product labeling to cover additional indications. Without FDA approval to market ArteFill beyond six months, physicians may be slow to adopt ArteFill. Further, future studies of patients injected with ArteFill may indicate that the aesthetic benefits of ArteFill do not meet the expectations of physicians or patients. Such data would slow market acceptance of ArteFill, significantly reduce our ability to achieve expected revenues and could prevent us from becoming profitable.

We are not permitted to market, advertise or promote ArteFill for off-label uses, which are uses that the FDA has not approved. Off-label use of ArteFill may occur in areas such as the treatment of other facial wrinkles, creases and other soft tissue defects. While off-label uses of aesthetic products are common and the FDA does not regulate physicians choice of treatments, the FDA does restrict a manufacturer s communications regarding such off-label use. As a result, we may not actively promote or advertise ArteFill for off-label uses, even if physicians use ArteFill to treat such conditions. This limitation will restrict our ability to market our product and may substantially limit our sales. The U.S. Attorney s offices and other regulators, in addition to the FDA, have recently focused substantial attention on off-label promotional activities and, in certain cases, have initiated civil and criminal investigations and actions related to such practices. If we are found to have promoted off-label uses of ArteFill in violation of the FDA s marketing approval requirements, we could face warning letters, significant adverse publicity, fines, legal proceedings, injunctions or other penalties, any of which would be harmful to our business.

We have increased the size of our company significantly in connection with the commercial launch of ArteFill, and difficulties managing our growth could adversely affect our business, operating results and financial condition.

We have hired a substantial number of additional personnel in connection with the commercial launch of ArteFill, and such growth has and could continue to place a strain on our management and our administrative, operational and financial infrastructure. From January 1, 2005 to September 30, 2007, we have increased the size of our company from 12 to 136 employees, including a direct sales force of 25 sales professionals. Based on our current operating plan, we expect to hire additional sales personnel during the next several quarters. Our ability to manage our operations and growth requires the continued improvement of operational, financial and management controls, reporting systems and procedures, particularly to meet the reporting requirements of the Securities Exchange Act of 1934. If we are unable to manage our growth effectively or if we are unable to attract additional highly qualified personnel, our business, operating results and financial condition may be harmed.

If changes in the economy and consumer spending reduce demand for ArteFill, our sales and profitability could suffer.

We have and we intend to continue to position ArteFill as a premium-priced product in the injectable aesthetic product market. Treatment with ArteFill is an elective procedure, directly paid for by patients without reimbursement. As a result, sales of ArteFill will require that patients have sufficient disposable income to spend on an elective aesthetic treatment. Adverse changes in the economy may cause consumers to reassess their spending choices and choose less expensive alternative treatments over ArteFill, or may reduce the demand for elective aesthetic procedures in general. A shift of this nature could impair our ability to generate sales and could harm our business, financial condition and results of operations.

We are dependent on our key management personnel. The loss of any of these individuals could harm our business.

We are dependent on the efforts of our current key management, including Christopher J. Reinhard, our Executive Chairman of the Board of Directors, Diane S. Goostree, our President and Chief Executive Officer and Peter C. Wulff, our Executive Vice President and Chief Financial Officer. We have entered into a severance protection agreement with Ms. Goostree and change of control agreements with each of our other executive officers, including Messrs. Reinhard and Wulff. Although we are not aware of any present intention of these persons to leave our

company, any of our key management personnel or other employees may elect to end their employment with us and pursue other opportunities at any time, for any or no reason. In addition, we do not have and have no present intention to obtain key man life insurance on any of our executive officers or key management personnel to mitigate the impact of the loss of any of these individuals. The loss of any of these individuals, or our inability to recruit and train additional key personnel, particularly senior sales and marketing and research and development employees, in a timely manner, could harm our business and our future product revenues and prospects. The market for skilled employees for medical technology and biotechnology companies in San Diego is competitive, and we can provide no assurance that we will be able to locate skilled and qualified employees to replace any of our employees that choose to depart. If we are unable to attract and retain qualified personnel, our business will be significantly harmed.

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We may rely on third parties for our international sales, marketing and distribution activities.

Although we plan initially to market and sell ArteFill to physicians in the United States through our own sales force, we may in the future rely on third parties to assist us in sales, marketing and distribution, particularly in international markets. If and when our dependence on third parties for our international sales, marketing and distribution activities increases, we will be subject to a number of risks associated with our dependence on these third parties, including:

- lack of day-to-day control over the activities of third-party contractors;
- third-party contractors may not fulfill their obligations to us or otherwise meet our expectations;
- third-party contractors may terminate their arrangements with us on limited or no notice or may change the terms of these arrangements in a manner unfavorable to us for reasons outside of our control; and
- disagreements with our contractors could require or result in costly and time-consuming litigation or arbitration.

If we fail to establish and maintain satisfactory relationships with these third-party contractors, our revenues and market share may not grow as anticipated, and we could be subject to unexpected costs which would harm our results of operations and financial condition.

To the extent we engage in marketing and distribution activities outside the United States, we will be exposed to risks associated with exchange rate fluctuations, trade restrictions and political, economic and social instability.

If ArteFill is approved for sale in foreign markets and we begin marketing ArteFill in these markets, we will be subject to various risks associated with conducting business abroad. A foreign government may require us to obtain export licenses or may impose trade barriers or tariffs that could limit our ability to build our international presence. Our operations in some markets also may be adversely affected by political, economic and social instability in foreign countries, including terrorism. To the extent that we attempt to expand our sales efforts in international markets, we may also face difficulties in staffing and managing foreign operations, longer payment cycles and problems with collecting accounts receivable and increased risks of piracy and limits on our ability to enforce our intellectual property rights. In addition, for financial reporting purposes, results of operations of our foreign subsidiary will be translated from local currency into U.S. dollars based on average monthly exchange rates. We currently do not hedge our foreign currency transactions and therefore will be subject to the risk of changes in exchange rates. If we are unable to adequately address the risks of doing business abroad and build an international presence, our business, financial condition and results of operations may be harmed.

If we acquire any companies or technologies, our business may be disrupted and the attention of our management may be diverted.

In July 2004, we acquired assets and intellectual property from FormMed Biomedicals AG in connection with the establishment of our manufacturing facility in Germany. This transaction had an effective date as of January 1, 2004. Since the completion of this acquisition, we have spent approximately $750,000 to improve and upgrade the physical facilities, manufacturing processes and quality control systems at that facility to be in compliance with both U.S. and international regulatory quality requirements. We may make additional acquisitions of complementary companies, products or technologies in the future. Any acquisitions will require the assimilation of the operations, products and personnel of the acquired businesses and the training and motivation of these individuals. Acquisitions may disrupt our operations and divert management s attention from day-to-day operations, which could impair our relationships with current employees, customers and strategic partners. We may need to incur debt or issue equity securities to pay for any future acquisitions. The issuance of equity securities for an acquisition could be substantially dilutive to our stockholders. In addition, our profitability may suffer because of acquisition-related costs or amortization or impairment costs for acquired goodwill and other intangible assets. We may not realize the intended benefits of any acquisitions if management is unable to fully integrate acquired businesses, products, technologies or personnel with existing operations. We are currently not party to any agreements, written or oral, for the acquisition of any company, product or technology, nor do we anticipate making any arrangements for any such acquisition in the

foreseeable future.

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Our business, which depends on a small number of facilities, is vulnerable to natural disasters, telecommunication and information systems failures, terrorism and similar problems, and we are not fully insured for losses caused by such incidents.

We conduct operations in two facilities located in San Diego, California and Frankfurt, Germany. These facilities could be damaged by earthquake, fire, floods, power loss, telecommunication and information systems failures or similar events. Our insurance policies have limited coverage levels of up to approximately $28.0 million for property damage and up to $15.0 million for business interruption in these events and may not adequately compensate us for any losses that may occur. These policies do not include earthquake or flood coverage in California. In addition, terrorist acts or acts of war may cause harm to our employees or damage our facilities. Further, the potential for future terrorist attacks, the national and international responses to terrorist attacks or perceived threats to national security, and other acts of war or hostility have created many economic and political uncertainties that could adversely affect our business and results of operations in ways that we cannot predict. We are uninsured for these types of losses.

We are recording non-cash compensation expense that may result in an increase in our net losses for a given period.

Deferred stock-based compensation represents an expense associated with the recognition of the difference between the deemed fair value of common stock at the time of a stock option grant or issuance and the option exercise price or price paid for the stock. Deferred stock-based compensation is amortized over the vesting period of the option or issuance. At December 31, 2006, deferred stock-based compensation related to option grants and stock issuances totaled approximately $2.7 million. Effective January 1, 2006, we prospectively adopted Statement of Financial Accounting Standards (SFAS) No. 123R, Share-Based Payment (SFAS No. 123(R)). SFAS No. 123(R) required us to reclassify the $2.7 million of deferred stock-based compensation to additional paid-in capital. The $2.7 million will be expensed on a straight-line basis as the options or stock vest, generally over a period of four years. $445,000 of deferred stock-based compensation has been expensed through the nine months ended September 30, 2007.

We also record non-cash compensation expense for equity stock-based instruments issued to non-employees. SFAS No. 123(R) now requires us to record stock-based compensation expense for equity instruments granted to employees and directors. $2,326,000 of stock based compensation has been expensed through the nine months ended September 30, 2007.

Non-cash compensation expense associated with future equity compensation awards may result in an increase in our net loss, and adversely affect our reported results of operations.

Changes in, or interpretations of, accounting rules and regulations, such as expensing of stock options, could result in unfavorable accounting charges or require us to change our compensation policies.

Accounting methods and policies for public companies, including policies governing revenue recognition, expenses, accounting for stock options and in-process research and development costs, are subject to further review, interpretation and guidance from relevant accounting authorities, including the SEC. Changes to, or interpretations of, accounting methods or policies in the future may require us to reclassify, restate or otherwise change or revise our financial statements, including those contained in this report. For example, in 2006, the Financial Accounting Standards Board adopted a new accounting pronouncement requiring the recording of expense for the fair value of stock options granted. We rely heavily on stock options to motivate current employees and to attract new employees. As a result of the requirement to expense stock options, we may choose to reduce our reliance on stock options as a motivation tool. If we reduce our use of stock options, it may be more difficult for us to attract and retain qualified employees. However, if we do not reduce our reliance on stock options, our reported net losses may increase, which may have an adverse effect on our reported results of operations.

Impairment of our significant intangible assets may reduce our profitability.

The costs of our acquired patents and technology are recorded as intangible assets and amortized over the period that we expect to benefit from the assets. As of September 30, 2007, the net acquired intangible assets comprised approximately 6.0% of our total assets. We periodically evaluate the recoverability and the amortization period of our intangible assets. Some factors we consider important in assessing whether or not impairment exists include performance relative to expected historical or projected future operating results, significant changes in the manner of our use of the assets or the strategy for our overall business, and significant negative industry or economic trends.

These factors, assumptions, and changes therein could result in an impairment of our long-lived assets. Any impairment of our intangible assets may reduce our profitability and harm our results of operations and financial condition.

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Risks Related to Our Intellectual Property

Our ability to achieve commercial success will depend in part on obtaining and maintaining patent protection and trade secret protection relating to ArteFill and our technology and future products, as well as successfully defending our patents against third party challenges. If we are unable to obtain and maintain protection for our intellectual property and proprietary technology, the value of ArteFill, our technology and future products will be adversely affected, and we will not be able to protect our technology from unauthorized use by third parties.

Our long-term success largely depends on our ability to maintain patent protection covering our product, ArteFill, and to obtain patent and intellectual property protection for any future products that we may develop and seek to market. In order to protect our competitive position for ArteFill and any future products, we must:

- prevent others from successfully challenging the validity or enforceability of, or infringing, our issued patents and our other proprietary rights;
- operate our business, including the manufacture, sale and use of ArteFill and any future products, without infringing upon the proprietary rights of others;
- successfully enforce our patent rights against third parties when necessary and appropriate; and
- obtain and protect commercially valuable patents or the rights to patents both domestically and abroad.

We currently have one U.S. patent and corresponding patents in 14 international jurisdictions that cover our product, ArteFill, and alloplastic implants, which are implants containing inert materials that are compatible for use in or around human tissue, made of smooth, round, injectable polymeric and non-polymeric microspheres, which can be used for soft tissue augmentation. The U.S. patent covering this invention, U.S. Patent No. 5,344,452, will expire in September 2011. Although we applied for an extension of the term of this patent until 2016, we cannot assure you that the U.S. Patent and Trademark Office, or the U.S. PTO, will grant the extension for the full five years or at all. In addition, our competitors or other patent holders may challenge the validity of our patents or assert that our products and the methods we employ are covered by their patents. If the validity or enforceability of any of our patents is challenged, or others assert their patent rights against us, we may incur significant expenses in defending against such actions, and if any such challenge is successful, our ability to sell ArteFill may be harmed.

Protection of intellectual property in the markets in which we compete is highly uncertain and involves complex legal and scientific questions. It may be difficult to obtain additional patents relating to our products or technology. Furthermore, any changes in, or unexpected interpretations of, the patent laws may adversely affect our ability to enforce our patent position.

Other risks and uncertainties that we face with respect to our patents and other proprietary rights include the following:

- our issued patents may not be valid or enforceable or may not provide adequate coverage for our products;
- the claims of any issued patents may not provide meaningful protection;
- our issued patents may expire before we are able to successfully commercialize ArteFill or any future product candidates or before we receive sufficient revenues in return;
- patents issued to us may be successfully challenged, circumvented, invalidated or rendered unenforceable by third parties;
- the patents issued or licensed to us may not provide a competitive advantage;
- patents issued to other companies, universities or research institutions may harm our ability to do business;

other companies, universities or research institutions may independently develop similar or alternative technologies or duplicate our technologies and commercialize discoveries that we attempt to patent;

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other companies, universities or research institutions may design around technologies we have licensed, patented or developed;

because the information contained in patent applications is generally not publicly available until published (usually 18 months after filing), we cannot assure you that we have been the first to file patent applications for our inventions or similar technology;

the future and pending applications we will file or have filed, or to which we will or do have exclusive rights, may not result in issued patents or may take longer than we expect to result in issued patents; and

we may be unable to develop additional proprietary technologies that are patentable.

Our other intellectual property, particularly our trade secrets and know-how, are important to us, and our inability to safeguard it may adversely affect our business by causing us to lose a competitive advantage or by forcing us to engage in costly and time-consuming litigation to defend or enforce our rights.

We rely on trademarks, copyrights, trade secret protections, know-how and contractual safeguards to protect our non-patented intellectual property, including our manufacturing processes. Our employees, consultants and advisors are required to enter into confidentiality agreements that prohibit the disclosure or use of our confidential information. We also have entered into confidentiality agreements to protect our confidential information delivered to third parties for research and other purposes. There can be no assurance that we will be able to effectively enforce these agreements or that the subject confidential information will not be disclosed, that others will not independently develop substantially equivalent confidential information and techniques or otherwise gain access to our confidential information or that we can meaningfully protect our confidential information. Costly and time-consuming litigation could be necessary to enforce and determine the scope and protectability of our confidential information, and failure to maintain the confidentiality of our confidential information could adversely affect our business by causing us to lose a competitive advantage maintained through such confidential information.

Disputes may arise in the future with respect to the ownership of rights to any technology developed with consultants, advisors or collaborators. These and other possible disagreements could lead to delays in the collaborative research, development or commercialization of our products, or could require or result in costly and time-consuming litigation that may not be decided in our favor. Any such event could have a material adverse effect on our business, financial condition and results of operations by delaying or preventing our ability to commercialize innovations or by diverting our resources away from revenue-generating projects.

Pursuant to the terms of an intellectual property litigation settlement, we have licensed some of our technology to a competitor.

In October 2005, we and Dr. Martin Lemperle, the brother of Dr. Stefan M. Lemperle, our former Chief Executive Officer and a former director, entered into a settlement and license agreement with BioForm Medical, Inc. and BioForm Medical Europe B.V., or the BioForm entities, pursuant to which all outstanding disputes and litigation matters among the parties were settled. In connection with the settlement, we granted to the BioForm entities, which are competitors of us, an exclusive, world-wide, royalty-bearing license under certain of our patents to make and sell implant products containing calcium hydroxylapatite, or CaHA, particles and a non-exclusive, world-wide, royalty-bearing license under the same patents to make and sell certain other non-polymeric implant products. In September 2007, we entered into a second license agreement with the BioForm entities. Under the second agreement, the BioForm entities elected to pre-pay all future royalty obligations to us by making two payments totaling $5.5 million. These payments will replace any future royalty obligation of the BioForm entities to us under the settlement and license agreement. Our license grants allow BioForm to market and sell its Radiesse and Coaptite® products and other potential future products. Sale of these products by BioForm may impair our ability to generate revenues from sales of ArteFill. In addition, if we become involved in litigation or if third parties infringe or threaten to infringe our intellectual property rights in the future, we may choose to make further license grants with respect to our technology, which could further harm our ability to market and sell ArteFill.

Our business may be harmed, and we may incur substantial costs as a result of litigation or other proceedings relating to patent and other intellectual property rights.

A third party may assert that we (including our subsidiary) have infringed, or one of our distributors or strategic collaborators has infringed, his, her or its patents and proprietary rights or challenge the validity or enforceability of our patents and proprietary

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rights. Our competitors, many of which have substantially greater resources than us and have made significant investments in competing technologies or products, may seek to apply for and obtain patents that will prevent, limit or interfere with our ability to make, use and sell future products either in the United States or in international markets. Further, we may not be aware of all of the patents and other intellectual property rights owned by third parties that may be potentially adverse to our interests. Intellectual property litigation in the medical device and biotechnology industries is common, and we expect this trend to continue. We may need to resort to litigation to enforce our patent rights or to determine the scope and validity of a third party s patents or other proprietary rights. The outcome of any such proceedings is uncertain and, if unfavorable, could significantly harm our business. If we do not prevail in this type of litigation, we or our distributors or strategic collaborators may be required to:

- pay actual monetary damages, royalties, lost profits and/or increased damages and the third party s attorneys fees, which may be substantial;

- expend significant time and resources to modify or redesign the affected products or procedures so that they do not infringe a third party s patents or other intellectual property rights; further, there can be no assurance that we will be successful in modifying or redesigning the affected products or procedures;

- obtain a license in order to continue manufacturing or marketing the affected products or services, and pay license fees and royalties; if we are able to obtain such a license, it may be non-exclusive, giving our competitors access to the same intellectual property, or the patent owner may require that we grant a cross-license to our patented technology; or

- stop the development, manufacture, use, marketing or sale of the affected products through a court-ordered sanction called an injunction, if a license is not available on acceptable terms, or not available at all, or our attempts to redesign the affected products are unsuccessful.

Any of these events could adversely affect our business strategy and the value of our business. In addition, the defense and prosecution of intellectual property suits, interferences, oppositions and related legal and administrative proceedings in the United States and elsewhere, even if resolved in our favor, could be expensive, time consuming, generate negative publicity and could divert financial and managerial resources. Some of our competitors may be able to sustain the costs of complex intellectual property litigation more effectively than we can because they have substantially greater financial resources.

Our ability to market ArteFill in some foreign countries may be impaired by the activities and intellectual property rights of third parties.

Although we acquired all of the international intellectual property rights related to Artecoll and the ArteFill technology platform in 2004, we are aware that third parties located in Germany, the Netherlands and Canada have in the past, and may be currently, manufacturing and selling products for the treatment of facial wrinkles under the name Artecoll or ArteSense outside the United States. Following the establishment of ArteFill in the United States, we plan to explore opportunities to market and sell ArteFill in select international markets. To successfully enter into these markets and achieve desired revenues internationally, we may need to enforce our patent and trademark rights against third parties that we believe may be infringing on our rights. We have recently sent cease and desist letters to the entities we have knowledge of that are manufacturing and distributing PMMA-based dermal fillers that we believe infringe our patent, and forwarded such letters to the appropriate European authorities.

The laws of some foreign countries do not protect intellectual property, including patents, to as great an extent as do the laws of the United States. Policing unauthorized use of our intellectual property is difficult, and there is a risk that despite the expenditure of significant financial resources and the diversion of management attention, any measures that we take to protect our intellectual property may prove inadequate in these countries. Our competitors in these countries may independently develop similar technology or duplicate our products, thus likely reducing our sales in these countries. Furthermore, some of our patent rights may be limited in enforceability to the United States or certain other select countries, which may limit our intellectual property rights abroad.

Risks Related to Government Regulation

ArteFill will be subject to ongoing regulatory review, and if we fail to comply with continuing U.S. and foreign regulations, ArteFill could be subject to a product recall or other regulatory action, which would seriously harm our business.

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Even though the FDA has approved the commercialization of ArteFill in the United States, the manufacturing, labeling, packaging, adverse event reporting, storage, advertising, promotion and record-keeping related to ArteFill continue to be subject to extensive ongoing regulatory requirements. We are subject to ongoing FDA requirements for submission of safety and other post-market information and reports, including results from any post-marketing studies or vigilance required as a condition of approval. In particular, the FDA has required us to monitor the stability of the bovine collagen manufactured at our U.S. facility for sufficient time to support an 18-month expiration date, and to conduct a post-market study of 1,000 patients to examine the significance of delayed granuloma formation for a period of five years after their initial treatment. The FDA and similar governmental authorities in other countries have the authority to require the recall of ArteFill in the event of material deficiencies or defects in design, manufacture or labeling. Any recall of ArteFill would divert managerial and financial resources and harm our reputation among physicians and patients.

Additionally, in connection with the ongoing regulation of ArteFill, the FDA or other regulatory authorities may also:

- impose labeling and advertising requirements, restrictions or limitations, including the inclusion of warnings, precautions, contraindications or use limitations that could have a material impact on the future profitability of our product candidates;
- impose testing and surveillance to monitor our products and their continued compliance with regulatory requirements; and
- require us to submit products for inspection

Any manufacturer and manufacturing facilities we use to make our products will also be subject to periodic unannounced review and inspection by the FDA. If a previously unknown problem or problems with a product or a manufacturing and laboratory facility used by us is discovered, the FDA or foreign regulatory agency may impose restrictions on that product or on the manufacturing facility, including requiring us to withdraw the product from the market. Material changes to an approved product, including the way it is manufactured or promoted, require FDA approval before the product, as modified, can be marketed. If we fail to comply with applicable regulatory requirements, a regulatory agency may:

- issue warning letters;
- impose fines and other civil or criminal penalties;
- suspend or withdraw regulatory approvals for our products;
- refuse to approve pending applications or supplements to approved applications filed by us;
- delay, suspend or otherwise restrict our manufacturing, distribution, sales and marketing activities;
- close our manufacturing facilities; or
- seize or detain products or require a product recall.

If any of these events were to occur, we would have limited or no ability to market and sell ArteFill, and our business would be seriously harmed.

If we, or the supplier of the calf hides used in our collagen, do not comply with FDA and other federal regulations, our supply of product could be disrupted or terminated.

We must comply with various federal regulations, including the FDA s Quality System Regulations, or QSRs, applicable to the design and manufacturing processes related to medical devices. In addition, Lampire Biological Labs, Inc., the supplier of the calf hides used in our collagen, also must comply with manufacturing and quality requirements imposed by the FDA and the USDA. If we or our supplier fail to meet or are found to be noncompliant

with QSRs or any other requirements of the FDA or USDA, or similar regulatory requirements outside of the United States, obtaining the required regulatory approvals, including from the FDA, to use alternative suppliers or manufacturers may be a lengthy and uncertain process. A lengthy interruption in the manufacturing of one or

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more of our products as a result of non-compliance could adversely affect our product inventories and supply of products available for sale which could reduce our sales, margins and market share, as well as harm our overall business and financial results.

The discovery of previously unknown problems with ArteFill may result in restrictions on the product, including withdrawal from manufacture. In addition, the FDA may revisit and change its prior determinations with regard to the safety or efficacy of ArteFill or our future products. If the FDA s position changes, we may be required to change our labeling or cease to manufacture and market our products. Even prior to any formal regulatory action, we could voluntarily decide to cease the distribution and sale of, or to recall ArteFill if concerns about its safety or efficacy develop. In their regulation of advertising, the FDA and the Federal Trade Commission, or FTC, may issue correspondence alleging that our advertising or promotional practices are false, misleading or deceptive. The FDA and the FTC may impose a wide array of sanctions on companies for such advertising practices, which could result in any of the following:

- incurring substantial expenses, including fines, penalties, legal fees and costs to comply with applicable regulations;
- changes in the methods of marketing and selling products;
- taking FDA-mandated corrective action, which may include placing advertisements or sending letters to physicians rescinding or correcting previous advertisements or promotions; or
- disruption in the distribution of products and loss of sales until compliance with the FDA s position is obtained.

If any of the above sanctions are imposed on us, it could damage our reputation, and harm our business and financial condition. In addition, physicians may utilize ArteFill for uses that are not described in the product s labeling or differ from those tested by us and approved by the FDA. While such off-label uses are common and the FDA does not regulate physicians choice of treatments, the FDA does restrict a manufacturer s communications on the subject of off-label use. Companies cannot promote FDA-approved products for off-label uses, but under certain limited circumstances they may disseminate to practitioners articles published in peer-reviewed journals. To the extent allowed by law, we intend to distribute peer- reviewed articles on ArteFill and any future products to practitioners. If, however, our activities fail to comply with the FDA s regulations or guidelines, we may be subject to warnings from, or enforcement action by, the FDA.

We have a manufacturing facility in Frankfurt, Germany, and will be subject to a variety of regulations in jurisdictions outside the United States that could have a material adverse effect on our business in a particular market or in general.

We presently manufacture the PMMA microspheres used in ArteFill at our manufacturing facility in Germany. We are currently subject to a variety of regulations in Germany and expect to become subject to additional foreign regulations as we expand our operations. Our failure to comply, or assertions that we fail to comply, with these regulations, could harm our business in a particular market or in general. To the extent we decide to commence or expand operations in additional countries, government regulations in those countries may prevent or delay entry into, or expansion of operations in, those markets. For example, the government of the Netherlands has received a request to conduct an investigation into the safety of permanent injectable aesthetic products, which could lead to restrictions on the sale or use of these products, or heighten the requirements for qualifying or licensing these products for sale. In addition, other countries within the European Union, or EU, may request the EU to more strictly regulate dermal fillers based on the negative side effects, alleged or perceived negative side effects or concerns about the safety of dermal fillers that contain a permanent component being offered in Europe. A number of the permanent dermal fillers offered in Europe obtained a CE mark based on limited review and approval requirements. We are aware that stricter registration processes for dermal fillers in the EU have been implemented over the last five years, and further requirements may be imposed in the EU. We support these initiatives and are cooperating with the regulatory bodies in Europe to ensure that all manufacturers of permanent dermal fillers comply with strict and rigorous requirements

that ensure patient safety, similar to the processes currently employed by the FDA and to which ArteFill was subject to, during our FDA review and approval process. Nevertheless, government actions such as these could increase our regulatory approval costs and delay or prevent the introduction of ArteFill in international markets.

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We may be subject, directly or indirectly, to state healthcare fraud and abuse laws and regulations and, if we are unable to fully comply with such laws, could face substantial penalties.

Our operations may be directly or indirectly affected by various broad state healthcare fraud and abuse laws. In particular, our activities with respect to ArteFill will potentially be subject to anti-kickback laws in some states, which prohibit the giving or receiving of remuneration to induce the purchase or prescription of goods or services, regardless of who pays for the goods or services. These laws, sometimes referred to as all-payor anti-kickback statutes, could be construed to apply to certain of our sales and marketing and physician training and support activities. In particular, our provision of practice support services such as marketing or promotional activities offered to trained and accredited physicians could be construed as an economic benefit to these physicians that constitutes an unlawful inducement of the physicians to recommend ArteFill to their patients. If our operations, including our anticipated business relationships with physicians who use ArteFill, are found to be in violation of these laws, we or our officers may be subject to civil or criminal penalties, including large monetary penalties, damages, fines and imprisonment. If enforcement action were to occur, our business and financial condition would be harmed.

Risks Related to Our Common Stock

We may be subject to the assertion of claims by our stockholders relating to prior financings, which could result in litigation and the diversion of our management s attention.

Investors in certain of our prior financings may allege that we failed to satisfy all of the requirements of applicable securities laws in that certain disclosures to these investors regarding our capitalization may not have been accurate in all material respects, paperwork might not have been timely filed in certain states and/or certain offerings may not have come within a private-placement safe harbor. We believe that any such claims would not succeed because we believe we have complied with these laws in all material respects, such claims would be barred pursuant to applicable statutes of limitations or such claims could be resolved through compliance with certain state securities laws. However, to the extent we do not succeed in defending against any such claims and any such claims are not barred or resolved, they could result in judgments for damages. Even if we are successful in defending these claims, their assertion could result in litigation and significant diversion of our management s attention and resources.

The price of our common stock may be volatile, and any investments in our common stock could suffer a decrease in value.

Prior to our initial public offering in December 2006, there has been no public market for our common stock. The market price for our common stock has been and is likely to remain volatile, and the stock markets in general, and the markets for medical technology stocks in particular, have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common stock. There have also been periods, sometimes extending for many months and even years, where medical technology stocks, especially of smaller earlier stage companies like us, have been out of favor and trading prices have remained low relative to other sectors. In addition, the average daily trading volume in our common stock has been relatively low, which can lead to volatility in our stock price.

Price declines in our common stock could result from general market and economic conditions and a variety of other factors, including:

- negative publicity concerning ArteFill, including concerns expressed about ArteFill based on negative perceptions of non-FDA approved dermal fillers sold outside the United States;
- adverse actions taken by regulatory agencies with respect to open investigations, including the ongoing investigation by the FDA s Office of Criminal Investigations involving Drs. Gottfried and Stefan Lemperle and our company;
- other adverse actions taken by regulatory agencies with respect to our products, manufacturing processes or sales and marketing activities or those of our competitors;
- developments in any lawsuit involving us, our intellectual property or our product or product candidates;

announcements of technological innovations or new products by our competitors;

announcements of adverse effects of products marketed or in clinical trials by our competitors;

regulatory developments in the United States and foreign countries;

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announcements concerning our competitors or the medical device, cosmetics or pharmaceutical industries in general;

developments concerning any future collaborative arrangements;

actual or anticipated variations in our operating results;

lack of securities analyst coverage or changes in recommendations by analysts;

deviations in our operating results from the estimates of analysts;

sales of our common stock by our founders, executive officers, directors, or other significant stockholders or other sales of substantial amounts of common stock;

changes in accounting principles; and

loss of any of our key management, sales and marketing or scientific personnel and any claims against us by current or former employees.

Litigation has often been brought against companies whose securities have experienced volatility in market price. If litigation of this type were to be brought against us, it could harm our financial position and could divert management s attention and our company s resources.

You could experience substantial dilution of your investment as a result of subsequent exercises of our outstanding warrants and options.

As of September 30, 2007, we had reserved approximately 8.1 million shares of our common stock for potential issuance upon the exercise of warrants and options (including outstanding warrants to purchase common stock, options already granted under our stock option plans, non-plan stock options already granted and shares reserved for future grant under our stock option plans), which represented approximately 36.7% of our common stock on a fully diluted basis (assuming the exercise of all outstanding warrants and options). Of the 8.1 million shares of common stock reserved at September 30, 2007, 3.2 million shares of common stock are reserved for outstanding stock options at a weighted average exercise price of $7.28 per share; 2.4 million shares of common stock are reserved for outstanding warrants to purchase common stock (after considering the impact of the warrant holder elections eliminating the automatic expiration and extending the terms of the warrants upon the closing of our initial public offering), at a weighted average exercise price $7.05 per share; and 2.5 million shares of common stock are reserved for future stock option grants under our 2006 Equity Incentive Plan. The issuance of these additional shares could dilute your ownership interest in our company.

Our certificate of incorporation, our bylaws and Delaware law contain provisions that could discourage another company from acquiring us and may prevent attempts by our stockholders to replace or remove our current management.

Provisions of our certificate of incorporation and bylaws and Delaware law may discourage, delay or prevent a merger or acquisition that stockholders may consider favorable, including transactions in which you might otherwise receive a premium for your shares. In addition, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace or remove our board of directors. These provisions include:

authorizing the issuance of blank check preferred stock without any need for action by stockholders;

providing for a classified board of directors with staggered terms;

requiring supermajority stockholder voting to effect certain amendments to our certificate of incorporation and bylaws;

eliminating the ability of stockholders to call special meetings of stockholders;

prohibiting stockholder action by written consent; and

establishing advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings.

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We are also subject to provisions of the Delaware corporation law that, in general, prohibit any business combination with a beneficial owner of 15% or more of our common stock for five years unless the holder s acquisition of our stock was approved in advance by our board of directors. Together, these charter and statutory provisions could make the removal of management more difficult and may discourage transactions that otherwise could involve payment of a premium over prevailing market prices for our common stock.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Submission of Matters to Vote of Security Holders

Not applicable.

Item 5. Other Information.

Amended and Restated Building Lease Agreement

In August 2007, we entered into an amended and restated building lease agreement for our 35,000 square foot corporate, manufacturing and research and development headquarters in San Diego, California with the new owner of the facilities, Biomed Realty, L.P. Under the amended and restated lease, we extended the existing lease term from December 2011 to December 2012, maintained our option to extend the lease term for an additional 5-year period, clarified that we are not obligated to remove alterations or additions to the facilities upon the termination of the lease and extended our current right of first refusal to include the property adjacent to this property that we lease for additional office space. The amended and restated building lease agreement is filed with this Form 10-Q as Exhibit 10.36.

Building Lease Agreement

In August 2007, we entered into a building lease agreement with Biomed Realty, L.P. for 32,000 square feet of office space in a building adjacent to our headquarters in San Diego, California. We had previously subleased 8,000 square feet in this building. The lease expires in December 2012. We have a first right of refusal to purchase the facility during the term of the lease, as well as the right to extend the lease term for an additional 5-year period. The landlord has also extended us a $1.14 million tenant improvement allowance. The building will be used for general office administration, research and development labs and outbound distribution. The building lease agreement is filed with this Form 10-Q as Exhibit 10.37.

Master Services Agreement

We entered into a master services agreement with Therapeutics Inc., an independent clinical research organization, to conduct clinical studies for our company, including the 5-year post-approval safety study required by the FDA as part of its approval of ArteFill. Therapeutics Inc. will conduct project management, medical monitoring, case reports, subject recruitment, data analysis and other clinical study activities for clinical studies we initiate or that are conducted by third parties under a grant we provide to the third parties. This agreement has an initial term of 3 years. The master services agreement is filed with this Form 10-Q as Exhibit 10.38.

Amendment to Fixed Supply Agreement

In August 2007, we amended our existing supply agreement with Lampire Biological Labs, Inc., the supplier of the bovine calf corium we use to produce the bovine collagen contained in ArteFill. The amendment has a term of 1 year and requires that we purchase at least $612,000 of bovine calf corium during the term of the amendment. The first amendment to fixed price supply agreement is filed with this Form 10-Q as Exhibit 10.39.

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Item 6. Exhibits.

EXHIBIT INDEX

Exhibit number	Exhibit Description
3.4 (1)	Amended and Restated Certificate of Incorporation.
3.6 (1)	Amended and Restated Bylaws.
3.7 (1)	Certificate of Amendment to Amended and Restated Bylaws.
4.1 (1)	Specimen common stock certificate.
4.2 (1)	Amended and Restated Investor Rights Agreement dated June 23, 2006, by and among us and the holders of our preferred stock listed on Schedule A thereto.
4.3 (1)#	Form of warrant to purchase common stock, issued to employees, consultants and service providers.
4.4 (1)#	Amended warrant to purchase up to 650,000 shares of common stock, dated June 9, 2006, issued to Christopher J. Reinhard, as corrected.
4.5 (1)	Form of warrant to purchase common stock, issued to certain investors in a bridge loan financing transaction.
4.6 (1)	Form of warrant to purchase Series C-1 preferred stock, issued to certain investors in a bridge loan financing transaction.
4.7 (1)	Form of warrant to purchase common stock, issued to certain investors in our Series D preferred stock financing.
4.8 (1)	Form of warrant to purchase Series D preferred stock, issued to certain investors in a bridge loan financing transaction.
4.9 (1)	Warrant to purchase 200,000 shares of Series E preferred stock issued to Legg Mason Wood Walker, Inc. on December 22, 2005.
4.10 (1)	Form of warrant to purchase Series E preferred stock issued to certain investors in our Series E preferred stock financing.
4.11(1)	Form of warrant to purchase Series E preferred stock issued to National Securities Corporation in consideration for placement agent services provided to us in our Series E preferred stock financing.
4.12 (1)#	Amended warrant to purchase up to 150,000 shares of common stock, dated June 9, 2006, issued to Christopher J. Reinhard, as corrected.
4.13 (1)#	Amendment dated June 23, 2006, to warrant to purchase common stock, issued to employees, consultants and service providers, entered into by us and each of the warrant holders listed on Exhibit A thereto.

4.14 (1)	Amendment dated June 23, 2006, to warrant to purchase common stock, issued to certain investors in a bridge loan financing transaction, entered into by us and each of the warrant holders listed on Exhibit A thereto.
4.15 (1)	Amendment dated June 23, 2006, to warrant to purchase Series C-1 preferred stock, issued to certain investors in a bridge loan financing transaction, entered into by us and each of the warrant holders listed on Exhibit A thereto.
4.16 (1)	Amendment dated June 23, 2006, to warrant to purchase common stock, issued to certain investors in our Series D preferred stock financing, entered into by us and each of the warrant holders listed on Exhibit A thereto.
4.17 (1)	Amendment dated June 23, 2006, to warrant to purchase Series D preferred stock, issued to certain investors in a bridge loan financing transaction, entered into by us and each of the warrant holders listed on Exhibit A thereto.
4.18 (1)	Warrant to purchase 28,235 shares of Series E preferred stock issued to Comerica Bank on November 27, 2006.
10.36	Amended and Restated Building Lease Agreement, dated August 21, 2007.
10.37	Building Lease Agreement, dated August 21, 2007.
10.38	Master Services Agreement, dated June 4, 2007 between us and Therapeutics, Inc.
10.39	First Amendment to Fixed Price Supply Agreement, dated August 14, 2007, between us and Lampire Biological Labs, Inc.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.

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Exhibit number	Exhibit Description
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.
32.1*	Certification of the Chief Executive Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. section 1350.
32.2*	Certification of the Chief Financial Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. section 1350.

# Indicates management contract or compensatory plan.

(1) Incorporated by reference to the same numbered exhibit filed with or incorporated by reference in our Registration Statement on Form S-1 (File No. 333-134086), dated December 19, 2006.

* These certifications are being furnished solely to accompany this quarterly report pursuant to 18 U.S.C. Section 1350, and are not being filed for purposes of Section 18 of the Securities Exchange Act

of 1934 and are not to be incorporated by reference into any filing of Artes Medical, Inc., whether made before or after the date hereof, regardless of any general incorporation language in such filing.

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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.

Artes Medical, Inc.

Date: November 14, 2007

By: \s\ Diane S. Goostree
Diane S. Goostree
Chief Executive Officer and President

Date: November 14, 2007

By: \s\ Peter C. Wulff
Peter C. Wulff
Executive Vice President and Chief Financial Officer