MacroPore, Inc.

6740 Top Gun Street
San Diego, CA 92121
Phone: +1 (858) 458-0900
Fax: +1 (858) 458-0994

Ölmühlweg 33
61462 Königstein
Phone: +49 (6174) 2597 10
Fax: +49 (6174) 2597 25

Annual Report

For the year ended December 31, 2001

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORT PURSUANT TO SECTIONS 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)

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

For the fiscal year ended December 31, 2001

OR

☐ 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 0-32501

MACROPORE, INC.

(Exact name of Registrant as Specified in Its Charter)

DELAWARE	**330-827-593**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

6740 TOP GUN STREET, SAN DIEGO, CALIFORNIA 92121

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(858) 458-0900**

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Common stock, par value $0.001

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

The aggregate market value of the common stock of the registrant held by non-affiliates of the registrant on January 28, 2002 was $41,015,068, based on the average of the reported high and low sales price of the registrant's common stock on January 28, 2002 as reported on the Neuer Markt of the Frankfurt Stock Exchange, of 3.90 Euros, or $3.3525 per share, based on the exchange rate in effect as of such date.

As of January 28, 2002, there were 15,106,623 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement for the 2002 Annual Meeting of Stockholders, to be held on May 28, 2002, which will be filed with the Securities and Exchange Commission within 120 days after the end of the year ended December 30, 2001, are incorporated by reference in Part III, Items 10, 11, 12 and 13 of this Form 10-K.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report contains certain statements that may be deemed 'forward-looking statements' within the meaning of Section 21E of the Securities Exchange Act of 1934. All statements, other than statements of historical fact, that address activities, events or developments that we intend, expect, project, believe or anticipate will or may occur in the future are forward-looking statements. Such statements are based upon certain assumptions and assessments made by our management in light of their experience and their perception of historical trends, current conditions, expected future developments and other factors they believe to be appropriate. The forward-looking statements included in this report are also subject to a number of material risks and uncertainties, including but not limited to economic, competitive, governmental and technological factors affecting our operations, markets, products and prices. Such forward-looking statements are not guarantees of future performance and actual results, will likely differ, perhaps materially, from those envisaged by such forward-looking statements.

PART I

Item 1. Business

General

We were initially formed as a California general partnership in July 1996, and incorporated in the State of Delaware in May 1997. We develop, manufacture and market bioresorbable surgical implants to aid in the reconstruction, repair and regeneration of bone and the healing of soft tissues throughout the body, as well as related instruments and accessories used in connection with our implants. Our bioresorbable implants are used in craniomaxillofacial, neurological, orthopedic, spinal and reconstructive surgery. We have also developed a bioresorbable surgical film that we intend to begin marketing later in 2002 for use in a wide variety of surgical applications. Since all of our current products and those in development target the biosurgery market, we began doing business under the name MacroPore Biosurgery in December 2001, to better reflect our company's technology and business as a whole. We will ask our stockholders to approve the change of our name at our annual meeting in May 2002.

Our bioresorbable products are made from a copolymer composed of a lactic acid similar to that which occurs naturally in the human body. The lactic acid copolymer maintains its strength during the healing process, while slowly breaking down in the body through hydrolysis into lactic acid molecules and ultimately metabolizing into carbon dioxide and water, which are then released from the body through the lungs and the kidneys. We believe that our products are easier to use and more cost-effective than products made from alternative materials, such as titanium or other metals. We believe the benefits of using a bioresorbable material in bone healing and regenerating applications include:

- no long-term growth restrictions such as those related to the use of metallic plates and screws in pediatric patients
- no distortion of diagnostic and therapeutic imaging and no creation of imaging artifacts such as are commonly encountered with metal systems
- no long-term patient palpation
- no interference with x-rays
- virtually eliminates thermal sensitivity from temperature changes
- reduced risk of migration of plates and screws during the bone healing process
- lowered risk of infection
- may eliminate additional surgery to remove non-bioresorbable implants
- encouragement of normal bone growth and increased strength of regenerated bone compared to non-bioresorbable products, particularly metal, that may shield the bone from the stress that facilitates bone growth and bone strength

In addition, because of their thermoplastic properties, our bioresorbable products are easy to shape, size and apply to varying anatomical structures, which we believe allows for a better anatomical fit and saves valuable minutes in the operating room.

We have received regulatory clearance or approval to market and sell some of our products in the United States, Europe and other countries. We entered into an exclusive worldwide agreement with Medtronic, Inc. in January 2000, for the global marketing and distribution of some of our products for use in the craniofacial skeleton. We also entered into an exclusive agreement with Medtronic to co-develop and supply them with bioresorbable implants for spinal fixation, stabilization and fusion.

During 2001, we received regulatory clearance for:

- the use of our MacroPore OS Spine bone graft containment system in spinal fusion procedures
- the use of our MacroPore ENT Reconstruction Film film in ear, nose and throat applications for the prevention of postsurgical adhesions, guided tissue regeneration, splinting and tympanic membrane repair
- the use of our MacroPore TS Surgi-Wrap™ film for wound support and soft tissue reinforcement throughout the entire human body
- the use of our MacroPore LP system in reconstructive surgery to correct pediatric skeletal birth defects and in cranial reconstruction
- the use of our MacroPore IB system as a cement restrictor in specified orthopedic applications
- the expanded use of some of our product lines, including MacroPore FX, MacroPore PS and MacroPore NS, in specified craniomaxillofacial procedures

We continue to seek patents on our technology and recently received a U.S. patent for the design of our high torque, resorbable StarBurst Screws which is used in many of our products.

We are also developing additional products for use in spinal fusion procedures, neurosurgery plating, long-bone repair, healing of non-union fractures and cyst or tumor removal site repair, among other things. These future products may require further development and regulatory clearance or approval, potentially including clinical trials, prior to marketing and commercial use.

Products and Services

We manufacture our products solely in the United States at our San Diego facility. We currently market nine product lines in the United States and Europe for use in the craniofacial skeleton, spine and for certain applications in the entire skeleton, and we intend to release and begin marketing two additional products, MacroPore Surgi-Wrap™ and MacroPore ENT Reconstruction Film, later in 2002. Our current product lines are:

Product Lines	Product Components	Use
MacroPore FX	over 120 bioresorbable components, including specially designed plates, screws, tacks and mesh, as well as instruments and accessories	for use in adult and pediatric patients in trauma, reconstructive procedures, and other surgeries for craniomaxillofacial and neurosurgical applications

Product Lines	Product Components	Use
MacroPore PS	bioresorbable macroporous sheets of various shapes and sizes, as well as instruments and accessories	for use in adult and pediatric patients to facilitate healing and bone regeneration in the skeletal system by, among other things, maintaining the position of bony fragments in trauma and bone graft procedures, and maintaining space beneath soft tissues and allowing bone growth to occur in a protected environment
MacroPore OS	bioresorbable macroporous sheets of various shapes and sizes, together with instruments, accessories and bioresorbable screws and tacks	for the containment of bone grafts other than in the spine, and for reconstruction of the iliac crest, or hip, bone graft donor site
MacroPore OS Spine	bioresorbable macroporous sheets of various shapes and sizes, together with instruments, accessories and bioresorbable screws and tacks	for the containment of bone grafts or bone graft substitutes in spinal fusion procedures
MacroPore NS	specially designed bioresorbable plates	in cranial reconstruction or cranial closure following neurosurgical applications
MacroPore LP	specially designed bioresorbable macroporous sheets of various shapes and sizes, with related instruments, accessories and low profile bioresorbable screws and tacks	in pediatric and adult patients in plastic, reconstructive, and neurosurgical procedures, as well as other specialized surgical applications
MacroPore MX	specially designed bioresorbable plates and screws with templates and various specialized instrumentation	mandibular fracture fixation
MacroPore DX	fully and partially bioresorbable craniofacial distraction device, together with specialty instruments and accessories	to gradually lengthen the midface cranial skeleton to correct cranial skeleton growth disorders
MacroPore IB	bioresorbable surgical plug	cement restrictor in the femur, tibia and humerus
MacroPore TS Surgi-Wrap™	bioresorbable surgical reconstruction film	soft tissue reinforcement and temporary wound support throughout the body
MacroPore ENT Reconstruction Film	bioresorbable surgical reconstruction film	prevention of adhesions, guided tissue regeneration and surgical repair in specified ear, nose and throat applications

For the year ended December 31, 2001, revenue realized from the sale of our craniofacial products accounted for more than 67.0% of our revenue. Since all of our products are developed and sold for use in the medical device industry and have similar purposes, production processes, markets and regulatory requirements, we report them as a single industry segment.

We provide a range of support services to our customers and to surgeons interested in using our products, including:

- producing promotional, educational and instructional materials and literature
- producing scientific publications
- demonstrating our products
- training at our San Diego headquarters
- teaching regional and on-site training seminars and symposia
- providing support personnel to advise surgeons during surgery on the use of our products

Plan of Operation

During 2002, we intend to focus our efforts on:

- enhancing production planning systems and manufacturing processes to reduce costs and increase capacity of our high volume spinal products
- developing product training materials and publishing pre-clinical research reports to support 2002 Medtronic launches of MacroPore products
- establishing a world-wide distribution network for sales of our bioresorbable surgical film products
- obtaining further clearances and approvals for the use of our bioresorbable surgical film products for the prevention of post-operative adhesion and scarring
- expanding the distribution of our craniomaxillofacial and spinal products in overseas markets
- continuing our development and testing of spinal implants with Medtronic
- continuing our development of new bioresorbable polymers with differing resorbtion profiles and handling characteristics for our use in future product development
- continuing our development of the second generation of some of our existing products
- developing new uses for our existing products and continuing our research and development of new products, including additional products for orthopedic, spinal, craniomaxillofacial and neurologic applications
- continuing our development of implant systems and instrumentation to deliver biologics such as adult stem cells, and biological molecules such as bone morphogenetic proteins that may improve healing time and the quality of tissue regeneration
- continuing our collaboration with StemSource to determine optimal applications and techniques for the implantation of adult stem cells

- continuing to provide marketing support to Medtronic by attending trade shows and providing product promotional materials, through training of Medtronic's sales force and the medical community and by facilitating communications with our customers

Research and Development

We are continuing our research efforts to develop new applications for our bioresorbable products and to develop new bioresorbable products. We are currently developing new bioresorbable products and materials for use in cardiovascular surgery, tendon and nerve repair, plastic surgery, ear, nose and throat applications, obstetrics and gynecological applications, abdominal and general surgery, craniomaxillofacial and neurosurgery applications, spinal and orthopedic indications. We expect to continue to develop new, technologically advanced products.

In 2001, our research and development efforts focused on continued development with Medtronic of our spinal products, developing bioresorbable surgical film, our MacroPore LP system, our MacroPore MX system, our MacroPore NS system and our MacroPore DX system, and developing uses for our bioresorbable sheets, plates, screws and tacks in other indications. Research and development expenses were $5,487,000 for the year ended December 31, 2001, $2,584,000 for the year ended December 31, 2000 and $1,172,000 for the year ended December 31, 1999.

Customers

Medtronic is our primary distributor and our principal customer, directly accounting for $5,547,000, or 98.2%, of our revenues for the year ended December 31, 2001, and $6,092,000, or 97.5%, of our revenues for the year ended December 31, 2000. Medtronic did not act as our distributor and we did not receive any revenues from Medtronic in the year ended December 31, 1999.

We entered into a five-year distribution agreement and a five-year development and supply agreement with Medtronic in January 2000. Under the distribution agreement, Medtronic agreed to purchase all of its bioresorbable implant products for use in the reconstruction or fixation of the cranial or facial skeleton exclusively from us. In turn, we granted Medtronic exclusive rights in the United States and exclusive rights worldwide, except for rights granted under our then-existing distribution agreements with other distributors, to market, distribute and sell all of our bioresorbable implant products, devices, systems and instruments solely for use in the reconstruction or fixation of the cranial or facial skeleton. Under our distribution agreement with Medtronic, we may enter into a distribution agreement with another distributor for distribution rights to any of our products other than those used in the cranial or facial skeleton, as long as we first present Medtronic with the right to distribute these other products. If we fail to come to terms with Medtronic, or if Medtronic does not wish to distribute these other products, we may enter into a distribution agreement with a third party distributor on the same or more favorable terms than those we offered to Medtronic.

Under our development and supply agreement, we co-develop bioresorbable implants with Medtronic for spinal fixation, stabilization and fusion using proprietary information from both parties. Medtronic has exclusive worldwide rights to market and sell all of the products that we co-develop. We and Medtronic will each own an undivided, one-half interest in any inventions we jointly develop.

We are currently considering entering into distribution agreements with other distributors in the United States, Europe, Asia and the Pacific Region, primarily to market our products for use in applications other than craniofacial, or spinal fixation, spinal stabilization or spinal fusion applications.

Market and Competition

We compete with many other companies in developing and marketing our technology and products. In the craniofacial fixation market, we compete primarily with titanium products, although we believe that an increasing number of other companies are developing, or are offering, bioresorbable bone fixation systems.

We believe our Surgi-Wrap™ film can be used to prevent post-operative adhesions and scarring and we intend to obtain the clearances and approvals necessary to market our bioresorbable surgical film for use in cardiothoracic surgery, obstetrics and gynecology, tendon surgery and general surgery applications. We are aware of two other companies that have entered these markets with products designed to prevent post-operative adhesions. We believe that our bioresorbable surgical film is superior to competitive products because it is non-inflammatory, there is no need to secure our film when it is implanted into the patient, it maintains its strength and creates a clear surgical dissection plane, and it is bioresorbable where some of our competitor's products are not.

Many of our competitors and potential competitors have substantially greater financial, technological, research and development, marketing and personnel resources than we do. These competitors may also have greater experience in developing products, conducting clinical trials, obtaining regulatory approvals, and manufacturing and marketing such products. Some of these competitors may obtain patent protection, approval or clearance by the FDA or from foreign countries, or may achieve product commercialization earlier than us, any of which could materially adversely affect our business or results of operations. We cannot assure you that our competitors will not succeed in developing alternative technologies and products that are more effective, easier to use or more economical than those which have been or are being developed by us or that would render our technology and products obsolete and noncompetitive in these fields. Furthermore, under the terms of our marketing agreement with Medtronic, Medtronic may pursue parallel development of other technologies or products, which may result in Medtronic developing additional products that will compete with our products.

Sales by Geographic Region

We sell our products in the United States and internationally through independent distributors. International sales may be limited or disrupted by political instability, price controls, trade restrictions and changes in tariffs. Our existing distribution agreement provides for payment in U.S. dollars and we intend to include similar payment provisions in future distribution agreements. Fluctuations in currency exchange rates may adversely affect demand for our products by increasing the price of our products in the currency of the countries in which the products are sold.

We recorded our first sales in the year ended December 31, 1999, when we recorded $1,513,000 in revenues, including $1,472,000 of product sales in the United States and $41,000 of product sales outside the United States. For the year end ended December 31, 2000, we recorded $6,251,000 in revenues, including $6,200,000 of product sales in the United States and $51,000 of product sales outside the United States. For the year ending December 31, 2001, we recorded $5,648,000 in revenues, including $4,954,000 of product sales in the United States and $694,000 of product sales outside the United States.

Working Capital

We generally maintain an inventory of approximately six to twelve months of products. Although capital expenditures may vary depending on a variety of factors, including sales, we presently intend to spend approximately $1,300,000 on capital equipment purchases in 2002. We believe our inventory

practices and capital expenditures are consistent with other similar companies at similar levels of development.

Raw Materials

We presently purchase all of our supply of lactic acid copolymer, the primary raw material used in manufacturing our medical devices, from one source. We have entered into an agreement with B.I. Chemicals, Inc. to provide us with our required supply of lactic acid copolymer. This agreement terminates in August 2003, but automatically renews for successive one-year terms unless we give B.I. Chemicals written notice, or B.I. Chemicals gives us written notice, that the agreement will not be renewed six months prior to the end of that term. In the event that B.I. Chemicals is unable to supply the lactic acid copolymer, B.I. Chemicals has agreed to provide us with the manufacturing protocol to enable us to produce the lactic acid copolymer in-house. We believe we would be able to obtain the lactic acid copolymer we use in our products from at least one other supplier if B.I. Chemicals fails to provide us with a sufficient supply.

Intellectual Property

Our success depends in large part on our ability to protect our proprietary technology and information, and operate without infringing on the proprietary rights of third parties. We rely on a combination of patent, trade secret, copyright and trademark laws, as well as confidentiality agreements, licensing agreements and other agreements, to establish and protect our proprietary rights. Our success also depends on our ability to obtain patents on our technology. We have four U.S. patents for two of our products. Our two U.S. patents for the design of our bioresorbable sheets were issued in July 1999 and August 2001. Our two U.S. patents for the design of our high torque bioresorbable screws were issued in August 2001 and February 2002. Each of our patents will expire 20 years from the date of the patent application.

We have filed applications for sixteen additional U.S. patents, as well as twelve corresponding patent applications outside the United States, relating to our technology. We cannot assure you that any of the pending patent applications will be approved, that we will develop additional proprietary products that are patentable, that any patents issued to us will provide us with competitive advantages or will not be challenged by any third parties or that the patents of others will not prevent the commercialization of products incorporating our technology. Furthermore, we cannot assure you that others will not independently develop similar products, duplicate any of our products or design around our patents.

Litigation may also be necessary to enforce any patents issued or licensed to us or to determine the scope and validity of third party proprietary rights. If our competitors claim technology also claimed by us and prepare and file patent applications in the United States, we may have to participate in interference proceedings declared by the U.S. Patent and Trademark Office to determine priority of invention. Any such litigation or interference proceedings, could result in substantial costs to us and divert our management's attention from our business operations, even if the eventual outcome is favorable to us. Litigation could subject us to significant liabilities to third parties and require disputed rights to be licensed from third parties or require us to cease using certain technology.

We currently have pending five patent applications in the European Patent Office, four in Japan and Canada, and three in Australia. We have published five other international patent applications with all countries designated. In addition, we have one patent issued in Australia for the design of our bioresorbable sheets that expires on August 5, 2017. Patent law outside the United States is uncertain and in many countries is currently undergoing review and revisions. The laws of some countries may not protect our proprietary rights to the same extent as United States laws. Third parties may attempt to

oppose the issuance of patents to us in foreign countries by initiating opposition proceedings. Opposition proceedings against any of our patent filings in a foreign country could have an adverse effect on our corresponding patents that are issued or pending in the United States. It may be necessary or useful for us to participate in proceedings to determine the validity of our, or our competitors' patents that have been issued in countries other than the United States. This could result in substantial costs, divert our efforts and attention from other aspects of our business, and could have a material adverse effect on our results of operations and financial condition.

In addition to patent protection, we rely on unpatented trade secrets and proprietary technological expertise. We cannot assure you that others will not independently develop or otherwise acquire substantially equivalent techniques, or otherwise gain access to our trade secrets and proprietary technological expertise or disclose such trade secrets, or that we can ultimately protect our rights to such unpatented trade secrets and proprietary technological expertise. We rely, in part, on confidentiality agreements with our marketing partners, employees, advisors, vendors and consultants to protect our trade secrets and proprietary technological expertise. We cannot assure you that these agreements will not be breached, that we will have adequate remedies for any breach or that our unpatented trade secrets and proprietary technological expertise will not otherwise become known or be independently discovered by competitors. Our failure to obtain or maintain patent and trade secret protection, for any reason, could have a material adverse effect on our results of operations and financial condition.

Government Regulation

Most medical devices for use in humans, including our bioresorbable protective sheets, plates, screws and tacks, are subject to stringent government regulation in the United States by the Food and Drug Administration, or FDA, under the federal Food, Drug and Cosmetic Act, or FDC Act. The FDA regulates the clinical testing, manufacture, safety, labeling, sale, distribution and promotion of medical devices. Included among these regulations are premarket clearance, premarket approval, and Quality System Regulation, or QSR, requirements. Other statutory and regulatory requirements govern, among other things, registration and inspection, medical device listing, prohibitions against misbranding and adulteration, labeling and postmarket reporting. The regulatory process may be lengthy, expensive and uncertain. Securing FDA approvals and clearances may require us to submit extensive clinical data and supporting information to the FDA. Failure to comply with applicable requirements can result in application integrity proceedings, fines, recalls or seizures of products, injunctions, civil penalties, total or partial suspensions of production, withdrawals of existing product approvals or clearances, refusal to approve or clear new applications or notifications, and criminal prosecution.

Under the FDC Act, medical devices are classified into Class I, Class II or Class III devices, based on their risks and the control necessary to reasonably ensure their safety and effectiveness. Class I devices are subject to general controls such as labeling, premarket notification and adherence to QSR requirements. Class II devices are subject to general controls, and to specific controls such as performance standards, postmarket surveillance and patient registries. Generally, Class III devices, which include certain life-sustaining, life-supporting and implantable devices or new devices which have been found not to be substantially equivalent to certain legally marketed devices, must receive premarket approval from the FDA. All of our implant products to date are Class II medical devices.

Before any new medical device may be introduced to the market, the manufacturer generally must obtain either premarket clearance through the 510(k) premarket notification process or premarket approval through the lengthier Premarket Approval Application, or PMA, process. The FDA will grant a 510(k) premarket notification if the submitted data establishes that the proposed device is "substantially equivalent" to a legally marketed Class I or Class II medical device, or to a Class III medical device for which the FDA has not called for PMAs. The FDA may request data, including clinical studies, before it

can make a determination of substantial equivalence. It generally takes from three to 12 months from submission to obtain 510(k) premarket clearance, although it may take longer. There is no assurance that clearance will be granted. We must file a PMA if one of our products is found not to be substantially equivalent to a legally marketed Class I or II device or if it is a Class III device for which the FDA requires PMAs. A PMA must be supported by extensive data to demonstrate the safety and effectiveness of the device, including laboratory, preclinical and clinical trial data, as well as extensive manufacturing information. Before initiating human clinical trials on devices that present a significant risk, we must first obtain an Investigational Device Exemption, or IDE, for the proposed medical device. Toward the end of the PMA review process, the FDA will generally conduct an inspection of our manufacturing facilities to ensure compliance with QSRs. Approval of a PMA could take up to one or more years from the date of submission of the application or petition. The PMA process can be expensive, uncertain and lengthy, and there is no guarantee of ultimate approval.

Modifications or enhancements of products that could affect the safety or effectiveness or effect a major change in the intended use of a device that was either cleared through the 510(k) process or approved through the PMA process may require further FDA review through new 510(k) or PMA submissions.

As a medical device manufacturer, we are subject to periodic inspections by the FDA to ensure that devices continue to be manufactured in accordance with QSR requirements. We are also subject to postmarket reporting requirements for deaths or serious injuries when a device may have caused or contributed to death or serious injury, and for certain device malfunctions that would be likely to cause or contribute to a death or serious injury if the malfunction were to recur. Postmarket reporting also may be required for certain corrective actions undertaken for distributed devices. If safety or effectiveness problems occur after the product reaches the market, the FDA may take steps to prevent or limit further marketing of the product. Additionally, the FDA actively enforces regulations prohibiting marketing of devices for indications or uses that have not been cleared or approved by the FDA.

Under the terms of our development and supply agreement with Medtronic, Medtronic is responsible for preparing and filing applications for, and obtaining regulatory approval of the products we co-develop for use in spinal fixation, stabilization or fusion applications. We or our marketing partners may not be able to obtain necessary 510(k) clearances or PMA approvals to market the products we are developing in the United States for their intended use on a timely basis, if at all.

Our current human medical devices are at different stages of FDA review. We have received 510(k) clearance for the following:

Product Lines	**Clearance received for, among other things, the following uses:**	**Clearance received**
MacroPore FX	trauma and reconstructive procedures in the midface and craniofacial skeleton	July 30,1998
MacroPore PS	trauma and reconstructive procedures in the midface and craniofacial skeleton	July 30, 1998
MacroPore PS	trauma, reconstructive and bone augmentation procedures of the mandible	March 19, 1999
MacroPore MX	stabilizing fractured bones in the mandible	October 19, 2000
MacroPore DX	treatment of cranial or midface conditions in reconstructive osteotomy and segment advancement	June 26, 2000

MacroPore OS	protecting iliac crest, or hip bone, graft donor sites, tumor resections where bone strength is not compromised and throughout the skeleton, other than in spinal applications, when used in conjunction with traditional rigid fixation devices	July 24, 2000
MacroPore NS	fixation of bone flaps after a craniotomy	May 2, 2001
MacroPore OS Spine	with traditional rigid fixation in spinal fusion procedures as a means to maintain the relative position of weak bony tissue such as allografts, autografts or bone graft substitutes cleared for spinal use	July 20, 2001
MacroPore IB	a cement restrictor in the femur, tibia, and humerus	September 4, 2001
MacroPore FX, PS, NS and LP	specific pediatric and adult plastic, reconstructive and neurosurgical applications in the craniofacial skeleton	September 18, 2001
MacroPore ENT Reconstruction Film	adhesion prevention between the septum and the nasal cavity; tympanic membrane repair; tympanoplasty in the middle ear; nasal splinting and surgical repair of nasal septum; guided tissue regeneration of the external ear	October 25, 2001
MacroPore TS Surgi-Wrap™	for temporary wound support, to reinforce soft tissues where weakness exists, for the repair of hernia or other defects that require the addition of a reinforcing or bridging material to obtain the desired surgical result	December 3, 2001

In addition, we must obtain marketing authorization for our products that we market in Europe, Canada and certain other non-U.S. jurisdictions. We have received marketing authorization for the sale of our products in the following countries:

Country	**Indications received for, among other things, the following uses:**	**Received Clearance**
European Community	MacroPore FX, MacroPore PS, MacroPore NS, MacroPore DX, MacroPore OS and MacroPore OS Spine products indicated to facilitate healing and bone regeneration in trauma and reconstruction procedures in the skeletal system, MacroPore TS Surgi-Wrap™ products indicated for use in the craniofacial skeleton, and at some thicknesses, for use throughout the entire skeleton	December 1999
Canada	MacroPore FX and MacroPore PS products indicated to facilitate healing and bone regeneration in trauma and reconstruction procedures in the skeletal system	December 1999
Malaysia	Same as Canada	June 2000
Singapore	Same as Canada	November 2000
South Korea	Same as Canada	January 2001
Australia	Same as Canada	March 2001

In addition, we have submitted applications for authorizations to market our products in fifteen other countries.

We must comply with extensive regulations from foreign jurisdictions regarding safety, manufacturing processes and quality. These regulations, including the requirements for marketing authorization, may differ from the FDA regulatory scheme. Under the terms of our distribution agreements, our distributors are generally responsible for obtaining the necessary approvals.

We may not be able to obtain marketing authorization in all of the countries where we intend to market our products, may incur significant costs in obtaining or maintaining our foreign marketing authorizations, or may not be able to successfully commercialize our current or future products in any foreign markets. Delays in receipt of marketing authorizations for our products in foreign countries, failure to receive such marketing authorizations or the future loss of previously received marketing authorizations could have a material adverse effect on our results of operations and financial condition.

Environmental Regulation

Companies in the United States are subject to federal, state and local laws and regulations governing the use, manufacture, storage, handling and disposal of hazardous materials and chemicals and certain wastes. We do not currently use any significant amounts of hazardous materials or chemicals in our manufacturing processes.

Staff

As of December 31, 2001, we had 72 full-time employees, comprised of 31 employees in research and development, 17 employees in manufacturing, 16 employees in management and finance and administration, and 8 employees in marketing. As of December 31, 2000, we had 58 full-time employees, comprised of 15 employees in research and development, 20 employees in manufacturing, 13 employees in management and finance and administration and 10 employees in marketing. From time to time, we also employ independent contractors to support our administrative organizations. Our employees are not represented by any collective bargaining unit and we have never experienced a work stoppage. We believe our relations with our employees are good.

Item 2. Properties

Our main facility which we use for our corporate headquarters and for manufacturing is located at 6740 Top Gun Street, San Diego, California. We currently lease approximately 27,000 square feet of space at this location of which approximately 13,000 square feet is laboratory space, 6,000 square feet is office space and 8,000 square feet is manufacturing space. Our lease has a five-year term, expiring in 2003.

We also lease:

- a 14,000 square foot research and development facility located at 6749 Top Gun Street, San Diego, California for a five-year term. expiring in 2006
- 5,800 square feet of office space in Frankfurt, Germany for use in marketing and administration for a five-year term, expiring in 2006
- approximately 400 total square feet of office space in Malvern, Pennsylvania and Atlanta, Georgia for six month terms that renew automatically, unless terminated

We pay an aggregate of approximately $47,000 in rent per month for our properties located in the United States and approximately €10,000 for our property in Germany.

Item 3. Legal Matters

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Market Prices

Our common stock has been quoted on the *Neuer Markt* of the Frankfurt Stock Exchange under the symbol "XMP" since our initial public offering on August 8, 2000. Prior to this time, there was no public market for our stock. Our common stock is not currently traded on any United States exchange. The following table shows the high and low sales prices for our common stock for the periods indicated, as reported on Xetra, the Frankfurt Stock Exchange's Exchange Electronic Trading System. These prices do not include retail markups, markdowns or commissions.

	High	Low
2000		
Quarter ended September 30, 2000	€27.30	€17.65
Quarter ended December 31, 2000	€20.00	€ 6.51
2001		
Quarter ended March 31, 2001	€14.04	€ 6.00
Quarter ended June 30, 2001	€12.08	€ 4.20
Quarter ended September 30, 2001	€ 8.45	€ 2.60
Quarter ended December 31, 2001	€ 5.54	€ 3.50

All of our shares are represented by global stock certificates issued in the name of Concord Effekten AG and deposited with Clearstream Banking AG, Frankfurt, Germany, the German securities depository. As of January 28, 2002, based on information provided by Clearstream, we believe that the number of beneficial owners of our common stock held through the global stock certificates is approximately 14,000.

Dividends

We have never declared or paid any dividends and currently intend to retain all available earnings generated by our operations for the development and growth of our business. We do not currently anticipate paying any cash dividends on our outstanding shares of common stock in the foreseeable future.

German Securities Laws

As a United States company offering securities on a German stock exchange, we are subject to various laws and regulations in both jurisdictions. Some of these laws and regulations, in turn, can affect the ability of holders of our securities to transfer or sell those securities.

At present, Germany does not restrict the export or import of capital, except for investments in Iraq and Libya in accordance with applicable resolutions adopted by the United Nations and the European Union. However, for statistical purposes only, every individual or corporation residing in Germany must report to the German Central Bank, subject only to immaterial exceptions, any payment received from or made to an individual or a corporation not a resident of Germany if such payment exceeds Euro 2,550 or the equivalent in a foreign currency. In addition, residents of Germany must report any claims against or

any liabilities payable to non-residents if such claims or liabilities, in the aggregate, exceed Euro 1.53 million or the equivalent in a foreign currency, during any one month. Residents must also report any direct investment outside Germany if such investment exceeds Euro 51,000 or the equivalent in a foreign currency.

There are no limitations imposed by German law or our certificate of incorporation or bylaws on the right of non-resident owners to hold or vote the shares.

Recent Sales of Unregistered Securities

During the year ended December 31, 2001, we sold unregistered securities pursuant to our 1997 Amended and Restated Stock Option Plan and an exemption from the registration requirements under the Securities Act provided by Rule 701. During the period from January 1, 2001 through December 31, 2001, we granted options to some of our employees, directors, officers and advisors to purchase a total of 1,578,500 shares of our common stock, at a weighted average exercise price of $6.18.

Item 6. Selected Financial Data

The following selected historical financial data are derived from our financial statements and the related notes thereto. We were founded as a partnership in July 1996, commenced operations in January 1997 and incorporated in May 1997. Results of the partnership through the date of incorporation have been included with our 1997 results. Our financial statements as of December 31, 1997, 1998 and 1999, and for the years then ended, have been audited by PricewaterhouseCoopers LLP, independent accountants. Our financial statements as of December 31, 2000 and 2001, and for the years then ended, have been audited by Arthur Andersen LLP, independent public accountants. Some of our financial statements are included elsewhere in this report.

The information contained in this table should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements and related notes thereto included elsewhere in this report.

	Years Ended December 31,				
	2001	2000	1999	1998	1997
	(dollars in thousands, except per share data)				
Statement of Operations Data:					
Revenues:					
Sales to related party	$ 5,547	$ 6,092	$ -	$ -	$ -
Sales to distributors and end-users	101	159	1,513	-	-
	5,648	6,251	1,513	-	-
Cost of revenues	2,401	2,394	486	-	-
Inventory provision…	1,750	-	-	-	-
Gross profit	1,497	3,857	1,027	-	-
Operating expenses:					
Research and development	5,487	2,584	1,172	1,175	299
Sales and marketing	4,493	2,629	2,356	202	104
General and administrative	3,578	2,555	1,313	604	197
Stock based compensation	1,123	5,698	661	76	9
Total operating expenses	14,681	13,466	5,502	2,057	609
Other income and (expenses):					
Interest income	2,249	1,315	68	10	9
Interest and other expenses	(168)	(351)	(164)	(43)	-
Equity loss in investment	(104)	-	-	-	-
Net loss	$ (11,207)	$ (8,645)	$ (4,571)	$ (2,090)	$ (600)
Basic and diluted net loss per share	$ (.75)	$ (1.05)	$ (1.32)	$ (0.64)	$ (0.18)
Shares used in calculating basic and diluted net loss per share	14,926,107	8,201,739	3,458,292	3,250,000	3,250,000
Statement of Cash Flows Data:					
Net cash used in operating activities	$ (8,322)	$ (2,982)	$ (5,107)	$ (1,523)	$ (545)
Net cash provided by (used in) investing activities	2,263	(39,450)	(381)	(598)	(205)
Net cash provided by financing activities	1,283	47,437	7,924	1,837	1,065
Net (decrease) increase in cash	(4,776)	5,005	2,436	(284)	315
Cash and cash equivalents at beginning of period	7,476	2,471	35	319	4
Cash and cash equivalents at end of period	$ 2,700	$ 7,476	$ 2,471	$ 35	$ 319
Balance Sheet Data:					
Cash, cash equivalents and short-term investments	$ 33,951	$ 44,484	$ 2,581	$ 140	$ 419
Working capital	35,119	46,858	3,510	(493)	387
Total assets	43,143	52,269	5,575	1,020	515
Capital lease obligations, less current portion	135	255	304	209	-
Long-term obligation, less current portion	1,791	-	-	-	-
Convertible redeemable preferred stock, net of offering costs of $197,000	-	-	10,689	2,696	1,055
Total stockholders' equity (deficit)	$ 38,486	$ 49,335	$ (6,147)	$ 108	$ 481

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We have a limited operating history. Our prospects are subject to the risk and uncertainties frequently encountered by companies in the early stages of development, and particularly by companies in rapidly evolving and technologically advanced fields such as the medical device industry.

We incurred net losses of $11,207,000 for the year ended December 31, 2001, $8,645,000 for the year ended December 31, 2000 and $4,571,000 for the year ended December 31, 1999. As of December 31, 2001, we had an accumulated deficit of $27,099,000. These net losses resulted to a large extent from expenses associated with developing bioresorbable implant designs, performing preclinical studies, preparing submissions to the FDA and foreign regulatory agencies, expanding marketing and distribution channels, further developing our manufacturing capabilities, securing intellectual property rights and trademarks and supporting our status as a public company traded on the *Neuer Markt*. We expect to expend substantial financial resources to expand marketing, training and customer support needed to generate and support higher sales, expand our manufacturing capabilities, obtain additional regulatory clearances and to develop new products. This investment is likely to result in lower income from operations until operational efficiencies are reached.

In January 1999, we recognized revenue for the first time from the sale of our products. For the years ended December 31, 2001, 2000 and 1999, the majority of our revenues came from sales of our craniomaxillofacial bioresorbable implant products, including our MacroPore FX and MacroPore PS systems. A smaller percentage of our revenues for the years ended December 31, 2001 and 2000 came from sales of instruments and accessories used by surgeons to form, mold and manipulate our bioresorbable products during surgical procedures. We expect to realize the majority of our revenues in 2002 from the sale of our bioresorbable implant products for use in orthopedic, spinal and craniomaxillofacial applications.

Results of Operations

Year ended December 31, 2001 compared to year ended December 31, 2000

Revenues. For the year ended December 31, 2001, revenues were $5,648,000 compared to $6,251,000 for the year ended December 31, 2000, a decrease of $603,000, or 9.6%. The decrease in revenues was primarily attributable to Medtronic's initial inventory purchase of $1,162,000 in the three months ended June 30, 2000. Excluding the initial inventory purchase, our revenues in the year ended December 31, 2001 increased by $559,000 compared to the year ended December 31, 2000, which increase was attributable to revenues generated from new product introductions during the three months ended September 30, 2000. Revenues attributable to Medtronic, which owns approximately 6.6% of our outstanding common stock, represented 98.2% of our revenues for the year ended December 31, 2001, compared to 97.5% for the year ended December 31, 2000.

Cost of revenues. For the year ended December 31, 2001, cost of revenues, excluding the inventory provision discussed below, was $2,401,000 or 42.5% of revenues, compared to $2,394,000 or 38.3% of revenues for the year ended December 31, 2000. Cost of revenues includes material, manufacturing labor and overhead costs. The increase in cost as a percentage of revenues was primarily attributable to an inability to absorb some of our fixed manufacturing overhead costs due to lower sales volumes and excess capacity.

Inventory provision. For the year ended December 31, 2001, we recorded an inventory provision of $1,750,000, representing 31.0% of revenues, for which there was no comparable charge in the year ended December 31, 2000. The inventory provision resulted from potential excess and obsolete inventory due to an anticipated reduction in future revenues of our craniofacial implant and instrument products.

Gross profit. For the year ended December 31, 2001, gross profit was $1,497,000 or 26.5% of revenues, compared to $3,857,000 or 61.7% of revenues for the year ended December 31, 2000. Excluding the inventory provision, the gross profit would have been $3,247,000 or 57.5% of revenues in the year ended December 31, 2001. The decrease in gross profit as a percentage of revenues was primarily attributable to an inability to absorb some of our fixed manufacturing overhead costs due to lower sales volume and excess capacity.

Research and development expenses. For the year ended December 31, 2001, research and development expenses excluding related stock based compensation expenses were $5,487,000, compared to $2,584,000 for the year ended December 31, 2000. Research and development expenses include costs associated with the design, development, testing and enhancement of our products, regulatory fees, the purchase of laboratory supplies and clinical trials. The increase in research and development expenses in the year ended December 31, 2001 was primarily attributable to a $1,465,000 increase in additional personnel costs related to the hiring of employees, and other costs of $1,438,000 associated with the research into the development of new product lines. In addition, stock based compensation related to research and development was $111,000 for the year ended December 31, 2001 and $2,239,000 for the year ended December 31, 2000. For further information regarding fluctuations in research and development inclusive of stock based compensation, you should read the discussion under the section entitled "Stock based compensation expenses." We expect research and development spending to continue to increase for the next twelve months as we continue to expand our product development efforts and seek further regulatory approvals.

Sales and marketing expenses. For the year ended December 31, 2001, sales and marketing expenses excluding related stock based compensation expenses were $4,493,000, compared to $2,629,000 for the year ended December 31, 2000. Sales and marketing expenses include costs for marketing personnel, tradeshow expenses, and promotional activities and materials. The increase in sales and marketing expenses in the year ended December 31, 2001 was primarily attributable to a $1,507,000 increase in additional personnel costs related to the hiring of employees, and other costs of $357,000 for tradeshow expenses, promotional activities and materials expenses related to the promotion of product lines. In addition, stock based compensation related to sales and marketing was $176,000 for the year ended December 31, 2001 and $1,852,000 for the year ended December 31, 2000. For further information regarding fluctuations in sales and marketing inclusive of stock based compensation, you should read the discussion under the section entitled "Stock based compensation expenses." We expect sales and marketing expenses to remain at current levels for the next twelve months.

General and administrative expenses. For the year ended December 31, 2001, general and administrative expenses excluding related stock based compensation expenses were $3,578,000, compared to $2,555,000 for the year ended December 31, 2000. General and administrative expenses include costs for administrative personnel, legal and other professional expenses and general corporate expenses. The increase in general and administrative expenses in the year ended December 31, 2001 was primarily attributable to increased personnel costs of $554,000, increased administrative costs of $469,000 for professional services, increased other general corporate expenditures related to all areas of our operations and costs to support our status as a public company traded on the *Neuer Markt*. In addition, stock based compensation related to general and administrative expenses was $836,000 for the year ended December 31, 2001, compared to $1,607,000 for the year ended December 31, 2000. For further information regarding fluctuations in general and administrative expenses inclusive of stock based

compensation, you should read the discussion under the section entitled "Stock based compensation expenses." We expect general and administrative expenses to remain at current levels for the next twelve months.

Stock based compensation expenses. For the year ended December 31, 2001, total non-cash stock based compensation expenses were $1,123,000, compared to $5,698,000 for the year ended December 31, 2000. Stock based compensation results from options issued to employees and non-employees. Stock based compensation expenses are amortized over the remaining vesting periods of the options, which generally vest over a four year period from the date of grant. The overall decrease in stock based compensation was related to the acceleration of vesting and other modifications to compensatory stock options granted to employees and consultants in the year ended December 31, 2000. The decrease of $2,128,000 in research and development stock based compensation was primarily due to our decision on August 9, 2000 to accelerate options granted to doctors who performed consulting services, as the services for which these options were granted were deemed complete, and the recognition of the compensation expense related to all of the accelerated options. The decrease of $1,676,000 in sales and marketing stock based compensation was due primarily to $1,775,000 in additional expense recorded in the three months ended March 31, 2000 as a result of the extension of the expiration date of some stock options granted to members of our sales force upon the termination of their employment. The decrease of $771,000 in general and administrative stock based compensation was primarily due to $636,000 in additional expense recorded in the year ended December 31, 2000 as a result of significant options granted to senior management with immediate vesting and at exercise prices below fair market value.

Interest income. For the year ended December 31, 2001, interest income was $2,249,000, compared to $1,315,000 for the year ended December 31, 2000, an increase of $934,000, or 71.0%. The increase in interest income resulted from cash equivalents and short-term investments being invested for twelve months in the year ended December 31, 2001, compared to an investment period of four and one-half months in the year ended December 31, 2000.

Interest and other expenses. For the year ended December 31, 2001, interest and other expenses were $168,000, compared to $351,000 for the year ended December 31, 2000. The decrease in interest and other expenses was primarily related to the conversion loss of the Euro to the U.S. dollar in connection with the net proceeds we realized from the sale of equity in our initial public offering in August 2000.

Equity loss in investment. For the year ended December 31, 2001, our equity loss in investment was $104,000, for which there was no comparable charge in the year ended December 31, 2000 since the investment related to the equity loss was made in May 2001.

Year ended December 31, 2000 compared to year ended December 31, 1999

Revenues. For the year ended December 31, 2000, revenues were $6,251,000 compared to $1,513,000 for the year ended December 31, 1999, an increase of $4,738,000. The increase in revenues was primarily the result of sales to Medtronic, our principal distributor, which totaled $6,092,000, including an initial inventory purchase of $1,162,000 that occurred in the three months ended June 30, 2000. Revenues attributable to Medtronic, which owned approximately 6.7% of our outstanding common stock on December 31, 2000, represented 97.5% of our revenues for the year ended December 31, 2000.

Cost of revenues. For the year ended December 31, 2000, cost of revenues was $2,394,000, or 38.3% of revenues, compared to $486,000, or 32.1% of revenues for the year ended December 31, 1999. Cost of revenues includes material, manufacturing labor and overhead costs. The increase in cost directly related to revenue for the year ended December 31, 2000 was primarily attributable to increased costs to support the increased revenue base. The percentage of revenues increase of 6.2% was due to a decrease in

revenues per unit resulting from our use of third party distributors rather than an internal sales force. Our savings related to the use of third party distributors are reflected below the gross profit line in sales and marketing expenses for the commissions and other selling expenses that were outsourced.

Gross profit. For the year ended December 31, 2000, gross profit was $3,857,000 or 61.7% of revenues, compared to $1,027,000 or 67.9% of revenues for the year ended December 31, 1999. The decrease in gross profit as a percentage of revenues was primarily attributable to a decrease in revenues per unit resulting from our use of third party distributors rather than an internal sales force.

Research and development expenses. For the year ended December 31, 2000, research and development expenses excluding related stock based compensation expenses were $2,584,000, compared to $1,172,000 for the year ended December 31, 1999. Research and development expenses include costs associated with the design, development, testing, enhancement of our products, regulatory fees, the purchases of laboratory supplies and clinical trials. The increase in research and development expenses in the year ended December 31, 2000 was primarily attributable to research into the development of new product lines. In addition, stock based compensation related to research and development was $2,239,000 for the year ended December 31, 2000 and $70,000 for the year ended December 31, 1999. For further information regarding fluctuations in research and development inclusive of stock based compensation, you should read the discussion under the section entitled "Stock based compensation expenses."

Sales and marketing expenses. For the year ended December 31, 2000, sales and marketing expenses excluding related stock based compensation were $2,629,000, compared to $2,356,000 of expenses for the year ended December 31, 1999. Sales and marketing expenses include costs for marketing personnel, tradeshow expenses, and promotional activities and materials. Despite the elimination of our internal sales force in January 2000, we re-deployed sales costs to marketing personnel and other internal marketing expenses related to the promotion of our product lines. After our initial public offering in August 2000, we allocated some of our available funds to marketing activities. Accordingly, the increase in sales and marketing expenses in the year ended December 31, 2000 was primarily attributable to our increased efforts to provide regional and on-site seminars and symposia and to provide support personnel to demonstrate the use of our new products to surgeons. In addition, stock based compensation related to sales and marketing was $1,852,000 for the year ended December 31, 2000, compared to $231,000 for the year ended December 31, 1999. For further information regarding fluctuations in sales and marketing inclusive of stock based compensation, you should read the discussion under the section entitled "Stock based compensation expenses."

General and administrative expenses. For the year ended December 31, 2000, general and administrative expenses excluding related stock based compensation expenses were $2,555,000, compared to $1,313,000 for the year ended December 31, 1999. General and administrative expenses include costs for administrative personnel, legal and other professional expenses and general corporate expenses. The increase in general and administrative expenses in the year ended December 31, 2000 was primarily attributable to increased personnel costs of $605,000 due to the addition of eight full-time employees, increased administrative costs for professional services and insurance, increased other general corporate expenses related to the expansion of all areas of our operations and costs to support our status as a public company traded on the *Neuer Markt*. In addition, stock based compensation related to general and administrative expense was $1,607,000 for the year ended December 31, 2000, compared to $360,000 for the year ended December 31, 1999. For further information regarding fluctuations in general and administrative expense inclusive of stock based compensation, you should read the discussion under the section entitled "Stock based compensation expenses."

Stock based compensation expenses. For the year ended December 31, 2000, total non-cash stock based compensation expenses were $5,698,000, compared to $661,000 for the year ended December 31,

1999. Stock based compensation results from options issued to employees and non-employees. Stock based compensation expenses are amortized over the remaining vesting periods of the options, which generally vest over a four year period from the date of grant. The overall increase in stock based compensation was related to compensatory stock options granted to employees and consultants, and an increase in the fair market value of our common stock. The increase of $2,169,000 in research and development stock based compensation was primarily due to a large grant of options to doctors and other professionals who performed consulting services related to our development and start-up activities through August 8, 2000. Approximately $1,257,000 of this increase was due to our decision to accelerate those options on August 9, 2000, as the services for which those options were granted were deemed complete, and the recognition of the compensation expense related to all of the accelerated options. The increase of $1,621,000 in sales and marketing stock based compensation was due primarily to $1,775,000 in additional expense recorded in the three months ended March 31, 2000 as a result of the extension of the expiration date of some stock options granted to former members of our sales force upon the termination of their employment. The increase of $1,247,000 in general and administrative stock based compensation was primarily due to the grant of significant options to senior management and other employees at exercise prices below fair market value.

Interest income. For the year ended December 31, 2000, interest income was $1,315,000, compared to $68,000 for the year ended December 31, 1999, an increase of $1,247,000. The increase in interest income resulted from an increase in cash, cash equivalents and short-term investments upon the completion of our initial public offering in August 2000.

Interest and other expenses. For the year ended December 31, 2000, interest and other expenses was $351,000, compared to $164,000 for the year ended December 31, 1999. The increase in interest and other expenses was primarily related to a loss on the conversion of the Euro to the U.S. dollar in connection with the net proceeds we realized from the sale of equity in our initial public offering in August 2000.

Unearned Compensation

We record unearned compensation for options granted to employees as the difference between the exercise price of options granted and the fair market value of our common stock on the date of grant. Unearned compensation is amortized to stock based compensation expense and reflected as such in the Statement of Operations and Comprehensive Income. Unearned compensation recorded through December 31, 2001 was $6,669,000 with an accumulated amortization, net of charges reversed during the period for the forfeiture of unvested awards, of $4,564,000. The remaining $2,105,000 as of December 31, 2001 will be amortized using the straight-line method over the remaining vesting periods of the options, which generally vest over a four year period from the date of grant. We expect to record amortization expense for unearned compensation of $1,040,000 in 2002, $851,000 in 2003 and $214,000 in 2004. The amount of unearned compensation expense recorded in future periods may decrease if unvested options for which unearned compensation has been recorded are subsequently forfeited.

Net Operating Loss and Tax Credit Carryforwards

As of December 31, 2001, we had federal net operating loss carryforwards of $17,916,000 and state net operating loss carryforwards of $3,011,000, which may be available to offset future taxable income for tax purposes. The federal net operating loss carryforwards will begin to expire in 2012, if unused. The state net operating loss carryforwards will begin to expire in 2005, if unused. A portion of the net operating losses are limited in their annual utilization. As of December 31, 2001, we also had research tax credit carryforwards of $345,000 for federal tax purposes and $339,000 for state tax purposes. The federal and state research tax credit carryforwards will begin to expire in 2012, if unused. In addition, as

of December 31 2001, we had state manufacturer's credit carryforwards of $252,000, which will begin to expire in 2007, if unused. For financial reporting purposes, we have provided a valuation against our deferred tax assets due to uncertainties regarding their realization.

Liquidity and Capital Resources

As of December 31, 2001, we had cash and cash equivalents, and short-term investments, available-for-sale, of $33,951,000 and working capital of $35,119,000. Since inception, we have financed our operations primarily through sales of stock. Our sales of preferred stock in 1997, 1998 and 1999 yielded net proceeds of $14,679,000. On August 8, 2000, we completed our public offering in Germany and listed our common stock for trading on the *Neuer Markt* segment of the Frankfurt Stock Exchange in Frankfurt, Germany, at which time the outstanding shares of our preferred stock was converted into 6,831,398 shares of common stock. We received net proceeds of $43,244,000 from the sale of 3,500,000 shares of our common stock in our initial public offering. A portion of those net proceeds have been used for research and development, to expand our manufacturing operations, to promote our brand and to pursue regulatory approvals for our products. In addition, some of the proceeds have been used for working capital and general corporate purposes. We have invested some of the proceeds from the offering in short-term investments, pending other uses of the proceeds in our business.

Net cash used in operating activities was $8,322,000 for the year ended December 31, 2001, $2,982,000 for the year ended December 31, 2000 and $5,107,000 for the year ended December 31, 1999. For each period, net cash used in operating activities resulted primarily from net losses and working capital requirements. Net losses for each period resulted to a large extent from expenses associated with the development of our bioresorbable designs, preclinical studies, preparation of submissions to the FDA and foreign regulatory agencies, the establishment of marketing and distribution channels, and the improvement of our manufacturing capabilities. In the year ended December 31, 2001, net cash used in operating activities primarily related to our net loss of $11,207,000 and an increase in inventory of $1,157,000, offset by non-cash charges for inventory provision, stock based compensation, and depreciation and amortization. In the year ended December 31, 2000, net cash used in operating activities resulted primarily from our net loss of $8,645,000 and an increase in inventory of $1,143,000, offset by stock based compensation of $5,716,000 and deferred revenue related to an up-front license fee of $1,200,000 paid to us by Medtronic. In the year ended December 31, 1999, net cash used in operating activities primarily related to our net loss of $4,571,000 and an increase in inventory of $1,097,000 in anticipation of increased sales in the three months ended March 31, 2000, offset by non-cash charges for stock based compensation, and depreciation and amortization. Our working capital requirements fluctuate with changes in our operating activities that include such items as sales and manufacturing costs, which affect the levels of accounts receivable, inventories and current liabilities.

Net cash provided by investing activities was $2,263,000 for the year ended December 31, 2001. Net cash used in investing activities was $39,450,000 for the year ended December 31, 2000 and $381,000 for the year ended December 31, 1999. Net cash provided by investing activities for the year ended December 31, 2001 consisted of net proceeds from the purchase and sale of short-term investments, capital expenditures and our investment in StemSource, Inc. Net cash used in investing activities for the year ended December 31, 2000 included net purchases of short-term investments related to the use of proceeds from our initial public offering in August 2000, as well as capital expenditures. Net cash used in investing activities for the year ended December 31, 1999 was primarily related to the purchase of property and equipment.

Net cash provided by financing activities was $1,283,000 for the year ended December 31, 2001, $47,437,000 for the year ended December 31, 2000 and $7,924,000 for the year ended December 31, 1999. Net cash provided by financing activities for the year ended December 31, 2001 was primarily

related to proceeds from long-term debt financing, partially offset by our repurchase of shares of our common stock. Net cash provided by financing activities for the year ended December 31, 2000 was primarily attributable to our sale of shares of Series D preferred stock and our sale of common stock in our initial public offering. Net cash provided by financing activities for the year ended December 31, 1999 was primarily related to our sale of shares of Series C and Series D preferred stock.

Our revenues, operating results and cash flow are affected by product pricing, fixed costs of sales and fluctuations in variable cost of sales and sales volumes. In January 2000, we entered into an exclusive distribution agreement with Medtronic for the marketing, distribution and sale of our bioresorbable products for use in the craniofacial skeleton. Under the terms of the distribution agreement, we sell our products to Medtronic at fixed prices that are subject to adjustment upon biannual reviews. Although the distribution agreement provides that direct selling costs are borne by the distributor, our cash flow may be adversely affected if our fixed costs increase and we are unable to negotiate an increase in product pricing with Medtronic.

We have equipment lease obligations that mature at various dates through 2004 with interest rates ranging from 12.4% to 23.7%. The total monthly payments under our equipment lease obligations are $13,000. In October 2001, we obtained $2,433,000 of equipment financing that matures in October 2005 at an interest rate of 9.3%. Our total monthly payments under the equipment financing arrangement are $62,000. We have an additional $1,400,000 of credit, at an interest rate of 9.3%, available to us through September 2002 under an equipment financing master security agreement.

As of December 31, 2001, we had property and equipment of $7,108,000, less accumulated depreciation of $1,937,000 to support our clinical, research, development, manufacturing and administrative activities. Our capital expenditures were $2,664,000 for the year ended December 31, 2001, $2,732,000 for the year ended December 31, 2000 and $376,000 for the year ended December 31, 1999. We expect capital expenditures for the next twelve months to be approximately $1,300,000 as we acquire additional equipment and expand our facilities. We intend to pay for future capital expenditures with available working capital and by using credit available under our equipment financing master security agreement.

In May 2001, we invested $1,000,000 in cash in exchange for shares of Series A preferred stock of StemSource, representing a 13.4% ownership interest. StemSource was formed in January 2001 to engage in biomedical research. Under our investor rights agreement with StemSource, we have the right to appoint a representative as a member of StemSource's board of directors. We are not obligated to provide StemSource with any additional funding. From time to time, we may enter into collaborative arrangements with, and acquire ownership interest in, other companies for the purpose of engaging in joint research and development activities.

Our capital requirements depend on numerous factors, including market acceptance of our products and regulatory approvals, the resources we devote to developing and supporting our products and other factors. We expect to devote substantial capital resources to continue our research and development efforts, to expand our support and product development activities and for other general corporate activities. We believe that our current cash and investment balances and revenue to be derived from the sale of our products will be sufficient to fund our operations at least through December 31, 2002. However, unless we begin to generate sufficient revenues from our operations to cover our operating costs, we may need to seek additional sources of financing in the future. We cannot assure you that we will generate sufficient revenues to cover our operating costs or that we will be able to obtain additional financing on terms satisfactory to us, if at all.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards, or SFAS, No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 and no longer permits the use of the pooling-of-interests method. SFAS No. 142 requires that amortization of goodwill cease and the carrying value of goodwill be evaluated for impairment at least annually using a fair value test. Identifiable intangible assets will continue to be amortized over their useful lives and reviewed at least annually for impairment using a method appropriate to the nature of the intangible asset. We adopted SFAS No. 141 on July 1, 2001 and SFAS No. 142 on January 1, 2002. We do not expect our adoption of SFAS No. 141 or SFAS No. 142 to have a material impact on our financial position or results of operations.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to all entities and to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal operation of long-lived assets, except for some lessee obligations. SFAS No. 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. We do not expect our adoption of SFAS No. 143 to have a material impact on our financial position or results of operations.

Also in August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The provisions of SFAS No. 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001. We do not expect our adoption of SFAS No. 144 to have a material impact on our financial position or results of operations.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principals generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of our assets, liabilities, revenues and expenses, and that affect our disclosure of contingent assets and liabilities. While our estimates are based on assumptions we considered reasonable at the time they were made, our actual results may differ from our estimates, perhaps significantly. If results differ from our estimates, we will make adjustments to our financial statements as we become aware of the necessity for an adjustment. Specifically, we make estimates in the following areas:

Allowance for doubtful accounts. We provide a reserve against our receivables for estimated losses that may result from our customers' inability to pay. These reserves are based on known uncollectible accounts, aged receivables, historical losses and our estimate of our customers' credit-worthiness. Should a customer's account become past due, we generally place a hold on the account and discontinue further shipments to that customer, minimizing further risk of loss. The likelihood of our recognition of a material loss on an uncollectible account mainly depends on a deterioration in the economic financial strength of the customer and the general business environment. Medtronic is our single largest customer, directly accounting for 98.2% of our revenues in the year ended December 31, 2001. We believe that the allowance for doubtful accounts as of December 31, 2001 with respect to Medtronic's account is sufficient, given Medtronic's financial strength.

Inventory adjustments. We state inventories at the lower of average cost, determined on the first-in first-out method, or fair market value. We review the components of our inventory on a regular basis for

potential excess, obsolete and impaired inventory, based on estimated future usage. The likelihood of any material adjustment of our stated inventory depends on significant changes in the competitive conditions in which we operate, new product introductions by us or our competitors, or fluctuations in customer demand.

Litigation reserves. We record as liabilities on our balance sheets estimated amounts for claims that we consider probable and that can be reasonably estimated. The likelihood of a material change in our estimated reserves depends on new claims that arise and our estimations of the favorable or unfavorable outcome of the particular litigation. We adjust our litigation reserves as new facts relevant to the claim or litigation become known.

Warranty reserves. We estimate our potential warranty reserve based on historical claims by our customers. The likelihood of a material change in our estimated warranty reserve depends on a significant change in actual product failures and increased customer claims.

Valuation of deferred income taxes. We establish valuation allowances, when necessary, to reduce deferred tax assets to the amount we expect to realize. The likelihood of a material change in our expected realization of these assets depends on our generation of future taxable income, our ability to deduct tax loss carryforwards against future taxable income, and the effectiveness of our tax planning strategies in the various tax jurisdictions that we operate in.

Principles of consolidation. We determine whether the equity method of consolidation is appropriate to account for our investments based on our ability to exercise control through decision-making, our ability to exercise significant influence over management of the company in which we have invested, and our equity ownership interest in that company. If our ability to exercise significant influence or our decision-making abilities change materially from our evaluation, or our ownership interest in an investment increases or decreases, our operating results could be impacted, either positively or negatively.

Item 7a. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk related to fluctuations in interest rates and in foreign currency exchange rates.

Interest Rate Exposure

Our exposure to market risk due to fluctuations in interest rates relates primarily to short-term investments. These short-term investments, reported at an aggregate fair market value of $31,251,000 as of December 31, 2001, consist primarily of investments in debt instruments of financial institutions, corporations with strong credit ratings and United States government obligations. These securities are subject to interest rate risk inasmuch as their fair value will fall if market interest rates increase. If market interest rates were to increase immediately and uniformly by 100 basis points from the levels prevailing at December 31, 2001, for example, and assuming an average investment duration of ten months, the fair value of the portfolio would not decline by a material amount. We do not use derivative financial instruments to mitigate the risk inherent in these securities. However, we do attempt to reduce such risks by generally limiting the maturity date of such securities, diversifying our investments and limiting the amount of credit exposure with any one issuer. We believe that we currently have the ability to hold these investments until maturity and, therefore, believe that reductions in the value of such securities attributable to short-term fluctuations in interest rates would not materially affect our financial position, results of operations or cash flows.

Foreign Currency Exchange Rate Exposure

Our exposure to market risk due to fluctuations in foreign currency exchange rates relates primarily to sales of our products in Europe and other foreign markets. Although we transact business in various foreign countries, settlement amounts are usually based on the U.S. dollar or the Euro. Transaction gains or losses resulting from sales revenues have not been significant in the past and we are not engaged in any hedging activity on the Euro or other currencies. Based on our revenues derived from markets other than the United States for the year ended December 31, 2001, a hypothetical 10% adverse change in the Euro against the U.S. dollar would not result in a material foreign exchange loss. Consequently, we do not expect that reductions in the value of such sales denominated in foreign currencies resulting from even a sudden or significant fluctuation in foreign exchange rates would have a direct material impact on our financial position, results in operations or cash flows.

Notwithstanding the foregoing, the indirect effect of fluctuations in interest rates and foreign currency exchange rates could have a material adverse effect on our business, financial condition and results of operations. For example, foreign currency exchange rate fluctuations may affect international demand for our products. In addition, interest rate fluctuations may affect our customers' buying patterns. Furthermore, interest rate and currency exchange rate fluctuations may broadly influence the United States and foreign economies resulting in a material adverse effect on our business, financial condition and results of operations.

Item 8. Financial Statements and Supplementary Data **Page No.**

Report of Independent Public Accountants

To the Board of Directors and Stockholders of
MacroPore, Inc.

We have audited the accompanying balance sheets of MacroPore, Inc. as of December 31, 2001 and 2000 and the related statements of operations and comprehensive income, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MacroPore, Inc. as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion of the basic financial statements taken as a whole. The schedule presented in Item 14(a)(2) of the Company's Report on Form 10-K for the period ended December 31, 2001 is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule, for the years ended December 31, 2001 and 2002, has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ Arthur Andersen LLP

San Diego, California
February 15, 2002 (except with respect to the matter discussed in Note 13, as to which the date is February 26, 2002)

Report of Independent Accountants

To the Board of Directors of
MacroPore, Inc.

In our opinion, the statements of operations and comprehensive income, of stockholders' equity and of cash flows listed in the index appearing under Item 14(a)(1) on page 46 present fairly, in all material respects, the results of operations and cash flows of MacroPore, Inc. for the year ended December 31, 1999, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 14(a)(2) on page 47 presents fairly, in all material respects, the information set forth therein for the year ended December 31, 1999 when read in conjunction with the related financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP

San Diego, California
June 30, 2000

MACROPORE, INC.
BALANCE SHEETS

	As of December 31,	
	2001	**2000**
Assets		
Current assets:		
Cash and cash equivalents	$ 2,700,000	$ 7,476,000
Short-term investments, available-for-sale	31,251,000	37,008,000
Accounts receivable, related party, net of allowance for bad debts of $35,000 and $75,000 in 2001 and 2000, respectively	463,000	693,000
Inventories	1,685,000	2,278,000
Other current assets	851,000	882,000
Total current assets	36,950,000	48,337,000
Property and equipment, net	5,171,000	3,691,000
Other assets	1,022,000	241,000
Total assets	$ 43,143,000	$ 52,269,000
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 1,155,000	$ 1,364,000
Current portion of capital lease obligations	121,000	115,000
Current portion of long-term obligations	555,000	-
Total current liabilities	1,831,000	1,479,000
Deferred revenue, related party	900,000	1,200,000
Capital lease obligations, less current portion	135,000	255,000
Long-term obligations, less current portion	1,791,000	-
Total liabilities	4,657,000	2,934,000
Commitments (Note 6)		
Stockholders' equity:		
Preferred stock; $0.001 par value; 5,000,000 authorized; -0- shares issued and outstanding in 2001 and 2000	-	-
Common stock; $0.001 par value; 95,000,000 shares authorized; 15,106,623 and 14,814,346 issued and outstanding in 2001 and 2000, respectively	15,000	15,000
Additional paid-in capital	68,402,000	68,126,000
Unearned compensation	(2,105,000)	(3,094,000)
Accumulated deficit	(27,099,000)	(15,892,000)
Treasury stock, at cost; 356,120 and -0- shares in 2001 and 2000, respectively	(1,077,000)	-
Other accumulated comprehensive income	350,000	180,000
Total stockholders' equity	38,486,000	49,335,000
Total liabilities and stockholders' equity	$ 43,143,000	$ 52,269,000

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

MACROPORE, INC.
STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

	For the Years Ended December 31,		
	2001	**2000**	**1999**
Revenues:			
Sales to related party (Note 12)	$ 5,547,000	$6,092,000	$ -
Sales to distributors and end-users	101,000	159,000	1,513,000
	5,648,000	6,251,000	1,513,000
Cost of revenues:			
Cost of revenues including stock based compensation expense of $14,000, $18,000, and $5,000 for the years ended December 31, 2001, 2000, and 1999, respectively	2,401,000	2,394,000	486,000
Inventory provision	1,750,000	-	-
Gross profit	1,497,000	3,857,000	1,027,000
Operating expenses:			
Research and development, net of stock based compensation expense of $111,000, $2,239,000 and $70,000 for the years ended December 31, 2001, 2000, and 1999, respectively	5,487,000	2,584,000	1,172,000
Sales and marketing, net of stock based compensation expense of $176,000, $1,852,000 and $231,000 for the years ended December 31, 2001, 2000, and 1999, respectively	4,493,000	2,629,000	2,356,000
General and administrative, net of stock based compensation expense of $836,000, $1,607,000 and $360,000 for the years ended December 31, 2001, 2000, and 1999, respectively	3,578,000	2,555,000	1,313,000
Stock based compensation (excluding cost of revenues stock based compensation)	1,123,000	5,698,000	661,000
Total operating expenses	14,681,000	13,466,000	5,502,000
Other income (expense):			
Interest income	2,249,000	1,315,000	68,000
Interest and other expense	(168,000)	(351,000)	(164,000)
Equity loss in investment	(104,000)	-	-
Net loss	(11,207,000)	(8,645,000)	(4,571,000)
Other comprehensive income:			
Unrealized holding gains arising during period	350,000	180,000	-
Comprehensive loss	$ (10,857,000)	$ (8,465,000)	$ (4,571,000)
Basic and diluted net loss per share	$ (0.75)	$ (1.05)	$ (1.32)
Shares used in calculating basic and diluted net loss per share	14,926,107	8,201,739	3,458,292

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

MACROPORE, INC.
STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000 AND 1999

	Preferred Stock Subscribed	Preferred A		Preferred B		Preferred C		Preferred D		Common Stock		Additional Paid-In Capital	Unearned Compensation	Accumulated Deficit	Treasury Stock	Other Accumulated Comprehensive Income	Total
		Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount						
Balance at December 31, 1998	$ 519,000	1,267,000	$630,000	1,032,583	$1,547,000	-	$ -	-	$ -	3,250,000	$ 3,000	$ 301,000	$ (216,000)	$ (2,676,000)	$ -	$ -	$ 108,000
Issuance of common stock for services rendered										66,339		13,000					13,000
Issuance of common stock under stock option plan										190,500		14,000					14,000
Issuance of common stock for cash	(172,000)									132,666	1,000	303,000					132,000
Compensatory stock options												1,750,000	(1,069,000)				681,000
Issuance of Series C Preferred shares for cash, at $2.25 per share, net of issuance costs of $137,000	(347,000)					2,574,989	5,657,000					-					5,310,000
Issuance of Series D Preferred shares for cash, at $3.50 per share, net of issuance costs of $58,000								832,226	2,855,000			-					2,855,000
Net loss for the year ended December 31, 1999										-	-	-		(4,571,000)			(4,571,000)
Balance at December 31, 1999	-	1,267,000	630,000	1,032,583	1,547,000	2,574,989	5,657,000	832,226	2,855,000	3,639,505	4,000	2,381,000	(1,285,000)	(7,247,000)	-	-	4,542,000
Issuance of common stock under stock option plan										784,124	-	156,000					156,000
Conversion of Series C Preferred shares to common stock						(45,951)	(103,000)			45,951	-	103,000					-
Issuance of Series C Preferred shares for cash, at $2.25 per share						2,777	6,000					-					6,000
Issuance of Series D Preferred shares for cash, at $3.50 per share								1,167,774	4,087,000			-					4,087,000
Issuance of common stock for services rendered										13,368	-	161,000					161,000
Issuance of common stock in initial public offering, net of issuance costs of $3,957,000										3,500,000	4,000	43,240,000					43,244,000
Conversion of preferred stock in connection with initial public offering		(1,267,000)	(630,000)	(1,032,583)	(1,547,000)	(2,531,815)	(5,560,000)	(2,000,000)	(6,942,000)	6,831,398	7,000	14,672,000					-
Compensatory stock options												7,413,000	(1,809,000)				5,604,000
Unrealized income on investments																180,000	180,000
Net loss for the year ended December 31, 2000														(8,645,000)			(8,645,000)
Balance at December 31, 2000	-	-	-	-	-	-	-	-	-	14,814,346	15,000	68,126,000	(3,094,000)	(15,892,000)		180,000	49,335,000
Issuance of common stock under stock option plan										292,277		128,000					128,000
Compensatory stock options												148,000	989,000				1,137,000
Unrealized income on investments																170,000	170,000
Purchase of treasury stock															(1,077,000)		(1,077,000)
Net loss for the year ended December 31, 2001														(11,207,000)			(11,207,000)
Balance at December 31, 2001	$ -	-	$ -	-	$ -	-	$ -	-	$ -	15,106,623	$ 15,000	$ 68,402,000	$ (2,105,000)	$ (27,099,000)	$ (1,077,000)	$ 350,000	$ 38,486,000

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

MACROPORE, INC.
STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2001	**2000**	**1999**
Cash flows from operating activities:			
Net loss	$ (11,207,000)	$ (8,645,000)	$ (4,571,000)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	1,184,000	441,000	235,000
Inventory provision	1,750,000	-	-
Stock based compensation	1,137,000	5,716,000	666,000
Equity loss in investment	104,000	-	-
Increases (decreases) in cash caused by changes in operating assets and liabilities:			
Accounts receivable, related party	230,000	(201,000)	(492,000)
Inventories	(1,157,000)	(1,143,000)	(1,097,000)
Other current assets	31,000	(851,000)	1,000
Other assets	115,000	(223,000)	(6,000)
Accounts payable and accrued expenses	(209,000)	724,000	157,000
Deferred revenue, related party	(300,000)	1,200,000	-
Net cash used in operating activities	(8,322,000)	(2,982,000)	(5,107,000)
Cash flows from investing activities:			
Proceeds from the sale and maturity of short-term investments	90,065,000	85,610,000	-
Purchases of short-term investments	(84,138,000)	(122,328,000)	(5,000)
Purchases of property and equipment	(2,664,000)	(2,732,000)	(376,000)
Equity investment	(1,000,000)	-	-
Net cash provided by (used in) investing activities	2,263,000	(39,450,000)	(381,000)
Cash flows from financing activities:			
Principal payments on capital leases	(114,000)	(105,000)	(73,000)
Principal payments on long-term obligations	(87,000)	-	-
Proceeds from short-term debt	-	-	51,000
Proceeds from long-term debt	2,433,000	-	-
Proceeds from sale of Common Stock	128,000	205,000	146,000
Purchase of treasury stock	(1,077,000)	-	-
Proceeds from sale of Series C and Series D preferred stock, net of issuance costs	-	4,093,000	7,800,000
Proceeds from initial public offering, net of offering costs	-	43,244,000	-
Net cash provided by financing activities	1,283,000	47,437,000	7,924,000
Net (decrease) increase in cash	(4,776,000)	5,005,000	2,436,000
Cash and cash equivalents at beginning of period	7,476,000	2,471,000	35,000
Cash and cash equivalents at end of period	$ 2,700,000	$ 7,476,000	$ 2,471,000
Supplemental disclosure of cash flows information:			
Cash paid during period for:			
Interest	$ 100,000	$ 82,000	$ 111,000
Taxes	800	800	800
Supplemental schedule of noncash operating, investing, and financing activities:			
Unearned stock based compensation	$ 115,000	$ 4,980,000	$ 1,452,000
Equipment acquired under capital leases	-	82,000	211,000
Conversion of bridge loan to Series C preferred stock	-	-	225,000
Issuance of Series C preferred stock for purchase of equipment	-	-	140,000
Issuance of common stock for services rendered	-	112,000	-

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

MACROPORE, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2001, 2000, AND 1999

1. Organization and Operations

The Company

MacroPore, Inc. (the "Company") was founded as MacroPore (the "Partnership"), a California general partnership with three equal partners, on July 1, 1996. On May 16, 1997, the Company was incorporated in the State of Delaware. The Company received assets from and liabilities of the Partnership and a cash contribution from a shareholder solely in exchange for common stock on May 20, 1997 (the "Transfer").

The Transfer was undertaken to reconstitute the Company as a corporation for tax purposes, at which time the Company transferred the amount of the Partnership's accumulated deficit to the additional paid-in-capital balance until it was zero, with the remainder transferred to the deficit accumulated during the development stage.

The Company develops, commercializes and manufactures bioresorbable surgical implants to aid in the reconstruction, repair and regeneration of bone. The Company's bioresorbable products are made from a lactic acid copolymer which is composed of a lactic acid similar to that which occurs naturally in the human body.

Certain Risks and Uncertainties

The Company has a limited operating history and its prospects are subject to the risks and uncertainties frequently encountered by companies in the early stages of development, and particularly by such companies in rapidly evolving and technologically advanced fields such as the medical device field. The future viability of the Company largely depends on the Company completing development of new products and receiving regulatory approvals for those products. No assurance can be given that the Company's new products will be successfully developed, regulatory approvals will be granted, or acceptance of these products will be achieved.

Capital Availability

The Company has a limited operating history and recorded the first sale of its products in 1999. The Company incurred losses of $11,207,000, $8,645,000 and $4,571,000 for the years ended December 31, 2001, 2000 and 1999, respectively, and has an accumulated deficit of $27,099,000 as of December 31, 2001. Additionally, the Company has experienced cash flow losses from operations of $8,322,000, $2,982,000 and $5,107,000 for the years ended December 31, 2001, 2000 and 1999, respectively.

Management recognizes the need to generate positive cash flows in future periods and/or to acquire additional capital from various sources. The Company currently has adequate cash and cash equivalent and investment balances to fund operations at least through December 31, 2002. However, in the continued absence of positive cash flows from operations, no assurance can be given that the Company can generate sufficient revenue to cover operating costs or that additional financing will be available to the Company and, if available, on terms acceptable to the Company in the future.

2. Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at

the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Cash and Cash Equivalents
The Company considers all highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents. Investments with original maturities of three months or less that were classified as cash equivalents totaled $754,000 and $4,522,000 as of December 31, 2001 and 2000, respectively, and consisted primarily of cash and highly liquid investments.

Short-Term Investments
The Company invests its excess cash in debt instruments of financial institutions, corporations with strong credit ratings, and in United States government obligations. The Company has established guidelines relative to diversification and maturities that maintain safety and liquidity. These guidelines are periodically reviewed and modified to take advantage of trends in yields and interest rates.

Investments are accounted for in accordance with Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities," which requires that the Company determine the appropriate classification of investments at the time of purchase based on management's intent. Held to maturity investments are recorded at amortized cost as management has the positive intention and ability to hold such investments to maturity. Any premiums or discounts are amortized to income over the term of the investment using a method, which approximates the interest method. Available-for-sale investments are stated at fair value, with net unrealized gains or losses, if any, net of tax, reported as a separate component of stockholders' equity. Realized gains or losses from the sale of investments, interest income and dividends are included in interest income in the accompanying statements of operations and comprehensive income.

Management reviews the carrying values of its investments and writes down such investments to estimated fair value by a charge to operations when such review results in management's determination that an investment's impairment is considered to be other than temporary. The cost of securities sold is based on the specific identification method.

Fair Value of Financial Instruments
The carrying amounts of the Company's cash and cash equivalents, accounts receivable and accounts payable and accrued expenses approximate their fair value due to the short-term nature of these balances. The carrying amounts of the Company's short-term debt, capital lease obligations, and long-term obligations approximate fair value as the rates of interest for these instruments approximate market rates of interest currently available to the Company for similar instruments.

Inventories
Inventories include the cost of material, labor and overhead, and are stated at the lower of average cost, determined on the first-in, first-out (FIFO) method, or market. The Company periodically evaluates its on-hand stock and makes appropriate provision for any stock deemed excess or obsolete.

During the year ended December 2001, the Company recorded an inventory provision of $1,750,000 for excess and obsolete inventory related to the Company's craniofacial skeleton implant and instrument products. The provision for potential excess and obsolete inventory was

determined based on an anticipated reduction in expected future revenues of these products. The provision includes inventory held on-hand as of December 31, 2001.

Long-Lived Assets
The Company assesses potential impairments to its long-lived assets when there is a change in circumstances that indicate carrying values of assets may not be recovered. An impairment loss is recognized when the undiscounted cash flows expected to be generated by an asset is less than its carrying amount. Any required impairment loss would be measured as the amount by which the asset's carrying value exceeds its fair value, and would be recorded as a reduction in the carrying value of the related asset and a charge to operating expense. The Company has not incurred any such losses.

Property and Equipment
Property and equipment is stated at cost. Depreciation expense, which includes the amortization of assets recorded under capital leases, is provided on a straight-line basis over the useful lives of the assets, which range from three to seven years. When assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is included in operations. Leasehold improvements are amortized over the shorter of the estimated useful life of the asset or the lease term. Maintenance and repairs are charged to operations as incurred.

Revenue Recognition
The Company generally sells its products to hospitals and distributors. Revenue from sales to hospitals is recognized upon delivery of the product. The Company has agreements with its distributors that title and risk of loss pass to the distributor upon shipment of the products. The Company warrants that its products are free from manufacturing defects at the time of shipment to the distributor. Revenue is recognized upon shipment of products to distributors following receipt and acceptance of a distributor's purchase order.

Revenue from license agreements is recognized ratably over the term of the agreement, provided no significant obligations remain. For the years ended December 31, 2001 and 2000, the Company recognized $300,000 in revenue in each period from license agreements. There was no revenue from the license agreements for the year ended December 31, 1999. See note 12.

Research and Development
Research and development expenditures are charged to operations in the period incurred.

Income Taxes
The Company accounts for income taxes utilizing the liability method in accordance with SFAS No. 109, "Accounting for Income Taxes." Under this method, deferred income taxes are recorded to reflect the tax consequences on future years of temporary differences between the tax bases of assets and liabilities and their financial reporting amounts at each year end. If it is more likely than not that some portion or all of the net deferred tax asset will not be realized, a valuation allowance is recognized.

Stock Based Compensation
The Company has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock Based Compensation." Accordingly, the Company accounts for its stock based compensation plan under the provisions of Accounting Principle Board (APB) No. 25, "Accounting for Stock Issued to Employees" under which compensation cost is measured by the

excess, if any, of the fair market value of the Company's common stock at the date of grant over the exercise price of the option. Compensation cost is amortized using the straight-line method over the related vesting periods. Accrued compensation costs for awards that are forfeited are reversed against compensation expense in the period of forfeiture. Stock based awards issued to non-employees are accounted for using a fair value method and are remeasured to estimated fair value at each period end until the earlier of the date that performance by the counterparty is complete or the awards are fully vested.

Other Comprehensive Income (Loss)
The Company has adopted SFAS No. 130, "Reporting Comprehensive Income." This statement establishes standards for reporting and display of comprehensive income and its components in a full set of general purpose financial statements. The objective of the statement is to report a measure of all changes in equity of an enterprise that result from transactions and other economic events of the period other than transactions with owners. Comprehensive income is the total of net income and all other non-owner changes in equity.

During the years ended December 31, 2000, 2000 and 1999 the Company's only element of other comprehensive income resulted from unrealized gains on investments, which are reflected in the statements of changes in stockholders' equity as other accumulated comprehensive income.

Segment Information
The Company follows the provisions of SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." The Company believes that all of its material operations are managed under the medical device industry, with similar purpose, production processes, markets, and regulatory requirements, and it currently reports as a single industry segment.

The Company recorded its first sales in 1999. For the year ended December 31, 1999, the Company recorded $1,513,000 in sales. The Company sold $1,472,000 of product in the United States and $41,000 of product outside the United States. For the year end ended December 31, 2000, the Company recorded $6,251,000 in sales. The Company sold $6,200,000 of product in the United States and $51,000 of product outside the United States. For the year ending December 31, 2001, the Company recorded $5,648,000 in sales. The Company sold $4,954,000 of product in the United States and $694,000 of product outside the United States.

Earnings (Loss) Per Share
The Company computes earnings (loss) per share based on the provision of SFAS No. 128 "Earnings Per Share." Basic per share data is computed by dividing income (loss) available to common stockholders by the weighted average number of common shares outstanding during the period. Weighted average shares exclude shares of unvested common stock subject to repurchase by the Company. Diluted per share data is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding during the period increased to include, if dilutive, the number of additional common share equivalents that would have been outstanding if potential common shares had been issued. The dilutive effect of outstanding stock options and unvested common stock subject to repurchase is reflected in diluted loss per share by application of the treasury stock method.

The Company has excluded all potentially dilutive securities from the calculation of diluted loss per share attributable to common stockholders for the periods ended December 31, 2001, 2000 and 1999 as their inclusion would be antidilutive. The number of potential common shares

excluded from the calculations of diluted loss per share for the years ended December 31, 2001, 2000 and 1999 was 3,367,000, 2,797,000 and 5,907,420, respectively.

Reclassification
Certain amounts reported in the Company's Statements of Operations and Comprehensive Income have been reclassified to conform to the presentation for the current year.

Recent Accounting Pronouncements
In June 2001, the Financial Accounting Standards Board ("FASB") issued two new pronouncements: Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 and no longer permits the use of the pooling-of-interests method. SFAS No. 142 requires that upon adoption, amortization of goodwill will cease and instead, the carrying value of goodwill will be evaluated for impairment at least annually using a fair value test. Identifiable intangible assets will continue to be amortized over their useful lives and reviewed at least annually for impairment using a method appropriate to the nature of the intangible asset. The Company was required to implement SFAS No. 141 on July 1, 2001 and SFAS No. 142 at the beginning of its next fiscal year, January 1, 2002. The Company has determined that the implementation of these standards will not have a material impact on its financial position or results of operations.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to (a) all entities and (b) legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal operation of long-lived assets, except for certain obligations of lessees. This statement amends SFAS No. 19, "Financial Accounting and Reporting by Oil and Gas Producing Companies," and is effective for financial statements issued for fiscal years beginning after June 15, 2002. Management does not believe that the adoption of this statement will have a material impact on its financial position or results of operations.

Also in August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business (as previously defined in that Opinion). The provisions of SFAS No. 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001. The Company does not expect the adoption of SFAS No. 144 to have a material impact on its financial position or results of operations.

3. Short-Term Investments

As of December 31, 2001 and 2000, all investments were classified as available-for-sale, which consisted of the following:

	December 31, 2001		
	Amortized Cost	Gross Unrealized Gains	Estimated Fair Value
Corporate notes and bonds	$ 9,718,000	$ 57,000	$ 9,775,000
Agency securities	19,042,000	292,000	19,334,000
Treasury note	2,141,000	1,000	2,142,000
	$ 30,901,000	$ 350,000	$ 31,251,000

	December 31, 2000		
	Amortized Cost	Gross Unrealized Gains	Estimated Fair Value
Corporate notes and bonds	$ 17,594,000	$ 45,000	$ 17,639,000
Agency securities	17,740,000	133,000	17,873,000
Treasury note	1,494,000	2,000	1,496,000
	$ 36,828,000	$ 180,000	$ 37,008,000

As of December 31, 2001 and 2000, investments available for sale have the following maturities:

	December 31, 2001		December 31, 2000	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Corporate notes and bonds:				
with maturity of less than 1 year	$ 9,000,000	$ 9,057,000	$17,594,000	$ 17,639,000
with maturity of 1 to 2 years	718,000	718,000		
Agency securities:				
with maturity of less than 1 year	8,963,000	9,109,000	5,639,000	5,677,000
with maturity of 1 to 2 years	10,079,000	10,225,000	12,101,000	12,196,000
Treasury note:				
with maturity of less than 1 year	2,141,000	2,142,000	1,494,000	1,496,000
	$30,901,000	$ 31,251,000	$36,828,000	$ 37,008,000

Proceeds from sales of investments for the year ended December 31, 2001 and 2000 were $90,065,000 and $85,610,000, respectively. Gross realized gains on such sales for the years ended December 31, 2001 and 2000 were approximately $217,000 and $6,000, respectively. There were no sales of investments for the year ended December 31, 1999.

4. Composition of Certain Financial Statement Captions

Inventories

	December 31, 2001	December 31, 2000
Raw materials	$ 959,000	$ 706,000
Finished goods	726,000	1,572,000
	$1,685,000	$2,278,000

Property and Equipment, net

	December 31, 2001	December 31, 2000
Office and computer equipment	$1,406,000	$ 845,000
Manufacturing and development equipment	4,235,000	2,684,000
Leasehold improvements	1,467,000	916,000
	7,108,000	4,445,000
Less accumulated depreciation and amortization	(1,937,000)	(754,000)
	$5,171,000	$3,691,000

Accounts Payable and Accrued Liabilities

	December 31, 2001	December 31, 2000
Accounts payable	$ 294,000	$ 784,000
Accrued bonus	398,000	195,000
Accrued vacation	244,000	121,000
Accrued expenses	219,000	264,000
	$1,155,000	$1,364,000

5. Equity Investment in StemSource

In 2001 the Company invested $1,000,000 in cash in exchange for shares of Series A preferred stock, a 13.4% ownership interest, in StemSource, Inc. (“StemSource”), a development stage company primarily engaged in biomedical research. Under the Investors’ Rights Agreement, each StemSource investor shall use their best efforts to maintain a Company representative on the Board of Directors of StemSource so long as the Company continues to hold at least 50% of the investment shares. StemSource has continued to rely on the Company’s cash investment for the continuance of its operations. The investment is accounted for under the equity method of accounting as the Company may be able to exercise significant influence over the operations of StemSource because of its board of director representation and its initial cash investment. Realization of this investment depends on the successful development of products and the future operating results of StemSource. For the year ended December 31, 2001, the Company recognized an equity loss in investment of $104,000.

6. Commitments

The Company leases office space and equipment under noncancelable leases as follows:

Years Ending December 31,	Capital Leases	Operating Leases
2002	$ 152,000	$ 486,000
2003	115,000	240,000
2004	29,000	189,000
2005	-	189,000
2006	-	54,000
Thereafter	-	-
Total minimum lease payments	296,000	$ 1,158,000
Less amounts representing interest	(40,000)	
Present value of minimum capital lease obligations	256,000	
Less current portion	(121,000)	
Long term portion of capital lease obligations	$ 135,000	

Equipment acquired under capital leases included in property and equipment amount to $543,000 ($331,000 net of accumulated depreciation and amortization) as of December 31, 2001. The Company's capital lease obligations mature at various dates through 2004 with interest rates ranging from 12.4% to 23.7%.

Rent expense for the years ended December 31, 2001, 2000 and 1999 was $579,000, $369,000 and $210,000, respectively.

The Company has entered into a long-term supply agreement for copolymer. The Company has agreed to purchase at least 50 kilograms of copolymer per year, at a cost of between $2,480 and $2,655 per kilogram, depending on the volume purchased by the Company. If the Company purchases less than 50 kilograms of the product per year, the purchase price the Company pays for the product will be subject to renegotiation.

7. Long-Term Debt

In 2001 the Company entered into a Master Security Agreement to provide financing for equipment purchases. In connection with the agreement, the Company issued two promissory notes to its lender under the agreement for a total of approximately $2,433,000. These notes bear interest at 9.3% per annum with principal and interest due in monthly payments of approximately $55,000 and $7,000, respectively, and mature over 48 and 36 month periods, respectively, and are secured by equipment with a cost of $2,752,000. The Company has $1,400,000 of remaining available credit under the Master Security Agreement through September 2002.

8. Income Taxes

Due to the Company's net loss position for the years ended December 31, 2001, 2000 and 1999, and as the Company recorded a full valuation allowance against deferred tax assets, there was no provision or benefit for income taxes recorded. There were no components of current or deferred federal or state income tax provisions for the years ended December 31, 2001, 2000 and 1999.

The following is a reconciliation of the statutory federal income tax rate to the Company's effective tax rate:

	Years Ended December 31,		
	2001	**2000**	**1999**
Tax benefit at statutory rate	-34.00%	-34.00%	-34.00%
State tax, net of federal tax benefit	-3.30%	-3.00%	-5.95%
Stock based compensation	– -	– -	3.43%
Research and other credits	-3.14%	-5.44%	-0.68%
Other permanent differences	-6.17%	0.14%	0.66%
Change in valuation allowance	46.61%	42.30%	36.54%
	0.00%	0.00%	0.00%

The components of the deferred tax assets and liabilities are as follows:

	December 31,	
	2001	**2000**
Deferred Tax Assets		
Accrued expenses	$ 86,000	$ 42,000
Accounts receivable/Inventory reserve	762,000	30,000
Deferred expenses	83,000	136,000
Deferred revenue	359,000	480,000
Property and equipment	(232,000)	(173,000)
Stock based compensation	2,819,000	2,376,000
R&D Capitalization – Sec. 59(e)	391,000	-
Net operating loss carryforwards	6,599,000	3,051,000
Research credits	561,000	310,000
California manufacturer's credits	174,000	160,000
	11,602,000	6,412,000
Less valuation allowance	(11,602,000)	(6,412,000)
Net deferred tax assets, net	$ -	$ -

The Company has established a valuation allowance against its deferred tax asset due to the uncertainty surrounding the realization of such assets. Management periodically evaluates the recoverability of the deferred tax asset. At such time as it is determined that it is more likely than not that deferred tax assets are realizable, the valuation allowance will be reduced.

At December 31, 2001, the Company had federal net operating loss carryforwards of approximately $17,916,000 and state net operating loss carryforwards of approximately $3,011,000, which may be available to offset future taxable income for tax purposes. The federal net operating loss carryforwards begin to expire in 2012, if unused. The state net operating loss carryforwards begin to expire in 2005.

At December 31, 2001, the Company had a research tax credit carryforwards of approximately $345,000 and $339,000 for federal and state tax purposes, respectively. The federal carryforward will begin to expire in 2012, if unused. At December 31, 2001, the Company also had a

California manufacturer's credit carryforwards of approximately $252,000, which begin to expire in 2007, if unused.

The Internal Revenue Code limits the future availability of net operating loss and tax credit carryforwards that arose prior to certain cumulative changes in a corporation's ownership resulting in a change of control of the Company. Due to prior ownership changes as defined in IRC Section 382, a portion of the net operating loss and tax credit carryforwards are limited in their annual utilization.

9. Employee Benefit Plan

The Company implemented a 401(k) retirement savings and profit sharing plan (the "Plan") effective January 1, 1999. The Company may make discretionary annual contributions to the Plan, which is allocated to the profit sharing accounts based on the number of years of employee service and compensation. At the sole discretion of the Board of Directors, the Company may also match the participants' contributions to the Plan. There were no contributions made by the Company to the Plan in 2001, 2000 and 1999.

10. Stockholders' Equity

Convertible Preferred Stock
In August 1997, the Company issued 1,267,000 shares of Series A non-cumulative convertible preferred stock ("Series A") at $0.50 per share. Proceeds, net of issuance costs, were $630,000. In July 1998, the Company issued 1,032,583 shares of Series B non-cumulative convertible preferred stock ("Series B") at $1.50 per share. Proceeds, net of issuance costs, were $1,547,000. In September 1999, the Company issued 2,574,989 shares of Series C non-cumulative convertible preferred stock ("Series C") at $2.25 per share. Proceeds, net of issuance costs, were $5,657,000. In December 1999, the Company issued 832,226 shares of Series D non-cumulative convertible preferred stock ("Series D") at $3.50 per share. Proceeds, net of issuance costs, were $2,855,000. In May 2000, the Company issued an additional 2,777 shares of Series C at $2.25 per share for $6,000 upon the exercise of warrants. In March 2000, the Company issued an additional 1,167,774 shares of Series D at $3.50 per share for $4,087,000.

In February 2000, certain stockholders converted 45,951 shares of Series C into 45,951 shares of Common Stock. In August 2000, all outstanding shares of Series A, B, C and D preferred stock were converted into shares of common stock upon the consent of the majority of holders, in connection with the Company's initial public offering.

Preferred Stock
The Company has authorized 5,000,000 shares of $.001 par value preferred stock, with no shares outstanding as of December 31, 2001 and 2000. The Board of Directors of the Company is authorized to designate the terms and conditions of any preferred stock issued by the Company without further action by the common stockholders.

Treasury Stock
On April 3, 2001, the Board of Directors authorized the repurchase of up to 1,000,000 shares of the Company's common stock in the open market, from time to time until March 31, 2002, subject to the Company's assessment of market conditions and buying opportunities, and at a purchase price per share not to exceed €7.50, or $6.77, based on the exchange rate in effect on

that date. During 2001 the Company spent $1,077,000 to repurchase 356,120 shares of its Common Stock at an average cost of $3.02 per share.

The Company's purchases of its common stock are recorded at cost and are included as a component in the accompanying statement of stockholders' equity for the year ended December 31, 2001.

11. Stock Based Compensation

During 1997, the Company adopted the "1997 Stock Option and Stock Purchase Plan" (the "1997 Plan") which provides for the direct award or sale of shares and for the grant of incentive stock options ("ISO") and non-statutory options ("NSO") to employees, directors or consultants. The Plan, as amended, provides for the issuance of up to 5,000,000 shares of the Company's common stock.

Under the provisions of the 1997 Plan, the exercise price of ISOs is not less than the fair market value of the underlying shares on the date of grant. Option vesting is determined by the Board of Directors and is generally over a four-year period. Options expire no later than ten years from date of grant.

The following summarizes activity with respect to the options granted under the 1997 Plan:

	Years ended December 31,					
	2001		2000		1999	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options outstanding at beginning of period	2,750,000	$3.44	2,151,000	$0.19	1,035,000	$0.11
Granted	1,578,000	$6.18	1,577,000	$5.92	1,306,000	$0.25
Exercised	(292,000)	$0.44	(784,000)	$0.20	(190,000)	$0.07
Forfeited	(716,000)	$5.82	(194,000)	$0.65	-	-
Options outstanding at end of period	3,320,000	$4.49	2,750,000	$3.44	2,151,000	$0.19
Options vested at end of period	1,329,000	$2.88	840,000	$1.41	499,000	$0.13

The following table summarizes information about options outstanding under the 1997 Plan as of December 31, 2001:

Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life (in years)	Options Vested
$ 0.05 - $ 0.45	807,000	6.9	574,000
$ 1.90 - $ 3.51	1,158,000	8.5	579,000
$ 3.53 - $ 7.34	859,000	9.1	-
$ 7.43 - $10.84	131,000	8.9	32,000
$11.68 - $17.26	365,000	8.6	144,000
	3,320,000		1,329,000

The weighted-average fair value of options granted for the years ended 2001, 2000 and 1999 was $3.11, $6.40 and $1.42, respectively.

As required by SFAS 123, the Company has determined the pro forma information as if the Company had accounted for stock options under the minimum value method of SFAS 123. The following weighted average assumptions were used; risk free interest rates ranging from 3.52% to 6.71%, dividend yield of zero, expected market price volatility factor of 60% and a weighted average expected life of the options of four years. Had compensation cost for stock options granted during the years ended December 31, 2001, 2000 and 1999 been determined consistent with SFAS 123, the Company's net loss and related per share amounts on a pro forma basis would be as follows:

	Years ended December 31,		
	2001	2000	1999
Net loss:			
As reported	$ (11,207,000)	$ (8,645,000)	$ (4,571,000)
Pro forma	(12,427,000)	(9,456,000)	(4,962,000)
Loss per common share:			
As reported	$ (.75)	$ (1.05)	$ (1.32)
Pro forma	(.83)	(1.15)	(1.43)

The pro forma compensation expense may not be representative of such expense in future years.

Unearned Stock Based Compensation

In connection with the grant of stock options to employees and directors, the Company recorded unearned stock based compensation within stockholders' equity of $115,000, $4,980,000 and $1,480,000 during the years ended December 31, 2001, 2000 and 1999, respectively. This represents the difference between the exercise price of these stock based awards and the deemed market value of the underlying common stock on the date of grant. Amortization of unearned stock based compensation, net of any charges reversed during the period for the forfeiture of unvested awards, was $1,104,000, $3,171,000 and $411,000 for the years ended December 31, 2001, 2000 and 1999, respectively.

The remaining unearned stock based compensation of $2,105,000 at December 31, 2001 will be amortized as follows: $1,040,000 in 2002, $851,000 in 2003 and $214,000 in 2004. The amount of stock based compensation expense to be recorded in future periods could decrease if awards are forfeited for which accrued but unamortized compensation expense has been recorded.

Non-Employee Stock Based Compensation
The Company issued 298,000 and 226,000 stock options to non-employees for consulting services for the years ended December 31, 2000 and 1999, respectively. The weighted-average fair value per share of stock options issued and remeasured to non-employees for the years ended December 31, 2001, 2000 and 1999 was $4.21, $9.42 and $1.49, respectively. As a result, the Company recorded stock based compensation expense of $33,000, $2,545,000 and $255,000 for the years ended December 31, 2001, 2000 and 1999, respectively. The fair value of the grants was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions for the years ended December 31, 2001, 2000 and 1999: expected dividend yield of 0.0%, risk-free interest rate ranging from 4.47% to 6.52%, expected volatility ranging from 60% to 100% and expected life of 2 to 4 years.

Warrants
The Company issued warrants to purchase 25,000 shares of Series C convertible preferred stock with an exercise price of $2.25 per share, in connection with its convertible bridge loan financing in 1998 and 1999. All of the warrants are currently exercisable and begin to expire in September 2008. As of December 31, 2001, 2,777 of these warrants had been exercised. Upon conversion of the Company's outstanding preferred stock into common stock, which occurred in August 2000, the warrants became immediately exercisable into shares of the Company's common stock.

In connection with a termination of a sales distribution agreement in 2000, the Company issued warrants to purchase 25,000 shares of common stock with an exercise price of $12.00 per share. All the warrants are exercisable and expire in July 2004. As of December 31, 2001, none of these warrants have been exercised.

12. Related Party Transactions

In the years ended December 31, 2000 and 1999, consulting fees, manufacturing and out-of-pocket expenses paid to various stockholders and employees were included in research and development expenses. These expenses amounted to $19,000 and $151,000 for the years ended December 31, 2000 and 1999, respectively. There were no similar related party transactions in year ended December 31, 2001.

In January 2000, the Company entered into a five-year distribution agreement with a distributor. Under the terms of the agreement, the Company granted the distributor exclusive worldwide rights, except for certain international rights previously granted, to market, distribute and sell all of the Company's products for use in the cranial and facial areas. In consideration for this exclusive right, the distributor paid a $1,500,000 up-front license fee to the Company, which will be recognized ratably over the same five-year period. Additionally, the distributor is required to purchase a minimum amount of product at agreed-upon prices for the first fifteen months of the agreement, as amended. The Company and the distributor concurrently entered into a five-year development and supply agreement, which provides the distributor exclusive worldwide rights for products developed as a result of the agreement. The terms of the aforementioned distribution agreement and development and supply agreement are consistent with the terms of MacroPore distribution agreements with unaffiliated third parties. Additionally, in January 2000, the

distributor purchased 1,000,000 shares Series D convertible preferred stock for $3,500,000. The terms of the sale of the Series D convertible preferred stock were equivalent to the terms and price paid by unaffiliated third parties who also purchased shares of Series D convertible preferred stock. For the years ended December 31, 2001 and 2000, the Company had sales to the distributor of $5,547,000 and $6,092,000, respectively, which represented 98.2% and 97.5% of total revenues, respectively. At December 31, 2001 and 2000, the Company had amounts due from the distributor of $463,000 and $693,000, respectively. There were no sales or receivables from the related party distributor in the year ended December 31, 1999.

In April 2000, the Company entered into two one year full-recourse notes receivable with one of its directors and officers. At December 31, 2000, the notes totaled approximately $47,000, with an annual interest rate of 10%. The notes were repaid in full on April 30, 2001.

13. Subsequent Event

On February 26, 2002, the Company extended loans to two of its directors, who also serve as officers, in the aggregate amount of $478,000, for the purchase of shares of the Company's common stock from another of the Company's stockholders. The loans carry an annual interest rate of 5.75%, subject to adjustment once a year on the anniversary of the issuance date of the loan based on prime plus one percent. The loans are secured by a pledge of all of the stock purchased with the proceeds of the loan, are full recourse and mature in February 2005.

In addition, the Company is authorized to loan the two directors up to an aggregate of an additional $3,022,000 for the purchase of additional shares of the Company's common stock from another of its stockholders. As authorized, any additional loans the Company makes to the directors will be made on the same terms and conditions as the February 2002 loans, and must be made prior to March 31, 2002, if at all.

14. Quarterly Information (unaudited)

The following unaudited quarterly financial information includes, in management's opinion, all the normal and recurring adjustments necessary to fairly state the results of operations and related information for the periods presented.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Year 2001				
Revenues	$ 2,029,000	$ 768,000	$ 1,400,000	$ 1,451,000
Gross profit	1,364,000	(715,000)	747,000	101,000
Operating expenses, excluding stock based compensation	3,123,000	3,856,000	3,615,000	2,964,000
Stock base compensation	143,000	370,000	335,000	275,000
Other expenses	688,000	599,000	467,000	223,000
Net loss	(1,214,000)	(4,342,000)	(2,736,000)	(2,915,000)
Basic and diluted net loss per share	$ (0.08)	$ (0.29)	$ (0.18)	$ (0.20)
Year 2000				
Revenues	$ 1,259,000	$ 2,206,000	$ 1,114,000	$ 1,672,000
Gross profit	662,000	1,668,000	760,000	767,000
Operating expenses, excluding stock based compensation	1,339,000	1,702,000	2,076,000	2,651,000
Stock base compensation	2,426,000	1,426,000	1,739,000	107,000
Other expenses	62,000	84,000	81,000	737,000
Net loss	(3,041,000)	(1,376,000)	(2,974,000)	(1,254,000)
Basic and diluted net loss per share	$ (0.82)	$ (0.36)	$ (0.50)	$ (0.15)

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information called for by Item 10 with respect to identification of our directors and executive officers is incorporated herein by reference to the material under the captions "Election of Directors" and "Compensation and Other Information Concerning Directors and Executive Officers" in our proxy statement for our 2002 annual stockholders meeting, which will be filed with the Commission before April 30, 2002.

Item 11. Executive Compensation

The information called for by Item 11 with respect to executive compensation is incorporated herein by reference to the material under the caption "Compensation and Other Information Concerning Directors and Executive Officers" in our proxy statement for our 2002 annual stockholders meeting, which will be filed with the Commission before April 30, 2002.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information called for by Item 12 with respect to security ownership of beneficial owners of more than 10% of our common stock and management is incorporated herein by reference to the material under the caption "Security Ownership of Certain Beneficial Owners and Management" in our proxy statement for our 2002 annual stockholders meeting, which will be filed with the Commission before April 30, 2002.

Item 13. Certain Relationships and Related Transactions

The information called for by Item 13 with respect to certain relationships and related transactions is incorporated herein by reference to the material under the caption "Compensation and Other Information Concerning Directors and Executive Officers – Certain Relationships and Related Transactions" in our proxy statement for our 2002 annual stockholders meeting, which will be filed with the Commission before April 30, 2002.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) (1) Financial Statements **Page No.**

(a) (2) Financial Statement Sche dules

SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS

For the years ended December 31, 2001, 2000 and 1999
(in thousands of dollars)

	Balance at beginning of year	Additions (charges to expense)	Charged to Other Accounts	Deductions	Balance at end of year
Allowance for doubtful accounts – 2001	$ 75	$ 4	$ -	$ 44	$ 35
Allowance for doubtful accounts – 2000	53	82	-	60	75
Allowance for doubtful accounts – 1999	-	53	-	-	53

(b) Reports on Form 8-K

On August 13, 2001, we filed a Current Report on Form 8-K with the Commission pursuant to Item 5 of that Form in which we provided information on our results of operations for the six months ended June 30, 2001.

On November 12, 2001, we filed a Current Report on Form 8-K with the Commission pursuant to Item 5 of that Form in which we provided information on our results of operations for the three months and nine months ended September 30, 2001.

(c) Exhibits

Exhibit Number	Description
3.1	Amended and Restated Certificate of Incorporation of MacroPore, Inc. (filed as Exhibit 3.1 to our Form 10 registration statement, as amended, as filed on March 30, 2001 (file number 000-32501) and incorporated by reference herein)
3.2	Bylaws of MacroPore, Inc. (filed as Exhibit 3.2 to our Form 10 registration statement, as amended, as filed on March 30, 2001 (file number 000-32501) and incorporated by reference herein)
10.1	Amended and Restated Stock Option and Stock Repurchase Plan (filed as Exhibit 10.1 to our Form 10 registration statement, as amended, as filed on March 30, 2001 (file number 000-32501) and incorporated by reference herein)

10.2+	Distribution Agreement, made and entered into as of January 5, 2000, between MacroPore, Inc. and Medtronic, Inc. (filed as Exhibit 10.2 to our Form 10 registration statement, as amended, as filed on June 1, 2001 (file number 000-32501) and incorporated by reference herein)
10.3+	Amendment No. 1 to Distribution Agreement, effective as of December 22, 2000, by and between the Company and Medtronic (filed as Exhibit 10.3 to our Form 10 registration statement, as amended, as filed on June 1, 2001 (file number 000-32501) and incorporated by reference herein)
10.4+	Development and Supply Agreement, made and entered into as of January 5, 2000, by and between the Company and Medtronic (filed as Exhibit 10.4 to our Form 10 registration statement, as amended, as filed on June 1, 2001 (file number 000-32501) and incorporated by reference herein)
10.5+	Amendment No. 1 to Development and Supply Agreement, effective as of December 22, 2000, by and between the Company and Medtronic (filed as Exhibit 10.5 to our Form 10 registration statement, as amended, as filed on June 1, 2001 (file number 000-32501) and incorporated by reference herein)
23.1	Consent of Arthur Andersen LLP, independent public accountants
23.2	Consent of PricewaterhouseCoopers LLP, independent accountants
24.1	Power of Attorney (contained in the signature page).
99.1	Confirmation of Receipt of Assurances from Arthur Andersen LLP

+ Portions of these exhibits have been omitted pursuant to a request for confidential treatment.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized.

MACROPORE, INC.

By: /s/ Christopher J. Calhoun
Christopher J. Calhoun
Vice-Chairman, Chief Executive Officer and Secretary
March 22, 2002

Pursuant to the requirements of the Securities Act of 1934, this annual report has been signed by the following persons in the capacities and on the date indicated. Each person whose signature appears below hereby constitutes and appoints Christopher J. Calhoun, his true and lawful attorney-in-fact and agent, with full power of substitution and re-substitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments to this annual report, and to file the same with all the exhibits thereto, and other documents in connection therewith with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent, full power and authority to do and perform any and all acts and things requisite and necessary to be done, as fully as to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agents of said attorney-in-fact, or his substitute, may lawfully do or cause to be done by virtue hereof.

SIGNATURE	TITLE	DATE
/s/ Marshall G. Cox Marshall G. Cox	*Chairman of the Board of Directors*	March 21, 2002
/s/ Christopher J. Calhoun Christopher J. Calhoun	*Vice-Chairman, Chief Executive Officer, Secretary and Director*	March 22, 2002
/s/ Michael Simpson Michael Simpson	*President and Director*	March 22, 2002
/s/ Ari Bisimis Ari Bisimis	*Chief Financial Officer and Director*	March 22, 2002
/s/ David Rickey David Rickey	*Director*	March 21, 2002
/s/ Edmund Krix Edmund Krix	*Director*	March 21, 2002

Exhibit 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report included in this Form 10-K, into the Company's previously filed registration statement on Form S-8, File No. 333-82074.

/s/ Arthur Andersen LLP
San Diego, California
March 20, 2002

Exhibit 23.2

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-82074) of MacroPore, Inc. of our report dated June 30, 2000 relating to the financial statements and financial statement schedule, which appears in this Form 10-K. We also hereby consent to the reference to us under the heading "Selected Financial Data" which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
San Diego, California
March 25, 2002

Exhibit 99.1

MacroPore,Inc.
6740 Top Gun Street
San Diego, California 92121

March 22, 2002

Securities and Exchange Commission
450 5th Street, N.W.
Washington, D.C. 20549

Re: Confirmation of Receipt of Assurances from Arthur Andersen LLP

Ladies and Gentlemen:

MacroPore, Inc. ("MacroPore") has received a representation letter from Arthur Andersen LLP ("Andersen"), MacroPore's independent public accountants, in connection with the issuance of Andersen's audit report included in MacroPore's Annual Report on Form 10-K for the fiscal year ended December 31, 2001. In its letter, Andersen represented to MacroPore that Andersen's audit of the balance sheets of MacroPore as of December 31, 2001 and 2000, and the related statements of operations and comprehensive income, stockholder's equity and cash flows for the years then ended, was subject to Andersen's quality control system for the U.S. accounting and auditing practice to provide reasonable assurance that the engagement was conducted in compliance with professional standards, that there was appropriate continuity of Andersen personnel working on the audit, availability of national office consultation and availability of personnel at foreign affiliates of Andersen to conduct the relevant portions of the audit.

Very truly yours,

/s/ Christopher J. Calhoun

Christopher J. Calhoun
Vice-Chairman of the Board,
Chief Executive Officer and Secretary

MACROPORE, INC.
6740 TOP GUN STREET
SAN DIEGO, CALIFORNIA 92121

NOTICE OF 2002 ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON
MAY 28, 2002

Dear MacroPore Stockholder:

You are cordially invited to attend the 2002 annual meeting of the stockholders of MacroPore, Inc. The annual meeting will be held in the United States, at our offices located at 6740 Top Gun Street, San Diego, California and in Germany at KTC Ölmühlweg 65, 61462 Königstein on May 28, 2002, commencing at 9:00 a.m., San Diego local time, and at 6:00 p.m., Frankfurt local time. The two locations will be connected through video conference. I look forward to meeting with as many of our stockholders as possible.

At the meeting, you will vote upon the election of our board of directors, the approval of an amendment to our Amended and Restated 1997 Stock Option and Stock Purchase Plan to increase the number of shares of common stock available for issuance thereunder, and the approval of an amendment to our certificate of incorporation to change our name to MacroPore Biosurgery, Inc. There will also be a report on our business, and you will have the opportunity to ask questions about us. In addition, we will attend to any other business properly brought before the meeting.

We have attached a proxy statement that contains more information about these items and the meeting. Stockholders that own stock at the close of business on March 29, 2002, can vote at the meeting. A list of our stockholders allowed to vote will be available for inspection by any stockholder at our offices in San Diego and at our offices in Königstein, Germany, during normal business hours at those locations, for the ten business days prior to the meeting. This list will also be available at our San Diego offices and our video conference facility during the meeting.

We hope that you will find it convenient to attend the meeting in person. **Whether or not you expect to attend, please complete, date, sign, and mail the enclosed proxy to ensure your representation at the meeting and the presence of a quorum**. If your address is on our stockholder list a return envelope is provided for you and no postage need be affixed to the proxy when it is mailed. **If you decide to attend the meeting and wish to change your proxy vote, you may do so by voting in person at the meeting**.

By Order of the Board of Directors,

CHRISTOPHER J. CALHOUN
Vice-Chairman, Chief Executive Officer, and Secretary

San Diego, California, USA
April 11, 2002

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PROXY STATEMENT

MacroPore, Inc.
6740 Top Gun Street
San Diego, CA 92121
(858) 458-0900

INFORMATION CONCERNING SOLICITATION AND VOTING

This proxy statement is being furnished in connection with the solicitation of proxies by and on behalf of our board of directors to be used at our annual meeting of stockholders to be held on May 28, 2002, and at any adjournment of the annual meeting, for the purposes set forth in the accompanying notice of annual meeting. Our annual report for the year ended December 31, 2001 accompanies this proxy statement. This proxy statement and accompanying materials are expected to be first sent or given to our stockholders on or about April 11, 2002.

We have fixed the close of business on March 29, 2002 as the record date for the determination of the stockholders entitled to notice of and to vote at the annual meeting. Only holders of record of shares of our common stock on that date are entitled to notice of and to vote at the annual meeting. Each share of our common stock entitles the holder to one vote on each matter presented to stockholders for approval at the annual meeting. On January 31, 2002, there were 15,106,623 shares of our common stock outstanding.

Questions and Answers about the Meeting and Voting

What is a proxy?

A proxy is your legal designation of another person to vote the stock you own. That other person is called a proxy. If you designate someone as your proxy in a written document, that document also is called a proxy or a proxy card. Our Chief Executive Officer, Vice Chairman of the Board and Secretary, Christopher J. Calhoun and our Chief Financial Officer, Ari Bisimis, have been designated the Proxies for the 2002 annual meeting.

What is a proxy statement?

A proxy statement is a document that Securities and Exchange Commission regulations require us to give you when we ask you to sign a proxy card.

What is the difference between a stockholder of record and a stockholder who holds stock in street name?

All of our issued and outstanding shares of common stock are represented by global stock certificates deposited with the German securities depository, Clearstream Banking AG. Clearstream has provided us with the names of the beneficial owners of our shares from its records for this proxy solicitation. If you hold your shares in your own name and Clearstream identifies you on its records as a beneficial owner of your shares, you are a stockholder of record for purposes of this proxy solicitation. If your broker or bank holds your shares and Clearstream's records indicate that your broker or bank is the beneficial owner of your shares, then you hold your shares in street name.

What different methods can you use to vote?

Stockholders can vote by written proxy card, or stockholders may vote in person at the meeting (unless they are street name holders without a legal proxy).

What is the record date and what does it mean?

The record date for the 2002 annual meeting is March 29, 2002. The record date is established by our board of directors as required by Delaware law. Owners of common stock at the close of business on the record date are entitled to receive notice of the meeting and to vote at the meeting and any adjournments or postponements of the meeting.

How can you revoke a proxy?

A stockholder can revoke a proxy by giving written notice to our secretary, delivering a later-dated proxy, or voting in person at the meeting. Attendance at the annual meeting will not, by itself, constitute revocation of a proxy.

What are your voting choices when voting for director nominees, and what vote is needed to elect directors?

In voting on the election of director nominees to serve until the 2003 annual meeting, stockholders may vote in favor of all nominees, may withhold votes as to all nominees, or may withhold votes as to specific nominees. Directors will be elected by a plurality. The board recommends a vote "FOR" each of the nominees.

What are your voting choices when voting on the amendment to our Amended and Restated 1997 Stock Option and Stock Purchase Plan?

In voting on the amendment to our Amended and Restated 1997 Stock Option and Stock Purchase Plan, stockholders may vote in favor of the amendment or against the amendment, or may abstain from voting on the amendment. The proposal to approve the amendment will require approval by a majority of the votes cast by the holders of the shares of common stock voting in person or by proxy at the meeting. The board recommends a vote "FOR" this proposal.

What are your voting choices when voting on the amendment to our certificate of incorporation?

In voting on the amendment to our certificate of incorporation, stockholders may vote in favor of the amendment or against the amendment, or may abstain from voting on the amendment. The proposal to approve the amendment will require approval by a majority of the votes cast by the holders of the shares of common stock voting in person or by proxy at the meeting. The board recommends a vote "FOR" this proposal.

What if a stockholder does not specify a choice for a matter when returning a proxy?

Stockholders should specify their choice for each matter on the enclosed form of proxy. If no instructions are given, proxies which are signed and returned will be voted FOR the election of all director nominees, FOR the amendment to our Amended and Restated 1997 Stock Option and Stock Purchase Plan, and FOR the amendment to our certificate of incorporation.

How are abstentions and broker non-votes counted?

Broker non-votes will not be included in vote totals and will not affect the outcome of the vote. In all matters other than the election of directors, abstentions will have the same effect as a vote against a specified proposal.

PROPOSAL 1. ELECTION OF DIRECTORS

Our board of directors is composed of six members. The names of the six nominees for election as directors are set forth below. All directors are elected annually and serve a one-year term until the next annual meeting or until their respective successors are duly elected and qualified. All of the nominees listed below are expected to serve as directors if they are elected. If any nominee should decline or be unable to accept such nomination or to serve as a director, an event which our board of directors does not now expect, our board of directors reserves the right to nominate another person or to vote to reduce the size of our board of directors. If another person is nominated, the proxy holder intends to vote the shares to which the proxy relates for the election of the person nominated by our board of directors.

Nominees and Business Experience

Name	Age	Position(s)
Marshall G. Cox	66	Chairman of the Board and Director
Christopher J. Calhoun	36	Vice-Chairman of the Board, Chief Executive Officer, Secretary and Director
Michael Simpson	56	Director
Ari Bisimis	32	Chief Financial Officer and Director
David Rickey	46	Director
Edmund Krix	42	Director

Marshall G. Cox has served as Chairman of our board of directors since May 1997. He founded Western Micro Technology, Inc. and from 1994 to 1997 served as its chairman and chief executive officer. Mr. Cox retired from Western Micro as Chairman Emeritus in 1997. He is the Managing Director of the Saratoga Boy's Club, formerly a major stockholder in MacroPore, and he serves on the board of directors of Internix, Inc. Mr. Cox holds a B.S. from the University of California, Los Angeles. Mr. Cox is Mr. Calhoun's father-in-law.

Christopher J. Calhoun is a co-founder of MacroPore and has served as our Vice-Chairman of the Board, Chief Executive Officer and Secretary since May 1997. From 1989 to July 1996, Mr. Calhoun was involved in research and management for the Plastic Surgery Bone Histology and Histometry Laboratory at the University of California, San Diego. Mr. Calhoun holds a B.A. from the University of California, San Diego and an M.B.A. from the University of Phoenix.

Michael Simpson has served as a director since September 1998. From September 1998 to April 1, 2002, he also served as our President. From 1986 to 1996, Mr. Simpson served as President of Synthes (USA) Maxillofacial Division, a medical devices company. From 1997 to 1998, he served as President of the Craniofacial Division at Bionx Implants, Inc. Mr. Simpson holds a B.A. from St. Bonaventure University.

Ari Bisimis has served as our Chief Financial Officer and as a director since April 2000. Mr. Bisimis worked in various investment banking firms before joining MacroPore. From 1998 to April 2000, Mr. Bisimis served as head of Eurobond trading for Dresdner Kleinwort Benson. From 1997 to 1998, he served as Senior Fixed Income Trader for Commerzbank and from 1994 to 1997 as Eurobond trader for JP Morgan. Mr. Bisimis holds a Diplom Kaufmann degree from Johann Wolfgang Goethe University in Frankfurt, Germany.

David Rickey has served as a director of MacroPore since November 1999. Since 1996, Mr. Rickey has served as President and Chief Executive Officer of Applied Micro Circuits Corporation, which provides high-performance, high-bandwidth silicon solutions for optical networks. Mr. Rickey also serves as a director of Applied Micro Circuits Corporation and Silicon Wave, Inc., which designs,

develops and manufactures radio frequency and digital semiconductor products. He holds a B.S. from Marietta College, a B.S. from Columbia University and an M.S. from Stanford University.

Edmund Krix has served as a director of MacroPore since August 2000. Since 1984, Mr. Krix has served as Chief Executive Officer and Chairman of the Board of Teleplan International N.V., an office products service and maintenance company.

YOUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE NOMINEES TO THE BOARD OF DIRECTORS.

PROPOSAL 2. APPROVAL OF AMENDMENT TO THE AMENDED AND RESTATED 1997 STOCK OPTION AND STOCK PURCHASE PLAN

Our board of directors has approved an amendment to our Amended and Restated 1997 Stock Option and Stock Purchase Plan. The effect of the amendment will be to increase the aggregate number of shares of common stock that may be issued under the plan from 5,000,000 shares of common stock to 7,000,000 shares of common stock. The number of shares currently authorized for issuance under the plan exceeds 30% of our outstanding shares of common stock, and, if increased to 7,000,000, the number of shares authorized for issuance under the plan will continue to exceed 30% of our outstanding shares.

Purpose and Effect of the Proposed Amendment

The plan currently has 5,000,000 shares of common stock reserved for issuance, and as of January 31, 2002, the plan had 412,119 shares of common stock available for issuance. The plan is intended to encourage participants to contribute to our long-term growth, to align their interests with our stockholders' and to aid us in attracting and retaining officers, employees, consultants and directors of outstanding ability. Our board of directors believes it is in our best interest to increase the number of shares of common stock authorized under the plan to 7,000,000 so that we will be able to make additional awards of incentive stock options to employees under the plan.

Description of the Plan

Our board of directors and our stockholders adopted the plan in October 1997. The plan is administered by our board of directors, or by a compensation committee appointed by our board of directors. The purpose of the plan is to provide our designated employees, certain consultants and advisors who perform services for us, and non-employee members of our board of directors, with the opportunity to receive grants of stock options, awards of our common stock or grants of a right to purchase shares of our common stock. Awards or grants may be made to directors and employees, and to consultants, selected by the compensation committee in its discretion. Nonqualified stock options may be awarded to anyone eligible to participate in the plan. Only our employees are eligible to receive incentive stock options.

We have made grants of nonqualified stock options and incentive stock options, but to date we have not issued any other type of grant or award under the plan. As of January 31, 2002, options to acquire 1,266,909 shares of common stock had been exercised and we had outstanding options to acquire 3,320,980 shares of our common stock pursuant to the plan.

Each grant or award under the plan will be accompanied by a grant instrument. The grant instrument will describe the type and number of grants that have been awarded and the terms and restrictions applicable to the grant. The grant instrument for an option will describe when the option will become exercisable. Awards granted under the plan and shares acquired pursuant thereto are subject to a number of rights and restrictions, including provisions relating to the termination of employment of service of the grantee. Grantees may exercise options that have become exercisable by delivering a written notice of exercise to us stating the number of shares with respect to which the options are being exercised, along with payment in full of the purchase price for the number of shares being purchased and, if applicable, any federal, state or local taxes required to be paid in accordance with the provisions of the plan. Except as otherwise determined by the board, an option will become exercisable at a rate of 25% per year over four years from the date of grant of the option. The term of an option may not exceed ten years from the date of grant. If an employee owns more than 10% of the voting power of our stock, an incentive stock option granted to that employee may not have a term that exceeds five years from the date of grant.

Our board of directors or the compensation committee may adopt, amend or rescind rules, procedures, and terms of the plan at any time without stockholder approval, but stockholder approval must be obtained for any amendment for which approval is required by Section 422 of the United States Internal Revenue Code of 1986 or by other provisions of applicable law. The provisions of the plan relating to the grant of incentive stock options shall terminate on October 22, 2007 unless sooner terminated by the compensation committee. All awards made under the plan prior to its termination will remain in effect until they are satisfied or terminated. Stock options awarded under the plan are not transferable.

In general, the individual stock option agreements granted under the plan prior to January 1, 2001 provide option holders with the ability to exercise stock option grants which have not yet vested. Shares of common stock issued by us upon the exercise of unvested options are held in escrow with our Secretary. Such escrowed shares typically vest 25% at the end of the first year anniversary of the stock option agreement and then vest at the rate of 1/48th per month thereafter until fully vested. In the event of termination of employment, we typically have a right to purchase any shares of common stock issued to an employee pursuant to the exercise of an unvested stock option. Individual stock option agreements issued under the plan since January 1, 2001 generally do not allow the exercise of unvested stock options.

Federal Income Tax Consequences

The United States federal income tax treatment of the issuance and exercise of stock options under the plan is described below. This description of tax consequences is not a complete description. There may be different income tax consequences under certain circumstances, and there may be gift and estate tax consequences. Local, state and other taxing authorities may also tax grants or exercises under the plan. Tax laws are subject to change. The plan is not subject to the Employee Retirement Income Security Act of 1974 and is not a tax-qualified plan under Section 401 of the Internal Revenue Code.

Nonqualified Stock Options

There generally are no federal income tax consequences upon the grant of a nonqualified stock option. Upon the exercise of a nonqualified stock option, participants will recognize ordinary income in an amount equal to the excess of the fair market value of the shares of our stock at the time of exercise over the exercise price. We generally will be entitled to a corresponding federal income tax deduction.

Upon the sale of the shares of stock acquired upon the exercise of a nonqualified stock option, participants will have a capital gain or loss in an amount equal to the difference between the amount realized on the sale and their tax basis in the shares, which is generally the exercise price plus the amount of income recognized at the time of exercise. The capital gain tax rate will depend on the length of time a participant holds the shares and other factors.

If a participant surrenders shares of our common stock to pay the purchase price, the participant will recognize no gain or loss on the surrendered shares, and the participant's basis and holding period under the Internal Revenue Code for the surrendered shares will continue to apply to that number of new shares equal to the surrendered shares. To the extent that the number of shares received upon the exercise of the option exceeds the number surrendered, the fair market value of the excess shares on the date of exercise, reduced by any cash paid by the participant upon exercise, will be includable in the participant's gross income. A participant's basis in the excess shares will equal the sum of the cash paid upon the exercise of the stock option plus any amount included in the participant's gross income as a result of the exercise of the stock option.

Incentive Stock Options

There generally are no federal income tax consequences upon the grant of an incentive stock option. Participants will not recognize income for purposes of the regular federal income tax upon the exercise of an incentive stock option. However, for purposes of the alternative minimum tax, the amount by which the fair market value of the shares acquired upon exercise exceeds the exercise price will be included in a participant's alternative minimum taxable income in the year in which the participant exercises an incentive stock option.

Participants will recognize income when they sell shares acquired upon exercise of an incentive stock option. If a participant holds the shares acquired upon exercise of an incentive stock option at least two years from the date the option was granted and at least one year from the date the shares were transferred upon the exercise of the option, the participant will recognize long-term capital gain or loss in the amount of the difference between the amount realized on the sale and the exercise price. We will not be entitled to any corresponding tax deduction.

If a participant disposes of shares acquired upon exercise of an incentive stock option before satisfying both holding period requirements, which is considered a disqualifying disposition under the Internal Revenue Code, gain recognized on the disposition will be taxed as ordinary income to the extent of the difference between the fair market value of the shares on the date of exercise, or the amount realized on the disposition, if less, and the exercise price, and we will generally be entitled to a deduction in that amount. The gain, if any, in excess of the amount recognized as ordinary income will be long-term or short-term capital gain, depending upon the length of time a participant holds shares before the disposition.

If a participant surrenders shares received upon the exercise of a prior incentive stock option to pay the exercise price of any option within either the two-year or one-year holding periods described above, the disqualifying disposition of the shares used to pay the exercise price will result in income, or loss, to the participant and, to the extent of recognized income, a tax deduction to us. If a participant surrenders the shares after the holding period requirements are met, or surrenders shares that were not received upon the exercise of an incentive stock option, the participant will recognize no gain or loss on the surrendered shares, and the participant's basis and the holding period for the surrendered shares will continue to apply to that number of new shares that is equal to the surrendered shares. To the extent that the number of shares received by the participant exceeds the number of shares surrendered, the participant's basis in the excess shares will equal the amount of cash, if any, paid for such excess shares and the participant's holding period with respect to the excess shares will begin on the date the option to acquire the shares was exercised.

Statement of Benefits

If the proposed amendment to the plan is approved, the number of stock options that will be awarded to participants in the plan, including our chief executive officer and our other three most highly compensated executive officers, is within the discretion of our board of directors and our compensation committee and therefore is not currently determinable. The number of stock options that were awarded under the plan to our chief executive officer and our other three most highly compensated executive officers and to other persons participating in the plan for the year ending December 31, 2001, and in 2002, as of February 8, 2002 and subject to approval of the proposed amendment to the plan, are as follows:

PLAN BENEFITS

	Stock Option Plan Number of Shares	
	2001	2002
Christopher J. Calhoun *Chief Executive Officer*	200,000	205,000
Michael Simpson[(1)] *President*	100,000	110,000
Ari Bisimis *Chief Financial Officer*	50,000	110,000
Charles Galetto *Senior Vice President, Finance and Administration*	20,000	30,000
Executive Group[(2)]	805,000	560,000
Non-Executive Director Group[(3)]	75,000	185,000
Non-Executive Officer Employee Group	698,000	211,000

(1) Mr. Simpson has retired from his position as our President as of April 1, 2002. He is continuing to serve as a director.

(2) Includes Christopher J. Calhoun, Michael J. Simpson, Ari Bisimis, Charles Galetto, G. Bryan Cornwall, Bruce Reuter, Sharon Schulzki and Matthew Scott.

(3) Includes Marshall G. Cox, David Rickey and Edmund Krix.

YOUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE APPROVAL OF THE AMENDMENT TO THE AMENDED AND RESTATED 1997 STOCK OPTION AND STOCK PURCHASE PLAN.

PROPOSAL 3. APPROVAL OF AMENDMENT TO AMENDED AND RESTATED CERTIFICATE OF INCORPORATION

Our board of directors has proposed to amend our certificate of incorporation, as already amended and restated, to change our name to MacroPore Biosurgery, Inc. We develop and market products for the biosurgery market and we believe the proposed name is a more accurate reflection of our business, will better identify us and our products, and better reflects our strategic direction.

YOUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE "FOR" THE APPROVAL OF THE AMENDMENT TO OUR CERTIFICATE OF INCORPORATION.

COMPENSATION AND OTHER INFORMATION CONCERNING
DIRECTORS AND EXECUTIVE OFFICERS

Biographical Information

The following table sets forth biographical information regarding our directors and executive officers as of February 8, 2001.

Name	Age	Position(s)
Marshall G. Cox	66	Chairman of the Board and Director
Christopher J. Calhoun	36	Chief Executive Officer, Vice-Chairman of the Board, Secretary and Director
Michael Simpson	56	Director
Ari Bisimis	32	Chief Financial Officer and Director
Charles Galetto	51	Senior Vice President — Finance and Administration, and Treasurer
Sharon Schulzki	43	Senior Vice President — General Manager — Spine & Orthopedics
Bruce Reuter	52	Vice President — Market Development
G. Bryan Cornwall	37	Vice President — Research & Technology
Matthew Scott	38	Vice President — Biologics
John Ferris	44	Vice President — Europe
David Rickey	46	Director
Edmund Krix	42	Director

See "Proposal No. 1 Election of Directors" for biographical information regarding Messrs. Cox, Calhoun, Simpson, Bisimis, Rickey, and Krix.

Mr. Simpson served as our President from September 1998 until his retirement as of April 1, 2002. We expect that Mr. Calhoun will be appointed to serve as our President at our next board of directors meeting.

Charles E. Galetto has served as our Senior Vice President—Finance and Administration and Treasurer since April 2000. From August 1997 to January 2000, Mr. Galetto served in various positions with PMR Corporation, a company specializing in mental health care programs, including service as Senior Vice President—Finance and Treasurer of PMR Corporation. From June 1996 to July 1997, he served as Vice President—Corporate Controller of Medtrans, a medical transportation service, a division of Laidlaw, Inc. and from 1989 to 1996, as Chief Finance Officer, Treasurer and Secretary of Data/Ware Development, Inc., a software development company. Mr. Galetto is a certified public accountant and holds a B.S. from Wayne State University.

Sharon Schulzki has served as our Senior Vice President and General Manager—Spine & Orthopedics business unit since November 2001. From July 2000 to November 2001, she served as Vice President of that business unit. From 1983 to 1998, Ms. Schulzki served in various positions with the Howmedica, Inc. division of Pfizer, a manufacturer of medical devices, including Vice President. During that time she also served as Senior Vice President, Worldwide Marketing and Product Development, Howmedica Leibinger, Inc. Ms. Schulzki holds a B.S. from Loyola College, Baltimore, MD.

Bruce Reuter has served as our Vice President and General Manager of Bone Fixation Products since September 2001. From January 2001 to September 2001, he served as our Vice President—Market Development. From January 1990 to October 2000, Mr. Reuter served as the Vice President and Managing Director of Mentor International, a multi-national marketer of medical devices. He holds a B.A. from the University of Rhode Island and an M.B.A. from Memphis State University.

G. Bryan Cornwall has served as our Vice President—Research & Technology since November 2001. Dr. Cornwall previously served as our Director of Research and Spine, Reconstructive and Orthopedic Development, beginning in February 2000. Prior to joining MacroPore, Dr. Cornwall served as Manager of Research for NuVasive, Inc., a spinal technology firm, from April 1999 to February 2000. From February 1997 to April 1999, he served as Senior Development Engineer for the trauma and orthopedic divisions of DePuy ACE, a developer and manufacturer of specialty orthopedic products. From June 1996 to February 1997, he served as Director of Engineering and Design for the trauma and orthopedic division of Terray Corporation, which develops and manufactures implants, prosthesis and surgical devices. He holds a B.S., M.S., and Ph.D. from Queen's University at Kingston, Ontario.

Matthew Scott has served as our Vice President—Biologics since September 2001. He previously served as our Global Director of Training and Client Development, beginning in April 1999. From April 1997 to April 1999, Mr. Scott was a National Sales Manager for The Straumann Company, a medical device and implantology company. He holds a B.S. from the University of Arkansas.

John Ferris has served as our Vice President—Europe since August 2000. From April 2000 to August 2000, he was International Business Manager for Summit Medical, a medical device company focused on cementation, transfusion and wound drainage products. From July 1997 to April 2000, Mr. Ferris served as the European Market Development Manager with Norian Ltd., which develops and manufactures a bone substitute. Before joining Norian, Mr. Ferris served as a Marketing Director from August 1987 to June 1997 for the DePuy France and DePuy International Ltd. divisions of DePuy, Inc., a developer and manufacturer of orthopedic implants and products. Mr. Ferris holds a B.A. from the University of Newcastle upon Tyne.

Meetings and Committees of the Board of Directors

The board of directors is responsible for managing MacroPore in accordance with the provisions of our bylaws and certificate of incorporation and applicable law. The number of directors which constitutes the board of directors is established by the board, subject to a minimum of three directors. Currently, all directors hold office for a term ending on the date of the annual meeting following the annual meeting at which such director was elected. Except as otherwise provided by the bylaws for filling vacancies on the board of directors, our directors are elected at the annual meeting of stockholders and hold office until their respective successors are elected, or until their earlier resignation or removal. Our board of directors held four meetings during 2001.

The board of directors has established a compensation committee to handle compensation matters and administer our Amended and Restated 1997 Stock Option and Stock Purchase Plan. The committee consists of Mr. Calhoun and Mr. Cox. The committee determines the compensation received by directors and reviews and approves the compensation and benefits for executive officers. The committee held two meetings during 2001.

The board of directors has also established an audit committee consisting of Mr. Rickey and Mr. Krix. Paul Araquistain, an employee, also serves on the audit committee. Mr. Rickey and Mr. Krix are independent, while Mr. Araquistain is not independent, as that term is defined in the New York Stock Exchange's listing standards. The committee provides recommendations to the board of directors regarding the selection of our independent public accountants, reviews the scope of the annual audit, approves the audit fees to be paid, and reviews our financial accounting controls with the staff and the independent public accountants. The board of directors has not adopted a written charter for the audit committee. The committee held four meetings during 2001.

Director Compensation

Presently, other than expenses in connection with attendance at meetings and certain other expenses, we do not compensate any non-employee members of the board of directors. Non-employee directors are eligible to receive options under our Amended and Restated 1997 Stock Option and Stock Purchase Plan.

Mr. Cox is employed by us. He receives a monthly salary of $5,000 and we provide him with coverage under our medical and health insurance plans at a cost to us of approximately $6,000 annually. Mr. Cox is eligible to receive options under our Amended and Restated 1997 Stock Option and Stock Purchase Plan.

Executive Compensation

Our executive officers are appointed by our board of directors. We have not entered into any written employment agreements with any of our executive officers or directors.

The following table sets forth summary information concerning compensation awarded to, earned by, or accrued for services by our Chief Executive Officer and our three other most highly-compensated executive officers for services rendered to us in all capacities during the years ended December 31, 1999, 2000 and 2001.

SUMMARY COMPENSATION TABLE

		Annual Compensation		Long Term Compensation Awards	
Name and Principal Position	Year	Salary	Bonus	Securities Underlying Options/SARs (#)	All Other Compensation[1]
Christopher J. Calhoun	2001	$180,000	$40,000	200,000	$20,332
Chief Executive Officer and Secretary	2000	177,303	50,760	62,500	12,845
	1999	145,750	41,086	250,000	7,385
Michael Simpson[2]	2001	166,200	30,000	100,000	12,198
President	2000	168,299	46,530	68,750	9,600
	1999	165,000	41,086	55,000	9,600
Ari Bisimis[3]	2001	160,000	35,000	50,000	9,600
Chief Financial Officer	2000	120,000	36,000	275,000	7,200
Charles Galetto[4]	2001	150,000	26,000	20,000	13,016
Senior Vice President, Finance and Administration and Treasurer	2000	102,885	38,125	100,000	6,600

(1) The amounts in this column represent a car allowance and other miscellaneous benefits given to each named executive officer.

(2) Mr. Simpson has retired from his position as our President as of April 1, 2002. He is continuing to serve as a director.

(3) Mr. Bisimis began his employment with us in April 2000. He was granted 10,000 options in May 1999 for consulting services he provided prior to joining us.

(4) Mr. Galetto began his employment with us in April 2000.

Option Grants in 2001

The following table sets forth, as to the named executive officers, information concerning stock options granted during the year ended December 31, 2001.

Name	Individual Grants: Number Of Securities Underlying Option/SARS Granted (#)	Individual Grants: Percent Of Total Options/SARs Granted to Employees in 2001	Exercise Price Per Share ($/share)	Expiration Date	Grant Date Present Value ($)[1]
Christopher J. Calhoun.....	200,000	13.3	$7.06	1/3/2011	$1,010,000
Michael Simpson[2].....	100,000	6.6	7.06	1/3/2011	505,000
Ari Bisimis	50,000	3.3	7.06	1/3/2011	252,500
Charles Galetto.....	20,000	1.3	7.06	1/3/2011	101,000

(1) We used the Black-Scholes option-pricing model to determine the grant date present value of the options set forth in this table. Use of this model should not be construed as an endorsement of its accuracy at valuing options. The real value of the options depends upon the actual changes in the market price of our common stock during the applicable period.

(2) Mr. Simpson has retired from his position as our President as of April 1, 2002. He is continuing to serve as a director.

All stock option valuation models, including the Black-Scholes model, require a prediction about the future movement of the stock price. The following facts and assumptions were used in calculating grant date present value: exercise prices as indicated in the table above, fair market value of each option on the date of grant based on the best information available, a dividend yield of 0.0%, an expected stock option term of ten years, and a stock price volatility of 60.0% based on the market performance of the stock of similar medical device companies. We used an assumed risk-free interest rate in our calculations equivalent to the yield of a zero-coupon, ten-year Treasury bond on the date of the grants. The risk-free interest rate was 3.52% for options granted on January 3, 2001. No other discounts or restrictions related to vesting or the likelihood of vesting of the stock options were applied.

Aggregated Option Exercises in 2001 and Year-End Option Values

The following table sets forth information concerning options to purchase our common stock held as of December 31, 2001 by each of the officers named in the summary compensation table who have stock options.

Amounts set forth as "value realized" in the following table represent hypothetical calculations based on the difference between the fair market value of our common stock underlying the options and the exercise price of the options. Prior to our initial public offering in August 2000, there was no public market for our common stock. The value realized is therefore based on the best information available as to the fair market value of our common stock at the date of grant of the option. The value realized does not necessarily represent any actual monetary gain to the option holder.

Name	Shares Acquired on Exercise (#)	Value Realized ($)	Number of Securities Underlying Unexercised Options/SARs as of December 31, 2001		Value of Unexercised in-the-money Options/SARs as of December 31, 2001	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Christopher Calhoun	—	—	218,750	200,000	$567,813	
Michael Simpson[(1)]	80,204	$197,302	132,921	100,000	257,323	—
Ari Bisimis	—	—	260,000	50,000	145,600	—
Charles Galetto	—	—	100,000	20,000	56,000	—

(1) Mr. Simpson has retired from his position as our President as of April 1, 2002. He is continuing to serve as a director.

Compensation Committee Interlocks and Insider Participation

Mr. Calhoun, who is a member of the compensation committee, is currently our Vice-Chairman of the Board, Chief Executive Officer and Secretary and serves as a director. Mr. Cox, who is also a member of the compensation committee, serves as our Chairman of the Board.

Certain Relationships and Related Transactions

In February 2002, we made a loan to Ari Bisimis, one of our directors and our chief financial officer, in the aggregate amount of $150,000, at an annual interest rate of 5.75%, for the purchase of 50,000 shares of our common stock from another of our stockholders. The interest rate will be adjusted once a year on the anniversary of the issuance date of the loan. The loan is secured by a pledge of all of the stock purchased by Mr. Bisimis with the proceeds of the loan, is full recourse to Mr. Bisimis and matures in February 2005.

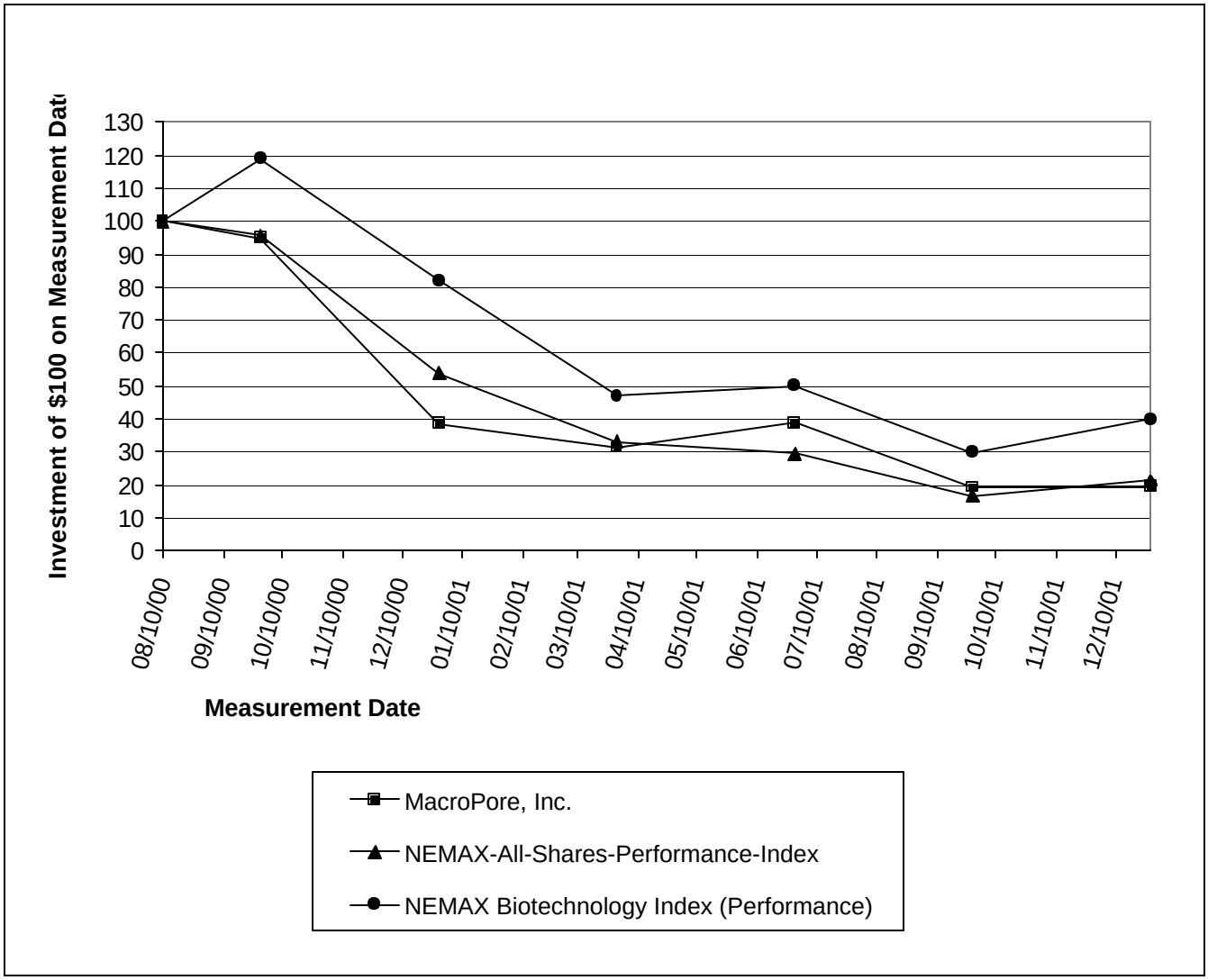
In February 2002, we also made a loan to Christopher Calhoun, our Vice-Chairman of the Board, our Chief Executive Officer and our Secretary, in the aggregate amount of $328,000, at an annual interest rate of 5.75%, for the purchase of 100,000 shares of our common stock from another of our stockholders. The interest rate will be adjusted once a year on the anniversary of the issuance date of the loan. The loan is secured by a pledge of all of the stock purchased by Mr. Calhoun with the proceeds of the loan, is full recourse to Mr. Calhoun and matures in February 2005.

In addition, we are authorized to loan up to an aggregate of an additional $3,022,000 to Mr. Bisimis and Mr. Calhoun for the purchase of additional shares of our common stock from another of our stockholders. Any additional loans we make to Mr. Bisimis or Mr. Calhoun will be made on the same terms and conditions as the February 2002 loans. Mr. Bisimis and Mr. Calhoun must borrow the additional authorized amounts from us prior to March 31, 2002.

We believe that all of the transactions described above were made and are on terms no less favorable to us than those we could obtain from independent third parties in arms-length negotiations.

COMPARATIVE STOCK PERFORMANCE GRAPH

The following graph shows how an initial investment of $100 in our common stock would have compared to an equal investment in the NEMAX-All-Share-Performance-Index and the NEMAX Biotechnology Index (Performance) during the period from August 10, 2000, when our stock was first traded publicly, through December 31, 2001. The graph reflects closing prices reported on Xetra, an electronic trading system for stock listed on the Frankfurt Stock Exchange.



Notwithstanding anything to the contrary set forth in any of our previous filings made under the Securities Act of 1933 or the Securities Exchange Act of 1934 that might incorporate future filings made by us under those statutes, neither the preceding Stock Performance Graph nor the Compensation Committee Report is to be incorporated by reference into any such prior filings, nor shall such graph or report be incorporated by reference into any future filings made by us under those statutes.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table provides certain information regarding beneficial ownership of our common stock as of February 8, 2002 by each stockholder known by us to own beneficially more than 5% of our outstanding shares, our directors, some of our most highly compensated executive officers, and our directors and executive officers as a group.

The amounts and percentages of common stock beneficially owned are reported on the basis of regulations of the Securities and Exchange Commission governing the determination of beneficial ownership of securities. Under the rules of the Commission, a person is deemed to be a "beneficial owner" of a security if that person has or shares "voting power," which includes the power to vote or to direct the voting of such security, or "investment power," which includes the power to dispose of or to direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities for which that person has a right to acquire beneficial ownership within 60 days. Under these rules, more than one person may be deemed a beneficial owner of the same securities and a person may be deemed to be the beneficial owner of securities as to which that person has no economic interest.

All of the individuals listed below who hold stock options granted by us prior to January 1, 2001 may exercise those stock option grants before the options are fully vested. Accordingly, all of the shares issuable upon exercise of those options are deemed to be beneficially owned by those individuals for purposes of the following table. Unless otherwise indicated, the address for each person or entity named below is c/o MacroPore, Inc., 6740 Top Gun Street, San Diego, California 92121.

Name	Number of shares of common stock beneficially owned	Percentage of outstanding shares
Marshall Cox(1)	742,324	4.9
Christopher J. Calhoun(2)	827,083	5.4
Michael Simpson(3)	272,916	1.8
Ari Bisimis(4)	344,201	2.2
Charles E. Galetto(5)	105,833	*
David Rickey(6)	50,000	*
Medtronic Asset Management, Inc.(7)	1,000,000	6.6
Edmund Krix(8)	296,386	2.0
All directors and executive officers as a group (12 persons)(9)	3,007,783	18.6

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* Less than one percent.

(1) Includes 112,500 shares issuable upon the exercise of stock options and 22,223 shares issuable upon exercise of warrants. Also includes 5,334 shares held of record by his spouse. Mr. Cox disclaims beneficial ownership of shares held by his spouse.

(2) Includes 277,083 shares issuable upon the exercise of stock options. Also includes a total of 550,000 shares held of record by TTMC Investments, Inc. Mr. Calhoun has sole voting and investment power with respect to the shares of our common stock held by TTMC Investments. Mr. Calhoun disclaims beneficial ownership of these securities, except to the extent he has a pecuniary interest in the securities, and this report shall not be deemed an admission that Mr. Calhoun is the beneficial owner of such securities for any other purpose.

(3) Includes 162,087 shares issuable upon the exercise of stock options.

(4) Includes 274,583 shares issuable upon the exercise of stock options.

(5) Includes 105,833 shares issuable upon the exercise of stock options.

(6) Includes 50,000 shares issuable upon the exercise of stock options.

(7) The address for Medtronic Asset Management, Inc. is Medtronic, Inc. Corporate Center, 7000 Central Avenue, N.E., Minneapolis, Minnesota 55432.

(8) Includes 50,000 shares issuable upon the exercise of stock options.

(9) Includes all shares and options exercisable within sixty days owned by all directors and executive officers and their spouses.

COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

Compensation Philosophy. The compensation committee of our board of directors attempts to create a balanced compensation package by combining components based upon the achievement of long-term value to stockholders with components based upon the execution of shorter-term strategic goals. Our compensation committee expects that the achievement of these shorter-term goals ultimately will contribute to our long-term success. Our compensation committee has instituted a management compensation plan that: Attracts and retains talented management; Provides short-term and long-term incentives; and Focuses performance on the achievements of our objectives.

Compensation Methodology. Our compensation committee develops and implements compensation policies, plans and programs which seek to enhance stockholder value by closely aligning the financial interests of senior management with those of our stockholders.

Our compensation committee's compensation program for senior management is comprised of the following:

Base salary. The annual base salary is designed to compensate executives for their sustained performance and level of responsibility. Base salary is based on individual performance and the executives' experience. The committee approves all salary increases for executive officers.

Annual performance bonus. An annual cash bonus program is established to promote the achievement of our performance objectives. The granting of an annual bonus is discretionary. Our goals and individual goals and milestones for our management are established at the beginning of the year, and include targets for progress in research and development, clinical activities, development of sales, marketing and investor relations programs and organizational developments and share price. Our compensation committee provides bonus incentives for achievement of these goals because we believe attainment of these goals will be in the best long-term interests of our stockholders. Bonus amounts for each executive are dependent upon our level of achievement, as well as achievements by the individual.

Long-term incentive compensation. Our compensation committee determines the number of stock option grants to be granted to each executive. These recommendations are based on the executive's ability to improve our financial and operational performance, the executive's past performance, and our Chief Executive Officer's expectation of the executive's future performance and contributions. All stock options or other awards we may make under our Amended and Restated 1997 Stock Option Plan are granted with an exercise price equal to the closing market price on the day immediately preceding the date of grant.

Compensation of our Chief Executive Officer. Our compensation committee meets at least annually to evaluate the performance of our Chief Executive Officer. Based on this evaluation, the committee may approve salary increases, annual bonuses and long-term incentive awards, or any combination thereof, for our Chief Executive Officer. Our Chief Executive Officer's compensation reflects a high degree of policy-making and decision-making authority and a high level of responsibility with respect to our strategic direction and our financial and operating results. It also reflects our Chief Executive Officer's long-term commitment and contributions to our success.

Respectfully submitted,

Compensation Committee
Mr. Marshall G. Cox
Mr. Christopher J. Calhoun

February 8, 2002

AUDIT COMMITTEE REPORT

The audit committee provides advice with respect to our financial matters and helps the board of directors oversee finance, accounting, and tax compliance. The audit committee's primary duties are to:

- independently and objectively monitor our financial reporting process and internal control systems
- review and appraise the audit efforts of our independent public accountants
- evaluate our quarterly financial performance and our compliance with laws and regulations
- oversee management's establishment and enforcement of financial policies and business practices
- provide an open line of communication among the independent public accountants, financial and senior management, and the board of directors.

Change in Auditors: On December 12, 2000, PricewaterhouseCoopers LLP resigned as MacroPore's independent accountants. PricewaterhouseCoopers' reports on our financial statements for the years ended December 31, 1998 and 1999 did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified. In connection with PricewaterhouseCoopers' audit of the years ended December 31, 1998 and 1999 and through December 12, 2000, there were no disagreements on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which, if not resolved to its satisfaction, would have caused PricewaterhouseCoopers to refer to the subject matter of the disagreements in PricewaterhouseCoopers' report. During the years ended December 31, 1998 and 1999 and through December 12, 2000, there were no reportable events, as defined in Item 304(a)(1)(v) of Regulation S-K. We engaged Arthur Andersen LLP as our independent accountants on December 15, 2000. The audit committee participated in and approved the decision to engage Arthur Andersen.

Audit Fees: The aggregate fee billed for professional services rendered by Arthur Andersen for the audit of the financial statements for the most recent fiscal year and the reviews of the financial statements included in each of our quarterly reports on Form 10-Q during 2001 was $64,500 during 2001.

Financial Information Systems Design and Implementation Fees: There were no fees paid for professional services relating to financial information systems design and implementation during 2001.

All Other Fees: The aggregate fee billed for other services provided by Arthur Andersen, which primarily consisted of assistance with our Form 10 that we filed with the Commission in 2001, tax compliance and consulting, was $64,800 during 2001.

The audit committee has considered the fees paid to the outside auditors and believes the fees are compatible with maintaining the outside auditor's independence.

The audit committee has reviewed and discussed our audited financial statements for the year ended December 31, 2001 with our management. The audit committee has discussed with Arthur Andersen the matters required to be discussed by Statement on Auditing Standards No. 61.

The audit committee has received the written disclosures and the letter from Arthur Andersen required by Independence Standards Board Standard No. 1, and has discussed Arthur Andersen's independence with Arthur Andersen.

Based upon the audit committee's review and discussions as noted above, the audit committee has recommended to the board of directors that our audited financial statements be included in our Annual Report on Form 10-K for the year ended December 31, 2001 for filing with the Commission.

Respectfully submitted,

Audit Committee
Mr. David Rickey
Mr. Edmund Krix
Mr. Paul Araquistain

February 8, 2002

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires our directors, certain of our officers, and persons or entities who own more than ten percent of our common stock, to file with the Commission reports of beneficial ownership and changes in beneficial ownership of our common stock. Those directors, officers, and stockholders are required by regulations to furnish us with copies of all forms they file under Section 16(a). Based solely upon a review of the copies of such reports furnished to us and written representations from such directors, officers, and stockholders, Mark Lane, one of our former officers, failed to report three transactions on a timely basis and filed one late Form 4, and Mr. Calhoun failed to report one transaction on a timely basis and filed one late Form 4. Mr. Bisimis, Russell Bonafede, Mr. Calhoun, Mr. Cornwall, Mr. Cox, Mr. Galetto, Mr. Lane, Mr. Reuter, Mr. Rickey, Ms. Schulzki, Mr. Scott, Mr. Simpson and Gary Sohngen, one of our former officers, each failed to file a Form 3 on a timely basis. Mr. Ferris and Mr. Krix have not filed a Form 3.

INDEPENDENT AUDITORS

Upon the recommendation of the audit committee, our board of directors selected Arthur Andersen as our independent auditors for the year ending December 31, 2001. One or more representatives of Arthur Andersen are expected to attend our annual meeting to respond to appropriate questions. They will have an opportunity to make a statement if they so desire. Any material non-audit services provided to us by Arthur Andersen will be approved by the audit committee prior to the rendering of such services after due consideration of the effect of the performance thereof on the independence of our auditors.

EXPENSES OF SOLICITATION

We will bear the total cost of the proxy solicitation. We anticipate that banks, brokerage houses and other custodians, nominees, and fiduciaries will forward soliciting material to the beneficial owners of shares of common stock entitled to vote at our annual meeting and that we will reimburse those persons for their out-of-pocket expenses incurred in this connection.

STOCKHOLDER PROPOSALS FOR THE 2003 MEETING

We intend to hold an annual meeting of stockholders in or around May 2003. Stockholders are hereby notified that, if they intend to submit proposals for inclusion in our proxy statement and proxy for our 2003 annual meeting of stockholders, such proposals must be received by us no later than January 2, 2003 and must otherwise be in compliance with applicable Commission regulations.

MISCELLANEOUS

Our board of directors knows of no other business to be presented at our annual meeting. If other matters properly come before our annual meeting, it is intended that the proxies in the accompanying form will be voted thereon in accordance with the judgment of the person or persons holding such proxies.

By Order of the Board of Directors,

CHRISTOPHER J. CALHOUN
Vice-Chairman, Chief Executive Officer, and Secretary

MACROPORE, INC.
Annual Meeting of Stockholders—May 28, 2002

The undersigned hereby appoints Christopher J. Calhoun and Ari Bisimis, Proxies, with full power of substitution, to appear on behalf of the undersigned and to vote all shares of common stock (par value $.001) of MacroPore, Inc. (the "Company") that the undersigned is entitled to vote at the Annual Meeting of Stockholders of the Company to be held at 6740 Top Gun Street, San Diego, California, on May 28, 2002, commencing at 9:00 a.m. (San Diego local time), and in Germany at KTC Ölmühlweg 65, 61462 Königstein via video conference beginning at 6:00 p.m. (Frankfurt local time), and at any adjournment thereof.

WHEN PROPERLY EXECUTED, THIS PROXY WILL BE VOTED AS DIRECTED. IF NO INSTRUCTIONS ARE SPECIFIED, THIS PROXY WILL BE VOTED FOR THE ELECTION OF THE LISTED NOMINEES AS DIRECTORS, FOR THE APPROVAL OF THE AMENDMENT TO OUR AMENDED AND RESTATED 1997 STOCK OPTION AND STOCK PURCHASE PLAN, AND FOR THE AMENDMENT TO OUR CERTIFICATE OF INCORPORATION.

THIS PROXY IS SOLICITED BY THE BOARD OF DIRECTORS

Please mark box [X] in blue or black ink.

1. Election of Directors: FOR all nominees listed below [ ]

Nominees: MARSHALL G. COX, CHRISTOPHER J. CALHOUN, MICHAEL SIMPSON, ARI BISIMIS, DAVID RICKEY, EDMUND KRIX

TO WITHHOLD AUTHORITY TO VOTE FOR ANY ONE OR MORE NOMINEES, LINE THROUGH OR OTHERWISE STRIKE OUT THE NAME OF THE NOMINEE OR NOMINEES FOR WHOM YOU WITHHOLD AUTHORITY TO VOTE.

2. Approval of an amendment to our Amended and Restated 1997 Stock Option and Stock Purchase Plan to increase the number of shares of common stock available for issuance thereunder to 7,000,000.
   FOR [ ] AGAINST [ ] ABSTAIN [ ]
3. Approval of an amendment to our certificate of incorporation to change our name to MacroPore Biosurgery, Inc.
   FOR [ ] AGAINST [ ] ABSTAIN [ ]

(Continued and to be signed on reverse side)

In his discretion, the proxy is authorized to vote upon such other business as may properly come before the Annual Meeting and any adjournment thereof.

Please sign exactly as your name appears on the left. When signing as an attorney, executor, administrator, trustee or guardian, please give your full title. If shares are held jointly, each holder should sign.

PLEASE CHECK HERE IF YOU PLAN TO ATTEND THE ANNUAL MEETING [ ]

Dated: _____, 2002

_____
Signature

_____
Signature

Please sign, date, and return the proxy card using the enclosed envelope.