ISOLAGEN INC
Form 10KSB/A
November 18, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB/A

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002

OR

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

ISOLAGEN, INC.
(Name of small business issuer in its charter)

Delaware	0-12666	87-0458888
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

2500 Wilcrest, 5th Floor
Houston, Texas 77042
(Address of principal executive offices, including zip code)

(713) 780-4754
(Issuer's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class	Name of Each Exchange on which Registered
Common Stock, $.001 par value	American Stock Exchange

Check whether the issuer: (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for any shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. [X] Yes [ ] No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB/A or any amendment to this Form 10-KSB/A. [X]

Issuer's revenues for its most recent fiscal year were $90,991.

As of March 24, 2003, the aggregate market value of the issuer's common stock held by non-affiliates of the issuer based upon the price of at which such common stock was sold on the American Stock Exchange as of such date was $23,831,501.

As of March 24, 2003, issuer had 15,389,563 shares of issued and outstanding common stock, par value $0.001.

Documents Incorporated by Reference: Portions of the information set forth in

the definitive proxy statement to be filed by the registrant within 120 days of the close of the fiscal year are incorporated by reference in Part III hereof.

Transitional Small Business Issuer Format: Yes [ ] No [X]

EXPLANATORY NOTE

THIS ANNUAL REPORT ON FORM 10-KSB/A IS BEING FILED FOR THE PURPOSE OF AMENDING AND REVISING THE (i) NUMBER OF SHARES ISSUED AND OUTSTANDING PRIOR TO THE AUGUST 10, 2001 TRANSACTION (DESCRIBED IN NOTE 1 TO THE FINANCIAL STATEMENTS) TO RETROACTIVELY REFLECT THE PAR VALUE AND ADDITIONAL PAID IN CAPITAL FOR THE NUMBER OF SHARES RECEIVED BY THE ISOLAGEN TECHNOLOGIES STOCKHOLDERS IN THE TRANSACTION, AFTER GIVING EFFECT TO THE DIFFERENCE IN PAR VALUE AND (ii) THE WEIGHTED AVERAGE NUMBER OF BASIC AND DILUTED COMMON SHARES OUTSTANDING USED IN PRESENTING NET LOSS PER COMMON SHARE AFTER GIVING EFFECT TO THE REVISION IN ITEM (i) ABOVE. WE HAVE MADE NO FURTHER CHANGES TO THE PREVIOUSLY FILED FORM 10-KSB/A FILED WITH THE SEC ON NOVEMBER 12, 2003. THE ABOVE DESCRIBED CHANGES HAD NO AFFECT ON OUR FINANCIAL POSITION OR RESULTS OF OPERATIONS, EXCEPT FOR THE EFFECTS ON THE NET LOSS PER SHARE FROM THE CHANGE IN THE NUMBER OF WEIGHTED AVERAGE SHARES OUTSTANDING. ALL INFORMATION IN THIS ANNUAL REPORT ON FORM 10-KSB/A IS AS OF DECEMBER 31, 2002 AND DOES NOT REFLECT ANY SUBSEQUENT INFORMATION OR EVENTS OTHER THAN THOSE REFLECTED IN THE AMENDMENT.

Isolagen, Inc. has not amended its Annual Report on Form 10-KSB for the period ended December 31, 2001 or Quarterly Reports on Form 10-QSB for the periods affected by the revision during the year ended December 31, 2001.

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This report contains forward-looking statements that relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause Isolagen, Inc.'s or its industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by the forward-looking statements.

In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," or the negative of these terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially.

Although Isolagen, Inc. believes that the expectations reflected in the forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance, or achievements. Moreover, neither Isolagen, Inc. nor any other person assumes responsibility for the accuracy and completeness of these forward-looking statements. Isolagen, Inc. is under no duty to update any of the forward-looking statements after the date of this report to conform its prior statements to actual results. Isolagen Inc.'s actual results could differ materially from its historical operating results and from those anticipated in these forward-looking statements as a result of certain factors, including, without limitation, those set forth under "Risk Factors" of this Form 10-KSB/A and those set forth under "Management's Discussion and Analysis or Plan of Operation."

PART I

ITEM 1. DESCRIPTION OF BUSINESS

Overview

Isolagen, Inc. ("Isolagen" or the "Company") is the parent company of Isolagen Technologies, Inc., a Delaware corporation ("Isolagen Technologies"). Isolagen Technologies is the parent company of Isolagen Europe Limited, a company organized under the laws of the United Kingdom and wholly-owned subsidiary of Isolagen Technologies ("Isolagen Europe"). Isolagen Technologies is also the parent company of Isolagen Australia Pty Limited, a company organized under the laws of the Australia and wholly-owned subsidiary of Isolagen Technologies ("Isolagen Australia"). The common stock, par value $0.001 per share, of the Company ("Common Stock") is traded on the American Stock Exchange ("AMEX") under the ticker symbol "ILE."

Isolagen is a Houston, Texas based biotechnology company which has developed a patented process for the propagation of autologous cells to be used to stimulate a patient's own collagen and elastin production. Autologous cells are a patient's own cells taken from a small skin sample. From such sample, millions of cells can be grown and then injected into the patient to correct and reduce the normal effects of aging like wrinkles, laugh lines, smokers lines, fine lines and all types of depressed scars. The procedure is minimally invasive and non-surgical. Currently, there are multiple competitive alternatives to reduce the signs of aging, but the Company believes they offer short term and often painful solutions. Their solutions often involve substitute products or fillers, such as human cadaver or animal collagen or synthetic chemicals. A well known example is Botox, which uses diluted, liquid toxin to attain a correction through muscle paralysis.

In contrast, the Isolagen Process (as described in more detail below) is a self healing protein repair system that uses only the patient's own (autologous) cells. Since these cells belong only to the patient and house his

or her own deoxyribonucleic acid ("DNA"), there is a reduced chance for rejection or allergic reaction. It is important to note that the cells are grown individually. There is no batch manufacturing and the Company's Laboratory Information Management System ("LIMS") keeps the cells self contained and separate.

The Isolagen Process is designed to replenish deficiencies caused through the loss of fibroblast cells as the body ages. The body losses approximately 1% of the body's fibroblast cells per year. The fibroblast cell is the cell responsible for producing collagen, "the structural matrix", that supports the skin and also produces elastin. By the time a person is 40 years old, his or her body has depleted approximately 40% of its fibroblast cells, thus causing dermal depressions and wrinkles. The Isolagen Process reduces dermal depressions and wrinkles by replenishing the area of deficiency with millions of the patient's own new living fibroblast cells. Within weeks after the injection, the millions of new fibroblast cells will produce new collagen and elastin and will help diminish wrinkles.

In the early 1990s, Olga Marko, currently Senior Vice President and Director of Research of the Company, was researching a way to identify autologous cellular systems ("ACS") which could stimulate a patient's own collagen production. Ms. Marko developed a process of extracting a patient's own cells (dermal fibroblasts), growing and

expanding those cells in a controlled environment, and then re-introducing such cells into the skin of the patient's face, thereby stimulating the growth of the patient's collagen resulting in the repair of dermal defects (the "Isolagen Process"). With the support of William K. Boss, Jr., M.D., currently Vice Chairman of the Company, a board certified plastic surgeon, Isolagen Technologies was formed on December 28, 1995 with the purpose of researching, marketing and commercializing the Isolagen Process for cosmetic applications.

In 1995, Dr. Boss began treating a small percentage of his patients with the Isolagen Process to correct defects (e.g., wrinkles, depressions and scarring) in the patient's face. Dr. Boss and Ms. Marko solicited the clinical support of Gregory Keller, M.D., Associate Chief of Head and Neck Plastic Surgery at the University of California at Los Angeles Medical School, and W. Gregory Chernoff, M.D., a plastic surgeon with practices in California and Indiana. Between 1995 and 1999 Drs. Boss, Keller and Chernoff, together with approximately 200 other doctors, utilized the Isolagen Process on approximately 963 patients with positive results. The use of the Isolagen Process on such patients provided evidence to Isolagen Technologies that the Isolagen Process could effectively grow and re-introduce a patient's own cells with beneficial results. Of the 963 patients treated with the Isolagen Process, totaling approximately 3,000 procedures, the participating physicians documented no significant adverse reactions. Although all these procedures were at least three (3) years ago and some as long as seven (7) years ago; the majority of patients still report satisfaction with results of the procedures to their physicians. The Company believes that since the Isolagen Process involves a patient's own cells, the possibility of allergic reaction is reduced and the therapeutic correction appears to be long lasting with the patients experiencing gradual and continued improvement as a result of the natural activity of the patient's own re-introduced cell structure.

In 1997, the U.S. Food and Drug Administration ("FDA") began regulating the science of biologics. Biologic products like ACS, in contrast to drugs that are chemically synthesized, are derived from living sources (such as humans, animals, and microorganisms). From 1995 to 1999, management of Isolagen

Technologies believed that FDA approvals were not required for use of the Isolagen Process, based on advice from FDA consultants. In 1999, the FDA advised Isolagen Technologies that use of the Isolagen Process would require FDA approval, and Isolagen Technologies filed an investigational new drug application ("IND") covering the Isolagen Process with the FDA. An IND is a request for authorization from the FDA to administer an investigational drug or biologic product to humans. Such authorization must be secured prior to commercialization of any new drug or biological product. After its review of Isolagen Technologies' IND on December 9, 1999, the FDA placed the IND on clinical hold until the manufacturing processes and procedures of Isolagen Technologies were changed to meet these new standards, and FDA approval was obtained. The use of the Isolagen Process was discontinued after the FDA placed the IND on hold.

On August 10, 2001, the Company, then known as American Financial Holding, Inc., acquired Isolagen Technologies through the merger of its wholly-owned subsidiary, Isolagen Acquisition Corp., and an affiliated entity, Gemini IX, Inc., with and into Isolagen Technologies (the "Merger"). As a result of the Merger, Isolagen Technologies became a wholly-owned subsidiary of the Company. On November 13, 2001, the Company changed its name to Isolagen, Inc. Simultaneously with the Merger, the Company raised over $2,000,000 in equity, at $1.50 per share, in a private placement of Common Stock and converted $1,450,000 principal amount of Company debt and approximately $625,000 of accrued liabilities of the Company to equity. For further discussion of the accounting treatment of the transactions, please see footnote 1 of the audited consolidated financial statements contained at Item 7.

In August 2001, the Company engaged Cato Research Limited ("Cato"), a research and development organization which assists pharmaceutical and biotechnology companies in navigating the regulatory approval process. With the assistance of Cato, the Company's IND was released from clinical hold by the FDA in April 2002 and the Company is currently planning Phase III clinical trials of the Isolagen Process. Several studies are taking place, including dosage management, dental application relating to gum and bone, cosmetic correction and treatment for scarring. These studies are operational under currently active INDs with the FDA. The Company believes that these INDs are scheduled for License Application (approval) by the FDA in 2003, although there can be no assurance that such approval will be obtained or obtained on a timely basis.

In August 2001, the Company formed Isolagen Europe for the purpose of exploring the utilization of the Isolagen Process on patients located in the United Kingdom. The Company's management has made inquiry to the Medicines Control Agency with respect to the Company's proposed use of the Isolagen Process in cosmetic applications in the United Kingdom. Based on the written responses received from the Medicines Control Agency, management believes that the proposed use of the Isolagen Process in cosmetic applications in the United Kingdom will not require regulatory approval. In 2003, the Company anticipates seeking commercialization in the following countries: Australia, South Korea, Hong Kong, Italy and Mexico. However, due to the unpredictability of regulatory approval in these

countries, the Company can give no assurance that any of these countries will approve such use or the time period for any such approval.

In July 2002, the Company raised $10,132,500 in a private placement of its Series A Convertible Preferred Stock at an offering price of $3.50 per share. Each share of Series A Convertible Preferred Stock is convertible into two (2) shares of Common Stock at any time after issuance and accrues dividends

at 8% per annum payable in cash or additional shares of Series A Convertible Preferred Stock.

In September 2002, the Company opened its London cellular laboratory that can serve the European marketplace if required regulatory approvals are obtained. The new cellular facility, located at 59/61 Park Royal, London, NW10 7JJ, England began operations in the 4th quarter of 2002.

STRATEGY AND VISION

The Company's goal is to become the industry leader in the research, development and commercialization of the Isolagen Process and the use of ACS, although there can be no assurance in that regard. The Company is pursuing, through Isolagen Europe, commercial operations in the United Kingdom and is pursuing commercial operations through subsidiaries, joint ventures or license arrangements in Australia, South Korea, Hong Kong, Brazil, and Mexico.. The Company is investigating regulatory and other requirements in these countries and evaluating markets and potential joint venture partners and licensees. In the future, the Company believes that it can increase and strengthen its market position in the following ways:

- Expanding and solidifying its relationship with the approximately 200 physicians who have used the Isolagen Process with their patients, as well as marketing the Company's processes and products to other doctors (i.e., plastic surgeons, facial plastic surgeons, dermatologists and aestheticians).

- Continuing its current research into the science of ACS.

- Working with regulatory agencies, country by country, to obtain the approval of the Isolagen Process and future products of the Company.

- Investigating foreign markets for the Isolagen Process and future products.

- Developing new applications for the Isolagen Process beyond cosmetic facial rejuvenation, such as dental applications.

- Designing and developing new laboratory facilities.

The Company's business plan is focused on the following major steps:

- ESTABLISHING AND FORMALIZING STRATEGIC PARTNERING RELATIONSHIPS. The Company is conducting discussions with identified industry leaders in the pharmaceutical and medical device industries for application-specific sales and distribution of the Company's techniques and products. The Company's aim is to establish relationships with industry leaders, both domestic and international, which represent the broadest market appeal for specific Company products and techniques.

- ACCELERATING CURRENT RESEARCH EFFORTS. The Company is working on capturing the full benefit of the Isolagen Process and ACS technology in applications in the cosmetic field. The research capability that has produced the Isolagen Process could be applicable to other processes stimulated by ACS technology such as gum rejuvenation and other dental applications, urology, bone marrow and other pigment-related maladies.

- EXPANDING PRODUCTION FACILITY CAPACITY. Isolagen Technologies operates a laboratory facility in Houston, Texas which is equipped with state-of-the-art tissue culture equipment, instrumentation and storage systems.

- EXPANDING SALES, PRODUCTION AND ADMINISTRATIVE RESOURCES. Increased sales, research, and foreign affiliations will require more resources of the Company. These will be supplied through third party relationships and increases to staff as necessary.

- SUPPLEMENTING AND LEVERAGING EXISTING ADVISORY RELATIONSHIPS. Physicians are a primary channel for introducing and distributing new products. To facilitate the marketing strategies outlined above, existing physician and corporate relationships of the Company will be supplemented and leveraged. Their support is a key building block in the future growth of the Company.

MARKET SIZE AND CHARACTERISTICS

The Isolagen Process of tissue regeneration is directed primarily at the dermatological and plastic surgery markets. According to the American Society of Plastic Surgeons ("ASPS") and the Plastic Surgery Educational Foundation ("PSEF"):

- 6.6 million people had cosmetic plastic surgery in 2002;
- Approximately 1.1 million Botox injections were performed in 2002;
- More than 4.9 million people had non-surgical cosmetic procedures in 2002;
- In 2002, 37% of all cosmetic plastic surgery patients were repeat patients.

ASPS and PSEF statistics represent patients having procedures performed by member surgeons certified by the American Board of Plastic Surgery as well as other physicians certified by the American Board of Medical Specialties.

FACIAL REJUVENATION

The first application of the Isolagen Process is for facial rejuvenation, which the Company intends to market as a "Natural Collagen Supplementation System." The primary benefits of the Natural Collagen Supplementation System are three-fold:

- Since this is an autologous system (exclusively using a patient's own cells), the Company believes there is a reduced possibility of allergic reaction as compared to bovine collagen and non-natural fillers.
- The therapeutic correction received is lasting because the patient's immune system recognizes the injected cells as the patient's own and does not reabsorb or reject them as it does with foreign materials and proteins.
- Patients experience gradual and continued improvement as a result of the natural activity of the re-introduced cells.

These three benefits represent substantial advances in facial rejuvenation since the standard until now has been bovine collagen. Bovine collagen, a foreign protein derived from cows, is generally fully reabsorbed by a patient's body within a few months after application, leaving the patient with

no visible signs of correction. As additional treatments with bovine collagen are performed, there is a gradual build-up of the body's antibodies and the development of enzymes that compromise the treatment's effectiveness. Combined with the expense and the continued intrusiveness of ongoing treatments, the value and benefit of bovine collagen injections is diminished.

The benefits of the proposed Natural Collagen Supplementation System outlined above counter the drawbacks to bovine collagen treatments, thereby extending the market potential for soft tissue regeneration to a broader population of patients. This broader population includes those who have tried and discontinued use of bovine collagen and those that never considered treatments due to potential drawbacks.

THE ISOLAGEN PROCESS IN DETAIL

First a 3 mm punch skin sample is obtained in the scalp area behind the patient's ear. This area is chosen because of its vascularity, lack of sun exposure and invisibility of any scar. The skin sample specimen is packed in a container provided by the Company and shipped overnight to the Company's laboratory. The specimen is then cultured utilizing the Company's patented Isolagen Process. This process separates the cell, called a fibroblast, from the rest of the tissue then multiplies these fibroblasts. Approximately six (6) weeks later, 1 ml is returned to the patient's doctor for an intradermal test in the patient. Two (2) weeks later, 1 to 1.5 ml of the patient's cells are also sent to the doctor for

treatment. Additional amounts of 1 to 1.5 ml are available for re-injection every two (2) to three (3) weeks. A fibroblast culture from a patient may also be cryogenically stored by the patient for future use.

Fibroblasts stimulate collagen production. Fibroblasts have a finite lifespan and finite ability to repair damage. "Younger" fibroblasts are more effective than "older" fibroblasts from older or more photodamaged patients. The amount of correction a patient would see depends on a variety of factors, including the type of facial line, type of scar, age of the patient and the intrinsic ability of each patient's fibroblasts to create more collagen. Our product is the only product on the market that utilizes a patient's own cells or is autologous. There is no foreign substance utilized in our treatment. We are currently charging physicians approximately $1,800 for three injections. Alternative products include Zyderm/Zyplast, Hlyaform, Fibrel, Autologen, Demolagen Lypocytic Dermal Augmentation, Alloderm, Artecoll, Softform, Silicon Droplets, Botox, Ablative Lasers, Non-Ablative Lasers, Microdermabrasion and Chemical Peels. These products will cost in the range of $400 to $1,250 per procedure, and last in the range of three months to one year.

REGULATORY PROCESS AND CLINICAL TRIALS

The Company's technologies are subject to extensive government regulation principally by the FDA and state and local authorities in the United States and by comparable agencies in certain foreign countries. Products for human treatment are subject to rigorous pre-clinical and clinical testing procedures as a condition for approval by the FDA and by similar authorities in foreign countries. These regulations apply to the testing, manufacturing, labeling, storage, record keeping, approval, advertising and promotion of the Company's products. The FDA does not apply a single regulatory scheme to human tissues and the products derived from human tissue. On a case-by-case basis, the FDA may choose to regulate such products as transplanted human tissue, medical devices or biologics. A fundamental difference in the treatment of products

under these classifications is that the FDA generally permits human tissue for transplantation to be commercially distributed without premarket approval. In contract, products regulated as medical devices or biologics usually require such approval. The process of obtaining premarket approval for a biologic is often expensive, lengthy and uncertain. The steps required before a biologic may be marketed in the United States include (i) preclinical laboratory and testing, (ii) submission to the FDA of an IND application, which must become effective before clinical trials may commence, (iii) adequate and well-controlled clinical trials to establish the safety and efficacy of the drug, (iv) submission to the FDA of a New Drug Application ("NDA") and (v) FDA approval of the NDA prior to any commercial sale or shipment of the biologic. In addition to obtaining FDA approval for each product, each domestic drug-manufacturing establishment must be registered with, and approved by, the FDA.

In 1997, the FDA began regulating the science of biologics. Biologics, in contrast to drugs that are chemically synthesized, are derived from living sources (such as humans, animals, and microorganisms) like the Isolagen Process. For the regulation of biologics, the FDA imposes a special additional licensing requirement known as a Biologic License. The license imposes very specific requirements upon the facility and the manufacturing and marketing of licensed products to assure their safety, purity, and potency. Before conducting the required clinical testing of a biological product, an applicant must submit an IND to the FDA, containing preclinical data demonstrating the safety of the product for human investigational use, information about the manufacturing processes and procedures and the proposed clinical protocol. In 1999, Isolagen Technologies filed such an IND on the Isolagen Process with the FDA. Clinical trials of biological products typically are conducted in three sequential phases, but may overlap. Phase I trials test the product in a small number of health subjects, primarily to determine its safety and tolerance at one or more doses. In Phase II, in addition to safety, the efficacy, optimal dose and side effects of the product are evaluated in a patient population somewhat larger than the Phase I trials. Phase III involves further safety and efficacy testing on an expanded patient population at geographically dispersed test sites. All clinical studies must be conducted in accordance with FDA approved protocols and are subject to the approval and monitoring of one or more institutional review boards. In addition, clinical investigations must adhere to good clinical practices. Completion of all three phases of clinical studies may take several years and the FDA may temporarily or permanently suspend a clinical study at any time. Upon completion and analysis of clinical trials, the applicant assembles and submits a Biologic License Application containing, among other things, a complete description of the manufacturing process. Before the license can be granted, the applicant must also undergo a successful establishment inspection.

In 1995, when Isolagen Technologies began operations, the FDA had no regulations governing the area of biologics. New regulations were promulgated by the FDA in 1997. After reviewing the new regulations and seeking the advice of consultants, Isolagen Technologies concluded that the use of the Isolagen Process in cosmetic applications did not require the approval of the FDA. The FDA disagreed. Isolagen Technologies filed an IND which was placed on clinical hold until the Company's manufacturing processes and procedures were changed to meet these new standards, and FDA approval is obtained.

Prior to the Merger, Isolagen Technologies did not have the financial resources to complete the FDA process. Following the Merger, the Company provided such financing and in April 2002, the FDA released Isolagen Technologies' IND and clinical trial negotiations began. As a result, a 397 patient retrospective study has been completed. The results demonstrated both safety and efficacy as Phase II data. Using Isolagen Technologies recently

completed cGMP laboratory facility in Houston, Texas, several studies are taking place. These include: dosage management, dental application relating to gum and bone, cosmetic correction and scarring. They are operational under currently active INDs with the FDA. The Company believes that these INDs are scheduled for Biologic License Application (approval) by the FDA in 2003, although there can be no assurance that such approval will be obtained or obtained on a timely basis.

The Company has developed rigorous internal standards for testing and compiling the data necessary for its FDA filings. The Company conducts feasibility studies for all the medical conditions it proposes to treat prior to filing applications with the FDA for pivotal trials. This process has allowed the Company to submit more precise protocols to the FDA, clearly defining the clinical objectives that the Company wishes to support in the pivotal trial phase.

INTERNATIONAL REGULATION

The regulation of the Company's products, including the Isolagen Process, outside of the United States varies by country. Certain countries regulate human tissue products as a pharmaceutical product, which would require the Company to make extensive filings and obtain regulatory approvals before selling its products. Certain countries classify the Company's products, including the Isolagen Process, as human tissue for transplantation but may restrict its import or sale. Other countries have no application regulations regarding the import or sale of products similar to the Company's products, creating uncertainty as to what standards the Company may be required to meet. The Company's management has made inquiry to the Medicines Control Agency with respect to the Company's proposed use of the Isolagen Process in cosmetic applications in the United Kingdom. Based on the written responses received from the Medicines Control Agency, management believes that the proposed use of the Isolagen Process in cosmetic applications in the United Kingdom will not require regulatory approval. In 2003, the Company intends to seek commercialization in the following countries: Australia, South Korea, Hong Kong, Italy and Mexico. The Company believes that its products are not regulated as pharmaceutical products in Australia, South Korea, Hong Kong, Italy and Mexico, although there is substantial uncertainty regarding the regulation of the Company's products under the laws of those foreign countries. However, due to the unpredictability of regulatory approval in these and other countries, the Company can give no assurance that it will receive any necessary regulatory approval for the sale of its products. Failure to comply with any country's regulatory requirements could result in material adverse consequences for the Company. See "Risk Factors."

ISOLAGEN DENTAL PRODUCT

It is well known that papilla recession, also known as black triangle disease, is the number one cause of periodontal disease and there has been no effective treatment. In cases where the recession of the gum has progressed to an advanced stage, the accepted approach has been to take a graft from the palate, which creates in some cases, donor side defects and is extremely painful. This drastic and complex surgical procedure has provided varying results which are not fully embraced by periodontists due to the donor site morbidity associated with the taking of such a large piece of the palate.

Papilla recession is the receding of the triangular piece of gum tissue between two teeth. The Company believed that if the fibroblasts from the facial area could stimulate collagen growth in the face, then the fibroblasts from the oral cavity could stimulate collagen production in the mouth. If this premise is correct, the Isolagen Process could enhance the oral tissue which should result in the prevention of black triangle disease.

In 1999, Isolagen engaged Dr. Nick Elian, D.D.S., an associate

professor at New York University Dental School, to test the Isolagen Process in the oral cavity. The treatment protocol called for three injections per site, but being cautious, Dr. Elian's first procedure included only one injection. The results were positive with no adverse reaction. In Dr. Elian's next procedure, he followed protocol and the results were magnified. Several more procedures were performed with equally positive results.

The Isolagen Dental Product has been used in research and development in treating varying degrees of papilla recession; by injecting cells created through the Isolagen Process treats small areas of recession. In cases where the disease creates greater recession, Isolagen has developed a graft which entails applying the Isolagen Process technology to a matrix or carrier.

In cases where teeth are removed, problems may develop such as dry socket or contracted sockets. These problems frequently require follow-up surgical procedures for correction and to prevent additional soft tissue problems. The traditional approach by oral surgeons has been to implant acellular material to prevent these defects. The Isolagen Dental Product provides potential as a solution for this problem as well.

Rena N. D'Souza, DDS, MS PHD, Professor and Research Director, Department of Orthodontics at the University of Texas Health Science Center at Houston - Dental Branch ("UTHSC"), stated: "The regeneration of the supporting tissues of a tooth that are damaged in the course of periodontal disease remains a major challenge for dental clinicians today. Isolagen's autologous cell therapy when combined with well proven techniques of guided tissue regeneration is state-of-the-art technology that opens up a new and exciting paradigm for the treatment of soft tissue defects in the oral cavity."

THE DENTAL MARKET

While the cosmetic and dermatological market place is extremely large, its size pales in comparison to the size of the dental market. The Company's research shows that, in the United States, there are approximately 33,000 practitioners performing cosmetic procedures. This includes Plastic Surgeons (7,000), Facial Plastic Surgeons (10,000), Dermatologists (12,000) and Aestheticians (4,000). That same research shows approximately 150,000 dentists. The comparative demand for dental procedures far exceeds that of cosmetic procedures which has resulted in a far greater number of practitioners.

In addition, according to Millennium Research Group, the 2002 global market for dental implants and accessories is valued at $1.1 billion, with an expected five-year forward annual growth rate of 16%. Over 90% of oral surgeons, periodontists and prosthodontists currently provide at least some aspect of dental implant treatment in their practices, and more than 65% of general dentists have used implants for supporting fixed and removable replacement teeth.

The Company believes this market will grow over the next five years. This increase is attributed to an increase in the average age of the population and patients' preference of dental implants over conventional means of replacing damaged or missing teeth such as bridges and dental plates due to the recent improvements in dental implant placement procedures, the longer-term success rates of implants and the many advantages that implants have over traditional bridge plates and dentures. These advantages include increased support, security and comfort; the ability to replace a single tooth without altering adjacent teeth; and the prevention of noticeable spaces caused by missing teeth.

Almost every person that lives to a normal age will experience gingival

(gum recession, including papilla recession). Others will have a need for an extraction or have a dry or contracted socket. Further contrast demonstrates that gingival and these other related maladies pose major health concerns where the vast majority of cosmetic procedures are simply preferential, elective and left untouched will have no health consequence. In comparison, not every person or even a high percentage will experience any deficiency that will require them to engage a cosmetic practitioner. Therefore, we feel the ACS dental application offers a greater potential than our cosmetic application.

UNITED KINGDOM OPERATIONS

In September 2002, the Company opened its London cellular laboratory and began operation there in the fourth quarter of 2002.

COMPETITION

Tissue regeneration companies compete in the dermatology and plastic surgery markets with substantially different treatments. These include silicone injections, laser procedures, facial surgical procedures (e.g., facelifts and eyelid surgeries), fat injections, dermabrasion, collagen injections, and botulisum toxin injections. Indirect competition comes from facial care treatment products. Items catering to the growing demand for therapeutic skin care products are facial scrubs, anti-aging treatments, tonics, astringents and skin-restoration formulas. Patients who might consider using the Isolagen Process could also consider the following products (information included under Key Points is provided by Company management):

PRODUCT	DESCRIPTION	PRODUCT TYPE	KE
Zyderm/Zyplast (Inamed Aesthetics)	Collagen from cowhides of a closed herd	Collagen implant	Reabsorbs in 3 to 6 month Allergic reaction in appr Immediate esthetic effect $400-$500 per treatment. FDA approved.
Hylaform (Biomatrix)	Crosslinked derivative of hyaluronan	Hyaluronan implant	Reabsorbs in approx. 1 ye $550 per injection, appro Not FDA approved; clinica
Fibrel (Mentor)	Collagen from pigs	Collagen implant	Difficult for physician t patients blood and specia Reabsorbs in 4 to 6 month $400 per treatment. No significant market dem FDA approved
Autologen (Collagenesis Corp)	Skin from patient	Collagen Implant	Requires large piece of s treatment. Reabsorbs in 6 to 12 mont $650-$850 treatment.
Dermolagen (Collagenesis Corp)	Skin from cadavers	Collagen Implant	Source of product limits Requires large piece of s treatment. Reabsorbs in 6 to 12 mont

			$1,000 for three treatmen
Lypocytic Dermal Augmentation (manufactured by physician)	Fat from patient	Fat implant	Reabsorbs in 6 to 12 mont Requires harvesting of fa reintroduction into treat Subcutaneous atrophy requ with lypocytic dermal aug Autologous nature avoids $550 to $1,250 per treatm
Alloderm (Lifecell Corp)	Acellular human dermal graft	Allograft	Treats only deep depressi Dissolves in 1 to 3 years Requires surgery to impla Potential for complicatio scarring. $2,500 per treatment.
Artecoll (Rofil Medical)	Polymethylmethacrylate suspension with collagen	Artificial implat	Treats only deep depressi Non reversible; implant t Potential for complicatio Not FDA approved.
Softform (Collagen Corp)	Expanded polytetra-flouroetheylene	Artificial implant	Requires surgery to impla Potential for complicatio malpositioning. Used only for subcutaneou
Silicone Droplets (Dow Corning)	Synthetic oil	Artificial implant	Controversy over safety o Potential for adulterated availability of non-medic Not FDA approved.
Botox (Allergan)	Botulinum A exotoxin	Muscle paralysis	Effect reverses in 3 to 6 Physician technique very 2% to 3% of patients expe $450 to $750 per injectio Not FDA approved.
Ablative Lasers e.g. CO(2) & Erbium (Coherent or Luminesse)	Mechanical device	Tissue vaporization causing new tissue to form	Long healing period; open redness up to six months. Requires surgery and anes Potential for complicatio non-healing wounds. $1,500 to $7,500
Non- Ablative Lasers e.g. Nd 1032, Q switched 1064 YAG (Coherent or Luminesse)	Mechanical device	Stimulated dermis to form collagen	Multiple treatments 4 to Takes up to six months to Up to $5,000.
Microdermabrasion (Microdermex, Parisian Peel or Dermaglow)	Mechanical device	Tissue abridement causing new tissue to form	Minimal efficacy on scars Good epidermal effect. Requires 6 to 10 treatmen Up to $2,000.
Chemical peels (TCA, Phenol chemicals are formulated by a pharmacist)	Carbolic acid, TCA, alpha hydroxy acids	Chemical tissue removal causing new tissue to form	Long healing period; open redness up to six months. Laser applications are re $500 to $5,000.

The Company believes that many of its competitors have greater financial and other resources than those of the Company. Although the Company is not aware of any similar products to the Isolagen Process that have received pre-market approval from the FDA, there may be other companies having greater financial resources than the Company that are developing or may develop similar products in the future.

INTELLECTUAL PROPERTY

Protecting the proprietary technology of the Company is vitally important to the Company's competitive position. Isolagen Technologies currently holds the following patents:

Number	Business Line	Title	Filing Date	Patent Da
5,665,372 United States	Cosmetic	Autologous dermal fibroblasts for the repair of skin and soft tissue defects	June 6, 1996	Sept. 9, 1
5,660,850 United States	Cosmetic	Use of autologous dermal fibroblasts for the repair of skin and soft tissue defects	June 6, 1996	Aug. 26, 1
5,858,390 United States	Cosmetic	Use of autologous undifferentiated mesenchylmal cells for the repair of skin and soft tissue defects	Sept. 8, 1997	Jan. 12, 1
5,591,444 United States	Cosmetic	Use of autologous dermal fibroblasts for the repair of skin and soft tissue defects	July 28, 1995	Jan. 7, 19
312548 New Zealand	Cosmetic	Use of autologous dermal fibroblasts for the repair of skin and soft tissue defects	July 3, 1996	March 9, 2
698440 Australia	Cosmetic	Use of autologous dermal fibroblasts for the repair of skin and soft tissue defects	July 28, 1995	Feb. 11, 1
9,083,618 United States	Dental	Compositions for regenerating tissue that has deteriorated and methods for using such compositions	May 2, 1998	Aug. 13, 2

In the 1st quarter of 2003, Isolagen Technologies entered into an Intellectual Property Purchase Agreement with Gregory M. Keller, M.D. and Pacgen Partners to acquire two patent applications: a) to repair vocal cord tissue defects and b) to promote healing of wounds and fistulas. As consideration, the Company issued the seller 100,000 shares of the Company's Common Stock and a royalty equal to (a) 5% of all revenues recognized by Purchaser or its Affiliates from commercial application of the Intellectual Property made, provided, distributed, sold or manufactured directly by Purchaser or its

Affiliates, or (b) 25% of all revenues recognized by Purchaser or its Affiliates from licensing, sublicensing, transferring or selling the Intellectual Property to a third party, without offset or deduction for general and administrative or operating costs, subject to a total maximum royalty of $2 million.

The Company is working on several other patent applications. The Company continues to seek ways to protect its proprietary technology and trade secrets, including entering into confidentiality or license agreements with its employees, consultants and corporate partners, and controlling access to and distribution of its technologies and other proprietary information.

RESEARCH AND DEVELOPMENT

The Company's research and development focus is not principally on new product development, but on improved process science, manufacturing and cost reduction. Though the Company's research and development focuses on improved process and manufacturing, the Company continues to explore applications for the Isolagen Process like therapies to regrow hair, repair damaged nerves, and heal burned skin. For the years ending December 31, 2002, 2001 and 2000, we incurred research and development expenses of $1.7 million, $0.9 million, and $0.5 million, respectively.

PUBLISHED ARTICLES

The following are published articles regarding the Isolagen Process:

1. Deborah Watson, MD; Gregory S. Keller, MD; Victor Lacombe, MD; Peter B. Fodor, MD; Jeffrey Rawnsley, MD; Gary P. Lask, MD. Autologous Fibroblasts for Treatment of Facial Rhytids and Dermal Depression. ARCH Facial Plast Surg/Vol 1, July-Sep 1999.

2. William K. Boss, Jr., MD, FACS; Hakan Usal, MD; Peter B. Fodor, MD; Gregory Chernoff, MD; Autologous Cultured Fibroblasts: A Protein Repair System. Annals of Plastic Surgery, Volume 44/Number 5/May 2000.

3. William K. Boss, Jr., MD; Hakan Usal, MD; Gregory Chernoff, MD; Gregory S. Keller, MD; Gary P. Lask, MD; Peter B. Fodor, MD. Autologous Cultured Fibroblasts as Cellular Therapy in Plastic Surgery. Clinics in Plastic Surgery, Volume 27, Number 4, October 2000.

EMPLOYEES

The Company presently employs thirty-two (32) people on a full-time basis, twenty (20) in Houston, Texas, nine (9) in London, England, and three (3) in Sydney, Australia. The Company anticipates hiring additional employees in the areas of quality assurance, manufacturing, marketing and research and development as the need arises. None of these individuals are covered by a collective bargaining agreement and management considers its relations with its employees to be good. The Company may also employ consultants on an as needed basis to supplement existing staff.

RISK FACTORS

WE WILL NEED TO RAISE SUBSTANTIAL ADDITIONAL CAPITAL TO FUND OUR OPERATIONS OVER THE COURSE OF THE NEXT TWO YEARS. NO ASSURANCE CAN BE GIVEN THAT ANY SUCH FINANCING, IF OBTAINED, WILL BE ADEQUATE TO MEET OUR ULTIMATE CAPITAL

NEEDS AND TO SUPPORT OUR GROWTH. Although we believe our current cash resources will be sufficient to fund our planned operations for the next 12 months, we will require substantial additional capital to meet our long-term needs. Subsequent to 12 months, we will require approximately $20 million of additional capital to bring our product to market in the United States and expand operations in the United Kingdom and Australia. This estimate assumes that no further testing requirements are imposed by the FDA, that FDA approval is forthcoming and that FDA approval is received during 2005. The FDA approval process is extremely complicated and is dependent upon our study protocols and the results of our studies. In the event that the FDA requires additional studies or requires changes in our study protocols or in the event that the results of the studies are not consistent with our expectations, the process will be more expensive and time consuming. Due to the vagaries of the FDA approval process we are unable to predict what the cost of obtaining approval will be if FDA approval is not forthcoming in 2005. We recently commenced operations, are suffering losses from operations, have limited capital resources, do not have access to a line of credit or other debt facility, and will be unable to sustain operations absent substantial infusions of capital. We are actively assessing various financing opportunities. There can be no assurance that we will be successful in raising the necessary capital; or that we will be able to raise capital on acceptable terms. Additionally, no assurance can be given that any such financing, if obtained, will be adequate to meet our ultimate capital needs and to support our growth. If adequate capital cannot be obtained on satisfactory terms, our operations could be materially and adversely impacted.

THE NEED TO RAISE ADDITIONAL CAPITAL WILL EXPOSE EXISTING SHAREHOLDERS TO THE RISK OF SUBSTANTIAL DILUTION. The need to raise additional capital will expose existing shareholders to the risk of substantial dilution.

ISOLAGEN HAS NOT DEMONSTRATED AN ABILITY TO GENERATE SIGNIFICANT REVENUE, AND THERE IS NO ASSURANCE THAT WE WILL PRODUCE ANY MATERIAL REVENUES. Isolagen is a development stage company with a limited operating history and no significant revenues to date. Isolagen has not yet demonstrated its ability to generate significant revenue, and there is no assurance that we will produce any material revenues, or that we will ever operate on a profitable basis.

AS A RESULT OF OUR LIMITED OPERATING HISTORY AND BECAUSE OF THE EMERGING NATURE OF THE MARKETS IN WHICH WE WILL COMPETE, OUR FINANCIAL DATA IS OF LIMITED VALUE IN PLANNING FUTURE OPERATING EXPENSES. OUR OPERATING EXPENSES ARE DIFFICULT TO FORECAST ACCURATELY. TO THE EXTENT THAT SUCH EXPENSES PRECEDE OR ARE NOT RAPIDLY FOLLOWED BY INCREASED REVENUE, OUR BUSINESS, RESULTS OF OPERATIONS AND FINANCIAL CONDITION MAY BE MATERIALLY ADVERSELY AFFECTED. As a result of our limited operating history and because of the emerging nature of the markets in which we will compete, our financial data is of limited value in planning future operating expenses. Our expense levels will be based in part on our expectations concerning future revenues. A significant portion of our revenue is anticipated to be derived from the Isolagen Process; however, the size and extent of such revenues are wholly dependent upon the choices and demand of individuals, which are difficult to forecast accurately. We may be unable to adjust our operations in a timely manner to compensate for any unexpected shortfall in revenues. Accordingly, a significant shortfall in demand for the Isolagen Process could have an immediate and material adverse effect on our business, results of operations and financial condition. Further, business development and marketing expenses may increase significantly as we expand our operations. To the extent that such expenses precede or are not rapidly followed by increased revenue, our business, results of operations and financial condition may be materially adversely affected.

OUR OPERATING RESULTS MAY FLUCTUATE SIGNIFICANTLY IN THE FUTURE AS A RESULT OF A VARIETY OF FACTORS, MANY OF WHICH ARE OUTSIDE OF OUR CONTROL. OUR OPERATING RESULTS MAY FALL BELOW THE EXPECTATIONS OF SECURITIES ANALYSTS,

STOCKHOLDERS AND INVESTORS IN ANY FUTURE PERIOD. Our operating results may fluctuate significantly in the future as a result of a variety of factors, many of which are outside of our control. These factors include: the level of demand for the Isolagen Process and other services and products that we may develop; our ability to attract and retain personnel with the necessary strategic, technical and creative skills required for effective operations;

the amount and timing of expenditures by customers; the amount and timing of capital expenditures and other costs relating to the expansion of our operations; government regulation and legal developments regarding the use of the Isolagen Process; and general economic conditions. As a strategic response to changes in the competitive environment, we may from time to time make certain pricing, service, technology or marketing decisions or business or technology acquisitions that could have a material adverse effect on our quarterly results. Due to all of these factors, our operating results may fall below the expectations of securities analysts, stockholders and investors in any future period.

WE ANTICIPATE THAT LOSSES WILL CONTINUE TO INCREASE FROM CURRENT LEVELS AND THAT WE WILL EXPERIENCE NEGATIVE CASH FLOW, WHICH MAY LIMIT OR DELAY ABILITY TO BECOME PROFITABLE. The Company expects to expend significant resources on consultants, technology, advertising, hiring of personnel and startup costs. As a result, the Company has incurred losses since its inception and expects to experience operating losses and negative cash flow for the foreseeable future. The Company anticipates its losses will continue to increase from current levels because it expects to incur additional costs and expenses related to brand development, consulting costs, laboratory development costs, FDA clinical trials, marketing and other promotional activities, the addition of customer service personnel, the continued development of its website, its computer network, and development of relationships with strategic business partners, including but not limited to doctors who might use the Isolagen Process. For the years ending December 31, 2002, 2001 and 2000, we incurred losses of $5.4 million, $1.7 million and $0.8 million, respectively.

OUR INABILITY TO REDUCE COSTS MAY LIMIT OR OUR DELAY ABILITY TO BECOME PROFITABLE. The Company anticipates that improved manufacturing practices will allow the Company's laboratories to have significantly greater through-put and reduce many of the Company's variable costs. The Company also expects to incur additional costs and expenses related to brand development, consulting costs, laboratory development costs, FDA clinical trials, marketing and other promotional activities, the addition of customer service personnel, the continued development of its website, its computer network, and development of relationships with strategic business partners, including but not limited to doctors who might use the Isolagen Process. If the Company cannot reduce its costs and expenses, then the Company may continue to experience operating losses and negative cash flow. Moreover, the costs to obtain regulatory approvals could be considerable and the failure to obtain or delays in obtaining such approvals could materially adversely affect the Company's business performance and financial results. We have spent approximately $200,000 for regulatory approvals in the United Kingdom and Australia. Research and development costs are composed primarily of costs related to the Company's efforts to gain FDA approval for the Isolagen Process in the United States. These costs include those personnel and laboratory costs related to the current FDA trials and certain consulting costs. This project is still under development. The total cost of research and development as of December 31, 2002 is $3.8 million. As of December 31, 2002, we believe at a minimum it will cost $4.2 million to complete this project. That estimate assumes that no further testing requirements are imposed by the FDA, that FDA approval is forthcoming and that FDA approval is received during 2005.

The FDA approval process is extremely complicated and is dependent upon our study protocols and the results of our studies. In the event that the FDA requires additional studies or requires changes in our study protocols or in the event that the results of the studies are not consistent with our expectations the process will be more expensive and time consuming. Due to the vagaries of the FDA approval process we are unable to predict what the cost of obtaining approval will be if FDA approval is not forthcoming in 2005. Failure to substantially reduce the cost per patient will have a material adverse effect on the results of Isolagen's operations and financial condition.

THERE IS A LIMITED PUBLIC TRADING MARKET FOR THE COMMON STOCK THAT MAY LIMIT OR PRECLUDE YOUR ABILITY TO SELL SHARES OF COMMON STOCK. There is a limited public trading market for the Common Stock, and there is no assurance that any established public trading market will develop for any of the Company's securities. Without such an active or public trading market, there can be no assurance of any liquidity or resale value of the Common Stock. The Common Stock may be illiquid for indefinite periods of time.

OUR STOCK PRICE IS HIGHLY VOLATILE, AND REPRESENTS SIGNIFICANT MARKET RISK TO AN INVESTMENT IN OUR COMMON STOCK. The market price of the Common Stock is likely to be highly volatile due to risks and uncertainties described in this Prospectus, as well as other factors, including sales of substantial amounts of our stock by existing stockholders and price and volume fluctuations in the stock market which do not relate to our operating performance. During 2001, our common stock traded from $0.05 to $7.00. During 2002, our common stock traded from $2.20 to $7.25.

OUR COMMON STOCK IS VULNERABLE TO PRICING AND PURCHASING ACTIONS THAT ARE BEYOND OUR CONTROL AND, THEREFORE, PERSONS ACQUIRING OUR SHARES MAY BE UNABLE TO RESELL THEIR SHARES AT A PROFIT AS A RESULT OF THIS VOLATILITY. The securities markets have from time to time experienced significant price and volume fluctuations that may be unrelated to the operating performance of particular companies. Announcements of delays in our testing, development or regulatory approval schedules, technological innovations or new products developed by us or our competitors and

developments or disputes concerning patents or proprietary rights could have a significant and adverse impact on such market prices. Regulatory developments in the United States and foreign countries, economic and other external factors, all affect the market price of our securities. In addition, the realization of any of the risks described in these "Risk Factors" could have a significant and adverse impact on such market prices.

FUTURE SALES OF OUR COMMON STOCK MAY CAUSE OUR STOCK PRICE TO DECLINE. THEREFORE, PRESENT STOCK PRICES MAY NOT BE INDICATIVE OF THE PRICES AT WHICH YOU WILL BE ABLE TO SELL SHARES OF COMMON STOCK. Our stock price may decline by future sales of our shares or the perception that such sales may occur. As of December 31, 2002, approximately 14.2 million shares of Common Stock held by existing stockholders constitute "restricted shares" as defined in Rule 144 under the Securities Act. The restricted shares may only be sold if they are registered under the Securities Act, or sold under Rule 144 promulgated under the Securities Act, or another exemption from registration under the Securities Act. Substantially all of the restricted shares of our common stock are either eligible for sale pursuant to Rule 144 or have been registered under the Securities Act for resale by the holders. We are unable to estimate the amount, timing, or nature of future sales of outstanding common stock. Sales of substantial amounts of our common stock in the public market may cause the stock's market price to decline.

THE DEVELOPMENT OF THE ISOLAGEN PROCESS AND THE COMPANY'S OTHER PRODUCTS INVOLVES A LENGTHY AND COMPLEX PROCESS, AND THE COMPANY MAY BE UNABLE TO COMMERCIALIZE THE ISOLAGEN PROCESS OR ANY OF ITS OTHER PROCESSES OR PRODUCTS CURRENTLY UNDER DEVELOPMENT. Before the Company can commercialize the Isolagen Process or any other of its development-stage products or processes in the U.S., the Company will need to conduct substantial research and development; undertake preclinical and clinical testing; and pursue regulatory approvals, including but not limited to FDA approval of its IND for the Isolagen Process. This process involves a high degree of risk and takes several years. The Company's process and product development efforts may fail for many reasons, including: failure of the process or product in preclinical studies; clinical trial data that is insufficient to support the safety or effectiveness of the process or product; or the failure to obtain the required regulatory approvals. Specifically, the FDA may withhold approval of the IND for several years or reject the IND outright. For these reasons, and others, the Company may not successfully commercialize the Isolagen Process or any of its other processes or products currently under development.

OBTAINING FDA AND OTHER REGULATORY APPROVALS IS TIME CONSUMING AND EXPENSIVE, AND THE RESPECTIVE OUTCOMES ARE UNCERTAIN. The process of obtaining FDA and other regulatory approvals is time consuming and expensive. Clinical trials are required and the marketing and manufacturing of Company's products and services are subject to rigorous testing procedures. The Company may not be able to obtain FDA approval or other regulatory approval to conduct clinical trials or to manufacture and market any of the products it develops, acquires or licenses. Moreover, the costs to obtain approvals could be considerable and the failure to obtain or delays in obtaining an approval could significantly harm the Company's business performance and financial results. Even if pre-marketing approval from the FDA is received, the FDA is authorized to impose post-marketing requirements such as: (i) testing and surveillance to monitor a product and its continued compliance with regulatory requirements; (ii) submitting products for inspection and, if any inspection reveals that the product is not in compliance, prohibiting the sale of all products; (iii) suspending manufacturing; and (iv) withdrawing marketing clearance. In their regulation of advertising, the FDA and Federal Trade Commission (the "FTC") from time to time issue correspondence alleging that some advertising or promotional practices are false, misleading or deceptive. The FDA has the power to impose a wide array of sanctions on companies for such advertising practices, and the receipt of correspondence from the FDA alleging these practices could result in the following: (i) incurring substantial expenses, including fines, penalties, legal fees and costs to comply with the FDA's requirements; (ii) changes in the methods of marketing and selling products; (iii) taking FDA-mandated corrective action, which may include placing advertisements or sending letters to physicians, rescinding previous advertisements or promotions; and (iv) disruption in the distribution of products and loss of sales until compliance with the FDA's position is obtained.

WE ARE SUBJECT TO EXTENSIVE GOVERNMENTAL REGULATION THAT MAY SIGNIFICANTLY AFFECT OUR OPERATING RESULTS. Human healthcare products and services companies are subject to significant regulation by a number of national, foreign, state and local agencies. The FDA has jurisdiction covering testing, manufacturing, safety, effectiveness, labeling, storage, record keeping, approval, advertising and promotion of the Company's products. Failure to comply with applicable regulatory requirements could, among other things, result in: (i) fines; (ii) changes to advertising; (iii) suspensions of regulatory approvals of products; (iv) delays in product distribution, marketing and sale; and (iv) civil or criminal sanctions. The Company's products receive FDA review regarding their safety and effectiveness. However, the FDA is permitted to revisit and change its prior determinations. The Company cannot be sure that the FDA will not change its position with regard to the safety or effectiveness of its products. If the FDA's position changes, the Company may be

required to change its labeling or cease to manufacture and market the

challenged products. Even prior to any formal regulatory action, the Company could voluntarily decide to cease distribution and sale or recall any of its products if concerns about the safety or effectiveness develop.

WE ARE ALSO SUBJECT TO A VARIETY OF OTHER REGULATIONS IN VARIOUS FOREIGN MARKETS THAT COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS IN A PARTICULAR MARKET OR IN GENERAL. The Company is also subject to a variety of other regulations in various foreign markets. The Company's failure to comply, or assertions that the Company fails to comply, with these regulations could have a material adverse effect on the Company's business in a particular market or in general. To the extent the Company decides to commence or expand operations in additional countries, government regulations in those countries may prevent or delay entry into or expansion of operations in those markets. In addition, the Company may introduce additional products into the foreign markets. However, government regulations in both the Company's domestic and international markets can delay or prevent the introduction, or require the reformulation or withdrawal, of some of the Company's products.

OUR FOREIGN OPERATIONS ARE EXPOSED TO RISKS ASSOCIATED WITH FOREIGN REGULATIONS, EXCHANGE RATE FLUCTUATIONS, TRADE RESTRICTIONS AND POLITICAL, ECONOMIC AND SOCIAL INSTABILITY. A foreign government may impose trade or foreign exchange restrictions or increased tariffs, which could adversely affect our operations. We are also exposed to risks associated with foreign currency fluctuations. Our operations in some markets also may be adversely affected by political, economic and social instability in foreign countries. As we continue to focus on expanding our existing international operations, these and other risks associated with international operations may increase. We are also subject to the risks of doing business abroad, including unexpected changes in regulatory requirements, export and import restrictions, tariffs and other trade barriers, difficulties in staffing and managing foreign operations, longer payment cycles, problems in collecting accounts receivable, potential adverse tax consequences, exchange rate fluctuations, increased risks of piracy, limits on our ability to enforce our intellectual property rights, , limits on repatriation of funds and political risks that may limit or disrupt international sales. Such limitations and interruptions could have a material adverse effect on our business, financial condition and results of operations. In addition, operations of our foreign subsidiaries are translated from local currency into U.S. dollars based on average monthly exchange rates. We currently do not hedge our foreign currency transactions and is therefore subject to the risk of changes in exchange rates.

TERRORIST ATTACKS OR ACTS OF WAR MAY SERIOUSLY HARM THE COMPANY'S BUSINESS. Terrorist attacks or acts of war may cause damage or disruption to the Company, its employees, its facilities and its customers, which could impact the Company's revenues, costs and expenses, and financial condition. The terrorist attacks that took place in the United States on September 11, 2001 were unprecedented events that have created many economic and political uncertainties, some of which may materially adversely affect the Company's business, results of operations, and financial condition. The potential for future terrorist attacks, the national and international responses to terrorist attacks, and other acts of war or hostility have created many economic and political uncertainties, which could materially adversely affect the Company's business, results of operations, and financial condition in ways that management currently cannot predict.

ANY MARKETABLE PROCESSES OR PRODUCTS THAT THE COMPANY DEVELOPS MAY NOT

BE COMMERCIALLY SUCCESSFUL. Even if the Company obtains regulatory approval for the Isolagen Process or any of its other development-stage processes or products in the U.S. and other countries, those processes or products may not be accepted by the market. A number of factors may affect the rate and level of market acceptance of the Isolagen Process or these processes or products, including: regulation by the FDA and other government authorities; market acceptance by doctors and hospital administrators; the effectiveness of the Company's sales force; the effectiveness of the Company's production and marketing capabilities; the success of competitive products; and the availability and extent of reimbursement from third-party payers. If the Isolagen Process or any other Company processes or products fail to achieve market acceptance, the Company's profitability and financial condition will suffer.

OUR COMPETITORS IN THE BIOTECHNOLOGY AND PHARMACEUTICAL INDUSTRIES MAY HAVE SUPERIOR PRODUCTS, MANUFACTURING CAPABILITIES OR MARKETING POSITION. The human healthcare products and services industry is extremely competitive. The Company's competitors include major pharmaceutical companies and other biotechnology companies. Most of these competitors have more extensive research and development, marketing and production capabilities and greater financial resources than the Company. The Company's future success will depend on its ability to develop and market effectively its processes and products against those of its competitors. If the Company's processes and products receive marketing approval but cannot compete effectively in the marketplace, the Company's profitability and financial position will suffer.

DIFFICULTIES MANAGING GROWTH COULD ADVERSELY AFFECT OUR BUSINESS, OPERATING RESULTS AND FINANCIAL CONDITION. If the Company achieves growth in its operations in the next few years, such growth could place a strain on its management, administrative, operational and financial infrastructure. The Company's ability to manage its operations and growth requires the continued improvement of operational, financial and management controls, reporting systems and procedures. In addition, the Company may find it necessary to hire additional management, financial and sales and marketing personnel to manage the Company's operations. If the Company is unable to manage this growth effectively and successfully, the Company's business, operating results and financial condition may be materially adversely affected.

WE ARE DEPENDENT ON OUR KEY OFFICERS AND EMPLOYEES. The Company is dependent on the efforts of Frank DeLape (Chairman of the Board of Directors), William K. Boss, Jr. (Vice Chairman of the Board of Directors), Michael Macaluso, (Chief Executive Officer, President and Director), Jeffrey Tomz, (Chief Financial Officer and Secretary), Olga Marko (Senior Vice President and Director of Research), and Vaughan Clift, (Vice President of Operations). The loss of any of these officers or employees or our inability to recruit and train additional key service personnel in a timely manner, could materially and adversely affect our business and our future prospects. While no assurances can be given that the Company's current management resources will enable it to succeed as planned, a loss of one or more of its current officers or key employees could severely and negatively impact its operations. No assurances can be given that the Company will not suffer the loss of key human resources for one reason or another. The Company has employment agreements with certain of its officers, but some of its key management personnel are employed "at-will" and may elect to pursue other opportunities at any time. Specifically, the loss of Michael Macaluso, the Chief Executive Officer of the Company, or Frank DeLape, Chairman of the Board, neither of which has an employment agreement with the Company, could significantly harm the Company's business. The Company has no present intention of obtaining key man life insurance on any of the executive officers or management. We have had no difficulty hiring and retaining the

necessary management and personnel in the recent past. To the best of our knowledge, none of our key officers or employees plan to leave or retire in the near future.

WE WILL NEED TO ATTRACT, TRAIN OR RETAIN ADDITIONAL HIGHLY QUALIFIED TECHNICAL AND MANAGERIAL PERSONNEL IN THE FUTURE. OUR INABILITY TO DO SO COULD HAVE A MATERIAL ADVERSE AFFECT ON OUR BUSINESS, OPERATING RESULTS AND FINANCIAL CONDITION. There can be no assurance that we will be able to attract, train or retain additional highly qualified technical and managerial personnel in the future, which could have a material adverse effect on the our business, financial condition and results of operations.

OUR OFFICERS AND DIRECTORS HAVE EFFECTIVE VOTING CONTROL OF THE COMMON STOCK. THEREFORE, OUR OTHER STOCKHOLDERS WILL HAVE LIMITED PARTICIPATION IN OUR AFFAIRS. As of December 31, 2002, our present executive officers, directors and controlling stockholders directly and beneficially hold 57.9% of the outstanding shares of Common Stock. Our officers, directors and controlling stockholders currently are, and in the foreseeable future will continue to be, in a position to control Isolagen by being able to nominate and elect a majority of our Board of Directors. The Board of Directors establishes corporate policies and has the sole authority to nominate and elect our officers to carry out those policies. Other stockholders therefore will have limited participation in our affairs.

WE HAVE NOT DECLARED ANY DIVIDENDS ON OUR COMMON STOCK TO DATE AND WE HAVE NO INTENTION OF DECLARING DIVIDENDS IN THE FORESEEABLE FUTURE. INVESTORS IN OUR COMMON STOCK CANNOT RELY ON DIVIDEND INCOME. The future payment by the Company of cash dividends on the Common Stock rests within the discretion of its Board of Directors and will depend, among other things, upon the Company's earnings, its "unencumbered cash," its capital requirements and its financial condition, as well as other relevant factors. The Company does not anticipate making any cash distributions on the Common Stock in the foreseeable future. Investors in our common stock cannot rely on dividend income.

IF WE ARE UNABLE TO EFFECTIVELY PROMOTE OUR BRAND AND ESTABLISH A LEADING POSITION IN THE BIOTECHNOLOGY MARKETPLACE, RESULTS OF OPERATION AND FINANCIAL CONDITION WILL SUFFER. The Company's brand name is new and unproven. If the Company is unable to effectively promote its brand and establish a leading position in the biotechnology marketplace, results of operation and financial condition will suffer. Company management believes that the importance of brand recognition will increase over time. In order to gain brand recognition, the Company may increase its marketing and advertising budgets to create and maintain brand loyalty.

WE MAY FAIL TO PROTECT ADEQUATELY ITS PROPRIETARY TECHNOLOGY, WHICH WOULD ALLOW COMPETITORS TO TAKE ADVANTAGE OF ITS RESEARCH AND DEVELOPMENT EFFORTS. The Company's long-term success largely depends on its ability to market technologically competitive processes and products. If the Company fails to obtain or maintain these protections it may not be able to prevent third parties from using its proprietary rights. The Company's currently

pending or future patent applications may not result in issued patents. In the United States, patent applications are confidential until patents issue, and because third parties may have filed patent applications for technology covered by its pending patent applications without the Company being aware of those applications, the Company's patent applications may not have priority over any patent applications of others. In addition, the Company's issued patents may not contain claims sufficiently broad to protect the Company against third parties with similar technologies or products or provide the Company with any

competitive advantage. If a third party initiates litigation regarding the Company's patents, and is successful, a court could revoke the Company's patents or limit the scope of coverage for those patents.

The U.S. Patent and Trademark Office, commonly referred to as the USPTO, and the courts have not consistently treated the breadth of claims allowed in biotechnology patents. If the USPTO or the courts begin to allow broader claims, the incidence and cost of patent interference proceedings and the risk of infringement litigation will likely increase. On the other hand, if the USPTO or the courts begin to allow narrower claims, the value of the Company's proprietary rights may be limited. Any changes in, or unexpected interpretations of, the patent laws may adversely affect the Company's ability to enforce its patent position.

The Company also relies upon trade secrets, proprietary know-how and continuing technological innovation to remain competitive. The Company protects this information with reasonable security measures, including the use of confidentiality agreements with its employees, consultants and corporate collaborators. It is possible that these individuals will breach these agreements and that any remedies for a breach will be insufficient to allow the Company to recover its costs. Furthermore, the Company's trade secrets, know-how and other technology may otherwise become known or be independently discovered by its competitors.

WE MAY INCUR SUBSTANTIAL COSTS AS A RESULT OF LITIGATION OR OTHER PROCEEDINGS RELATING TO PATENT AND OTHER INTELLECTUAL PROPERTY RIGHTS. A third party may sue us, one of its subsidiaries or one of our strategic collaborators for infringing a third-party's patent rights. Likewise, we may need to resort to litigation to enforce our patent rights or to determine the scope and validity of third-party proprietary rights.

The cost to us of any litigation or other proceeding relating to intellectual property rights, even if resolved in the our favor, could be substantial, and the litigation would divert management's efforts. Some of the our competitors may be able to sustain the costs of complex patent litigation more effectively than we can because they have substantially greater resources. If we do not prevail in this type of litigation, we or its strategic collaborators may be required to: pay monetary damages; stop commercial activities relating to the affected products or services; obtain a license in order to continue manufacturing or marketing the affected products or services; or compete in the market with a substantially similar product.

Uncertainties resulting from the initiation and continuation of any litigation could limit our ability to continue some of our operations. In addition, a court may require that we pay expenses or damages and litigation could disrupt the Company's commercial activities.

WE MAY BE LIABLE FOR PRODUCT LIABILITY CLAIMS NOT COVERED BY INSURANCE. Doctors who use the Company's processes and products, including but not limited to the Isolagen Process, and patients who have been treated by the Isolagen Process or any other process or products of the Company may bring product liability claims against the Company or its subsidiaries. While the Company has taken, and continue to take, what the Company believes are appropriate precautions, the Company may be unable to avoid significant liability exposure. The Company intends to obtain and keep in force product liability insurance sufficient to protect it from claims; however, the Company may be unable to obtain insurance in the future, or the Company may be unable to do so on acceptable terms. Any additional insurance the Company obtains may not provide adequate coverage against any asserted claims. In addition, regardless of merit or eventual outcome, product liability claims may result in: diversion of management's time and attention; expenditure of large amounts of cash on legal fees, expenses and payment of damages; decreased demand for the Company's

products and services; and injury to the Company's reputation. At present, we believe we carry reasonably adequate insurance coverage against product liability claims.

IF WE ARE UNABLE TO KEEP UP WITH RAPID TECHNOLOGICAL CHANGES, OUR PROCESSES, PRODUCTS OR SERVICES MAY BECOME OBSOLETE AND UNMARKETABLE. The field of biotechnology is characterized by significant and rapid technological change. Although we attempt to expand its technological capabilities in order to remain competitive, research and discoveries by others may make our processes, products or services obsolete. If we cannot compete effectively in the marketplace, our potential for profitability and financial position will suffer.

OUR ACQUISITIONS OF COMPANIES OR TECHNOLOGIES MAY RESULT IN DISRUPTIONS IN BUSINESS AND DIVERSION OF MANAGEMENT ATTENTION, ADVERSELY IMPACTING OUR BUSINESS, RESULTS OF OPERATIONS AND FINANCIAL CONDITION. In the near future, the Company may make acquisitions of complementary companies, products or technologies. Any acquisitions will require the assimilation of the operations, products and personnel of the acquired businesses and the training and motivation of these individuals. Management may be unable to maintain and improve upon the uniform standards, controls, procedures and policies of the Company if it fails in this integration. Acquisitions may cause disruptions in operations and divert management's attention from day-to-day operations, which could impair the Company's relationships with current employees, customers and strategic partners. The Company may also have to, or choose to, incur debt or issue equity securities to pay for any future acquisitions. The issuance of equity securities for an acquisition could be substantially dilutive to the Company's stockholders' holdings. In addition, profitability of the Company may suffer because of such acquisition-related costs or amortization costs for acquired goodwill and other intangible assets. If management is unable to fully integrate acquired businesses, products, technologies or personnel with existing operations, the Company may not receive the intended benefits of such acquisitions. We are not party to any agreements, written or oral, for the acquisition of any company, product or technology.

PROVISIONS IN OUR BYLAWS PROVIDE FOR INDEMNIFICATION OF OFFICERS AND DIRECTORS, WHICH COULD REQUIRE US TO DIRECT FUNDS AWAY FROM OUR BUSINESS AND PRODUCTS. Our Bylaws provide for indemnification of officers and directors. We may be required to pay judgments, fines, and expenses incurred by an officer or director, including reasonable attorneys' fees, as a result of actions or proceedings in which such officers and directors are involved by reason of being or having been an officer or director. Funds paid in satisfaction of judgments, fines and expenses may be funds we need for the operation of our business and the development of our products, thereby affecting our ability to attain profitability. This could cause our stock price to drop.

ITEM 2. DESCRIPTION OF PROPERTY

The Company currently leases facilities in three (3) locations: (a) Houston, Texas, (b) London, England, and (c) Sydney, Australia. The Houston, Texas facility is located at 2500 Wilcrest, 5th Floor, Houston, TX 77042 and houses the corporate headquarters as well as laboratory space used for research and development and as the U.S. processing laboratory for cosmetic and dental trials. The London, England facility is located at 59/61 Park Royal, London, NW10 7JJ and houses our European production facility. The Sydney Australia facility is located at 2 Lincoln Street, Lane Cove, New South Wales, Australia, 2066 and houses our Australian production facility.

The Company laboratories are designed as cGMP laboratories to process

autologous cultured fibroblasts for the therapeutic injections during our procedures and clinical and pivotal trials. The Company believes its laboratories meet FDA facilities' requirements under Center for Biologics Evaluation and Research ("CBER"). The following table summarizes the approximate amount of space in square feet utilized by the Company at each location:

	ADMINISTRATIVE	WAREHOUSE	LABORATORY	TOTAL
Houston	4,900 (1)	-	3,900 (2)	8,797
London	1,300	2,900	5,200	9,400 (3)
Sydney	1,100	1,100	4,900	7,100 (4)
	7,300	4,000	14,000	25,297

1. Certain officers of the Company have granted the Company the use of this office space at no charge until August 2003. Beginning in September 2003, the lease rate is approximately $105,840 annually. There is currently no lease term as the space is being provided at no charge.

2. The lease rate is approximately $60,840 annually and the term of the lease expires on March 31, 2005.

3. The lease rate is approximately $146,640 annually and the term of the lease expires on March 24, 2010 and the Company has the option to cancel after March 24, 2005.

4. The lease rate is approximately $102,240 annually and the term of the lease expires on November 19, 2004 and the Company has an option to renew for an additional one year.

ITEM 3. LEGAL PROCEEDINGS

The Company is not currently subject to any legal proceedings. The Company may from time to time become a party to various legal proceedings arising in the ordinary course of its business.

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

No matters were submitted to a vote of security holders during the fourth quarter of fiscal year 2002.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

Since December 11, 2002, our common stock has been traded on the American Stock Exchange under the symbol "ILE." Prior to December 11, 2002, our common stock was quoted on the OTC Bulletin Board under the symbol "ISLG". The market for the Company's common stock on the OTC Bulletin Board was limited, volatile, and sporadic. The following table sets forth the range of high and low bid quotations or high and low sales prices for the Company's common stock for each of the periods indicated as reported by the OTC Bulletin Board or the

American Stock Exchange. These prices for the OTC Bulletin Board reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

	Fiscal Years Ended			
	December 31, 2002		December 31, 2001	
	High	Low	High	Low
First Quarter	$ 7.25	$ 5.00	$ 0.11	$ 0.05
Second Quarter	$ 6.95	$ 2.90	$ 1.50	$ 0.43
Third Quarter	$ 3.75	$ 2.20	$ 2.75	$ 0.92
Fourth Quarter	$ 5.75	$ 3.00	$ 7.00	$ 1.05

Holders

As of March 24, 2003, the Company had 406 shareholders of record and approximately 1,000 beneficial owners.

Dividends

The Company has never paid dividends on Common Stock. Currently, the Company anticipates that it will retain earnings, if any, to support operations and to finance the growth and development of its business and does not anticipate paying cash dividends on the Common Stock in the foreseeable future. The holders of Series A Preferred Stock will receive cumulative annual dividends, payable in shares of Series A Preferred Stock or cash, at the option of the Board of Directors, at an annual rate of 8% ($0.28 per share), payable on December 31 of each year commencing December 31, 2002. Unpaid dividends will accumulate and be payable prior to the payment of dividends on shares of Common Stock. Cash dividends will only be payable from funds legally available therefore, when and as declared by the Board of Directors of the Company, and unpaid dividends will accumulate until the Company can legally pay the dividends. In 2002, the Company paid dividends to the holders of Series A Preferred Stock in the amount of 143,506.6113 shares of Series A Preferred Stock.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2002, with respect to options outstanding and available under our 2001 Stock Option Plan and Stock Appreciation Rights, which is our only equity compensation plan, other than an employee benefit plan meeting the qualification requirements of Section 401(a) of the Internal Revenue Code. On January 29, 2003, the Board of Directors of the Company approved the 2003 Stock Option Plan and Stock Appreciation Rights Plan which is subject to approval of the stockholders of the Company at their next annual meeting.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options	Weighted-Average Exercise Price of Outstanding Options	Number of Remaining for Futur

Equity compensation plans approved by security holders	4,252,100	$ 5.08	509

Recent Sales of Unregistered Securities

The following information relates to securities of the Company issued or sold during the three months ended December 31, 2002 which were not registered under the Securities Act of 1933, as amended (the "Securities Act"):

None.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

The following discussions of the Company's results of operations and financial condition should be read in conjunction with the financial statements and notes pertaining to them that appear elsewhere in this Form 10-KSB/A.

Certain statements contained herein are not based on historical facts, but are forward-looking statements that are based upon numerous assumptions about future conditions that could prove not to be accurate. Actual events, transactions and results may materially differ from the anticipated events, transactions or results described in such statements. The Company's ability to consummate such transactions and achieve such events or results is subject to numerous risks and uncertainties. Such risks and uncertainties include, but are not limited to, the existence of demand for and acceptance of the Company's products and services, regulatory approvals and developments, economic conditions, the impact of competition and pricing, results of financing efforts and other factors affecting the Company's business that are beyond the Company's control. The Company undertakes no obligation and does not intend to update, revise, or otherwise publicly release the results of any revisions to these forward-looking statements that may be made to reflect future events or circumstances.

Although we believe that our expectations are based on reasonable assumptions, we can give no assurance that our expectations will materialize. Many factors could cause actual results to differ materially from our forward looking statements. Several of these factors include, in addition to those contained in "Risk Factors," without limitation:

- our ability to develop autologous cellular therapies that have specific applications in cosmetic dermatology, and our ability to explore (and possibly develop) applications for periodontal disease, reconstructive dentistry and other health-related markets;

- whether our clinical human trials relating to autologous cellular therapy applications for the treatment of dermal defects or gingival recession can be conducted within the timeframe that we expect, whether such trials will yield positive results, or whether additional applications for the commercialization of autologous cellular therapy can be identified by us and advanced into human clinical trials;

- our ability to provide and deliver any autologous cellular therapies that we may develop, on a basis is that is cost competitive with other therapies, drugs and treatments that may be provided by our competitors;

- our ability to finance our business;

- our ability to maintain our current pricing model;

- our ability to decrease our cost of goods sold;

- a stable interest rate market in the world, and specifically the countries we are doing business in or plan to do business in;

- management's best estimate on the patient data including patients started and patients completed;

- a stable currency rate environment in the world, and specifically the countries we are doing business in or plan to do business in;

- our ability to receive requisite regulatory approvals in the United States, European Community, Australia, South Korea, Hong Kong, Mexico and other countries, and our ability to retain the licenses that we may obtain in such jurisdictions; and the absence of adverse regulatory developments in the United States, European Community, Australia, South Korea, Hong Kong, Mexico or any other country, in which we plan to conduct commercial operations;

- continued availability of supplies at the current prices;

- no new entrance of competitive products in our markets;

- no adverse publicity related to our products or the Company itself;

- no adverse claims relating to our Intellectual Property;

- the adoption of new, or changes in, accounting principles; and/or legal proceedings;

- our ability to maintain compliance with the AMEX requirements for continued listing of our common stock;

- the costs inherent in complying with new laws and regulations applicable to public reporting companies, such as the Sarbanes-Oxley Act of 2002;

- our ability to efficiently integrate future acquisitions, if any;

- other new lines of business that the company may enter in the future; and

- other risks referenced from time to time elsewhere in this report and in our filings with the SEC.

These factors are not necessarily all of the important factors that could cause actual results of operations to differ materially from those expressed in these forward-looking statements. Other unknown or unpredictable factors also could have material adverse effects on our future results. We undertake no obligation and do not intend to update, revise or otherwise publicly release any revisions to these forward-looking statements to reflect

events or circumstances after the date hereof or to reflect the occurrence of any unanticipated events. We cannot assure you that projected results will be achieved.

GENERAL

Isolagen is a Houston, Texas based biotechnology company which has developed a patented process for the propagation of autologous cells to be used to stimulate a patient's own collagen and elastin production. Autologous cells are a patient's own cells taken from a small skin sample. From such sample millions of cells can be grown and then injected into the patient to correct and reduce the normal effects of aging like wrinkles, laugh lines, smokers lines, fine lines and all types of depressed scars. The procedure is minimally invasive and non-surgical. Currently, there are multiple competitive alternatives to reduce the signs of aging, but they offer short term and often painful solutions. Their solutions often involve substitute products or fillers, such as human cadaver or animal collagen or synthetic chemicals. A well known example is Botox, which uses diluted, liquid toxin to attain a correction through muscle paralysis.

In contrast, the Isolagen Process (as described in more detail below) is a self healing protein repair system that uses only the patient's own (autologous) cells. Since these cells belong only to the patient and house his or her own DNA, there is a reduced chance for rejection or allergic reaction. It is important to note that the cells are grown individually. There is no batch manufacturing and the Company's LIMS keeps the cells self contained and separate.

The Isolagen Process is designed to replenish deficiencies caused through the loss of fibroblast cells as the body ages. The body losses approximately 1% of the body's fibroblast cells per year. The fibroblast cell is the cell responsible for producing collagen, "the structural matrix", that supports the skin and also produces elastin. By the time a person is 40 years old, their body has depleted approximately 40% of its fibroblast cells, thus causing dermal depressions and wrinkles. The Isolagen Process reduces dermal depressions and wrinkles by replenishing the area of deficiency with millions of the patient's own new living fibroblast cells. Within weeks after the injection, the millions of new fibroblast cells will produce new collagen and elastin and will help diminish wrinkles.

Isolagen reported a net loss of $5,433,055 for the year ended December 31, 2002 compared to a net loss of $1,652,004 for the year ended December 31, 2001.

CRITICAL ACCOUNTING POLICIES

The following discussion and analysis of financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures. On an on-going basis, the Company evaluates its estimates and assumptions, including but not limited to those related to the impairment of long-lived assets, reserves for doubtful accounts, revenue recognition and certain accrued liabilities. The Company bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Revenue Recognition: We recognize revenue from product sales when goods are shipped and the risk of loss transfers to the customer. Revenue from licenses and other up-front fees are recognized on a ratable basis over the term of the respective agreement. Milestone payments are recognized upon successful completion of a performance milestone event. Any amounts received in advance of performance are recorded as deferred revenue. We recognize revenue over the period the service is performed in accordance with SEC Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"). SAB 101 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services rendered, (3) the fee is fixed and determinable, and (4) collectibility is reasonably assured. We believe that all of these conditions are met at the time of shipment. Currently, three injections are recommended, although the decision to utilize one, two or three injections is between the attending physician and his/her patient. The amount invoiced is fixed and determinable and only varies among customers depending upon the number of injections requested. There is no performance provision under any arrangement with any doctor and there is no right to refund, or returns for unused injections.

Currently the Isologen Process is delivered through an attending physician to each patient in the Company's recommended regimen of up to three injections. Each injection has stand alone value to the patient. The Company invoices the attending physician upon that physician submitting his/her patient's tissue sample to the Company; thus the contractual arrangement is between the Company and the medical professional. The amount invoiced varies directly with the number of injections requested. All orders are paid in advance by the physician and are not refundable. Revenue is deferred until shipment, provided no significant obligations remain, and is recognized in installments corresponding to the number of injections shipped to the attending physician. Due to the short shelf life, each injection is cultured on an as needed basis and shipped prior to the individual injection being administered by the physician. The amount of the revenue deferral represents the fair value of the remaining undelivered injections defined in accordance with EITF 00-21, which addresses the issue of accounting for arrangements that involve the delivery of multiple products or services. Should the physician discontinue the regimen prematurely all remaining deferred revenue is recognized.

Research and development expenses: Research and development include direct costs, research-related overhead, and costs associated with improved process science, manufacturing and cost reduction are charged to operations as incurred.

Stock-based compensation: The Company accounts for its stock-based compensation under the provisions of SFAS No. 123 - "Accounting for Stock Based Compensation." Under SFAS No. 123, the Company is permitted to either record expenses for stock options and other employee compensation plans based on their fair value at the date of grant or to continue to apply its current accounting policy under Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees," ("APB NO. 25"), and recognize compensation expense, if any, based on the intrinsic value of the equity instrument at the measurement date. The Company elected to continue following the provisions of APB No. 25.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure. This statement provides guidance for those companies wishing to voluntarily change to the fair value based method of accounting for stock-based compensation. The statement also amends the disclosure requirements of Statement 123, requiring prominent disclosure in annual and interim financial statements regarding a company's method for accounting for stock-based employee compensation and the effect of

the method on reported results. While Isolagen continues to utilize the disclosure-only provisions of Statement 123, the Company has modified its disclosures to comply with the new statement.

RESULTS OF OPERATIONS, AS RESTATED

Comparison of fiscal years ending December 31, 2002 and 2001

REVENUES. Revenues decreased 14% or $14,491, to $90,991 for the year ended December 31, 2002 ("Fiscal 2002") compared to $105,482 for the year ended December 31, 2001 ("Fiscal 2001"). The decrease in revenues is primarily attributable a decrease of $40,000 in license fees recognized in Fiscal 2002, partially offset by an increase of $48,473 relating to Isolagen Process revenue in the UK.

COST OF SALES. Costs of sales increased 96%, or $17,242, to $35,133 in Fiscal 2002, compared to $17,891 in Fiscal 2001. The increase in cost of sales is primarily related to the increase in revenues generated from the commencement of operations in the UK.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Selling, general and administrative expenses increased 458%, or $3,279,314 to $3,994,782 in Fiscal 2002, compared to $715,468 in Fiscal 2001. The major components of the approximately $3.3 million increase in selling, general and administrative expense are as follows: a)

salaries increased by approximately $0.6 million to $0.7 million in Fiscal 2002 compared to $0.1 million in Fiscal 2001 (these amounts include an imputed expense of $400,000 in Fiscal 2002 and $155,556 in Fiscal 2001 relating to the fair market value of services provided by certain officers by which they were not compensated); b) consulting expense increased by approximately $0.6 million to $0.7 million in Fiscal 2002 compared to $0.1 million in Fiscal 2001; c) travel expense increased by approximately $0.3 million to $0.4 million in Fiscal 2002 compared to $0.1 million in Fiscal 2001; d) legal expense increased by approximately $0.2 million to $0.3 million in Fiscal 2002 compared to $0.1 million in Fiscal 2001; e) promotional expense increased by approximately $0.2 million to $0.2 million in Fiscal 2002 compared to $0.0 million in Fiscal 2001; and f) various other expenses, including rent, insurance and other office expense increased by approximately $1.0 million to $1.3 million in Fiscal 2002 compared to $0.3 million in Fiscal 2001. The increase in selling, general and administrative expenses is attributed primarily to: a) higher salaries due to an increase in the number of employees; b) increased travel expenses related to our expansion into the UK and Australia; c) higher legal fees related to patent and business development issues; d) increased marketing and promotion efforts related to the commencement of operations in the UK; and e) increase in office locations due to expansion into the United Kingdom and Australia.

RESEARCH AND DEVELOPMENT. Research and development expenses increased by $0.8 million during the twelve months ended December 31, 2002 to $1.7 million as compared to $0.9 million for the same period of 2001. Research and development costs are composed primarily of costs related to the Company's efforts to gain FDA approval for the Isolagen Process in the United States. These costs include those personnel and laboratory costs related to the current FDA trials and certain consulting costs. This project is still under development. The total cost of research and development as of December 31, 2002 is $3.8 million. As of December 31, 2002, we believe at a minimum it will cost $4.2 million to complete this project. That estimate assumes that no further testing requirements are imposed by the FDA, that FDA approval is forthcoming and that FDA approval is received during 2005. The FDA approval process is

extremely complicated and is dependent upon our study protocols and the results of our studies. In the event that the FDA requires additional studies or requires changes in our study protocols or in the event that the results of the studies are not consistent with our expectations the process will be more expensive and time consuming. Due to the vagaries of the FDA approval process we are unable to predict what the cost of obtaining approval will be if FDA approval is not forthcoming in 2005. The Company has other research projects currently underway, including those related to repairing damaged nerves and therapies to regrow hair and to heal burned skin. However, research and development costs related to these projects were not material during the 2002 or 2001 periods. The major components of the approximately $0.8 million increase in research and development expense are as follows: a) consulting expense increased by approximately $0.1 million to $0.7 million in Fiscal 2002 compared to $0.6 million in Fiscal 2001. In Fiscal 2001, the Company incurred a non-cash consulting expense of $450,000 which represents the issuance of 300,000 common shares as payment for consulting services relating to a potential development of a dental product; b) salaries increased by approximately $0.5 million to $0.9 million in Fiscal 2002 compared to $0.4 million in Fiscal 2001; and c) laboratory expense increased by approximately $0.2 million to $0.2 million in Fiscal 2002 compared to $0.0 million in Fiscal 2001.

INTEREST EXPENSE. Interest expense decreased $82,015, to $0 in Fiscal 2002, compared to $82,015 in Fiscal 2001. The decrease results from conversion of all of our convertible debt to equity in Fiscal 2001.

INTEREST INCOME. Interest income increased $208,675 to $208,692 in Fiscal 2002, compared to $17 in Fiscal 2001. The increase is primarily due to an increase in the amount of investable assets representing the net proceeds from the issuance of Series A Preferred Stock.

NET LOSS. Net loss in Fiscal 2002, was $5,433,055, as compared to a net loss of $1,652,004 in Fiscal 2001. This increase in net loss is attributed primarily to salaries, travel, consulting, legal, promotional expenses, and bonuses paid to key personnel. Net loss attributable to common stockholders in Fiscal 2002 was $16,114,660, as compared to a net loss of $1,652,004 in Fiscal 2001. These amounts include $10.2 million and $0.0 million of deemed dividend associated with beneficial conversion of preferred stock in Fiscal 2002 and Fiscal 2001, respectively. These amounts include $0.5 million and $0.0 million of preferred stock dividends in Fiscal 2002 and Fiscal 2001, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Cash used in operating activities during the year ended December 31, 2002, amounted to $3,968,013, as compared to the $664,203 of cash used in operating activities during fiscal 2001. The increase is attributed primarily to salaries, travel, consulting, legal, promotional expenses, bonuses paid to key personnel, write-off of deferred revenue, and increase in accounts payable.

Investing Activities

Cash used by investing activities during Fiscal 2002, amounted to $2,252,368, as compared to cash provided by investing activities of $1,000 in Fiscal 2001. This increase in cash used is due to the purchase in Fiscal 2002 of property and equipment for the Houston, Texas, London, England, and Sydney, Australia laboratories.

Financing Activities

Cash provided by financing activities increased to $9,070,322 in Fiscal 2002 from $2,041,453 in Fiscal 2001. During Fiscal 2002, the Company received net proceeds of $9,012,722 from the issuance of Series A Preferred Stock and $57,600 from sales of common stock. During Fiscal 2001, the Company received $2,060,000 from sales of common stock.

Equity Transactions, as restated

In July 2002, the Company completed a private offering of 2,895,000 shares of Series A Convertible Preferred Stock, par value $0.001 per share, at an offering price of $3.50 per share. Each share of Series A Preferred Stock is convertible into two shares of common stock at any time after issuance and accrues dividends at 8% per annum payable in cash or additional shares of Series A Preferred Stock. In conjunction with the private offering, the Company issued to the placement agent warrants to purchase 1,158,000 shares of common stock with an exercise price of $1.93 per share. The warrants are exercisable immediately after grant and expire five years thereafter. The fair market of the warrants granted to the placement agent, based on the Black-Scholes valuation model, is estimated to be $1.57 per warrant, assuming the following: no dividend yield, a risk-free interest rate of 4%, an expanded term of the warrants of 2 years, and an expected volatility of 129%. The value of the warrants granted has been offset against the proceeds received from the sale of the Series A Preferred Stock.

During the year ended December 31, 2002, the Company issued an additional 143,507 shares of Series A Preferred Stock in lieu of cash for payment of dividends on the Series A Preferred Stock totaling $502,661.

The price of the preferred stock sold was $3.50 per share. The market value of the Company's common stock sold on the dates that the preferred stock sold or was issued as a dividend had a range of $2.30 - $5.40 per common share. In accordance with EITF 00-27 this created a beneficial conversion to the holders of the preferred stock and a deemed dividend to the preferred stockholders totaling $10,178,944 was recorded by the Company with a corresponding amount recorded as additional paid-in capital. The deemed dividend associated with the beneficial conversion is calculated as the difference between the fair value of the underlying common stock less the proceeds that have been received for the Series A Preferred Stock limited to the value of the proceeds received.

Working Capital

As of December 31, 2002, the Company had a cash balance of $4,244,640. As of March 25, 2003, the Company had a cash balance of approximately $1.4 million. The Company does not have any credit facilities with which to fund ongoing working capital needs. As of March 25, 2003, the Company believes its existing cash and cash equivalents will be adequate to meet its anticipated capital and liquidity requirements until June 30, 2003. The Company needs to raise additional capital within the next three months in order to have sufficient working capital to continue as a going concern. The short-term and long-term viability of the Company are dependent upon successful operation of its business and its ability to raise substantial additional debt and equity within the near future.

The Company has adopted a plan of financing in order to raise additional capital.

Inflation did not have a significant impact on the Company's results during the year ended December 31, 2002.

ITEM 7. FINANCIAL STATEMENTS

The financial statements of the Company, including the notes thereto and report of the independent auditors thereon, are included in this report as set forth in the "Index to Financial Statements." See F-1 for Index to Consolidated Financial Statements.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT.

The Company incorporates herein by reference information regarding directors and executive officers from the Company's definitive proxy statement to be filed by the registrant within 120 days of the close of the fiscal year.

ITEM 10. EXECUTIVE COMPENSATION

The Company incorporates herein by reference information regarding executive compensation from the Company's definitive proxy statement to be filed by the registrant within 120 days of the close of the fiscal year.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The Company incorporates herein by reference information regarding security ownership of certain beneficial owners and management from the Company's definitive proxy statement to be filed by the registrant within 120 days of the close of the fiscal year

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company incorporates herein by reference information regarding certain relationships and related transactions from the Company's definitive proxy statement to be filed by the registrant within 120 days of the close of the fiscal year

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS REQUIRED BY ITEM 601 OF REGULATION S-B

EXHIBIT NO.	IDENTIFICATION OF EXHIBIT
3.1	Certificate of Incorporation (incorporated by reference to Exhibit 3.1 of the Registrant's Form 10-K for the fiscal year ended December 31, 1991)
3.2	Bylaws (incorporated by reference to Exhibit 3.2 of the Registrant's Form 10-K for the fiscal year ended December 31, 1991)
4.1	Specimen of Common Stock certificate (incorporated by reference to Exhibit 4.4 of the Registrant's Form 10-KSB for the fiscal year ended December 31, 2001)
10.1*	2001 Stock Option and Stock Appreciation Rights Plan

10.2*	Employment Agreement dated August 10, 2001 between Isolagen, Inc. and Olga Marko
10.3*	Employment Agreement dated August 10, 2001 between Isolagen, Inc. and William K. Boss, as amended on February 28, 2002
10.4*	2003 Stock Option and Stock Appreciation Rights Plan
21.1	List of Subsidiaries (incorporated by reference to Exhibit 21.1 of the Registrant's Form 10-KSB for the fiscal year ended December 31, 2002)

31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

*Indicated management compensatory plan, contract or arrangement.

(b) REPORTS ON FORM 8-K. During the quarter ended December 31, 2002, the Company filed no reports on Form 8-K:

ITEM 14. CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and its Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-14(c) and 15-d-14(c)) as of a date within 90 days of the filing date of this annual report (the "Evaluation Date") have concluded that as of the Evaluation Date, the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities, particularly during the period in which this annual report was being prepared.

Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect the Company's internal controls subsequent to the Evaluation Date, nor any significant deficiencies or material weaknesses in such controls requiring corrective actions. As a result, no corrective actions were taken.

SIGNATURES

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

Isolagen, Inc.

By: /s/ Jeffrey W. Tomz

Jeffrey W. Tomz, Chief Financial Officer and
Principal Accounting Officer

Date: November 17, 2003

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

Signature	Title	Date
/s/ Frank DeLape Frank DeLape	Chairman of the Board	November 17, 2003
/s/ William K. Boss, Jr. William K. Boss, Jr.	Vice Chairman of the Board	November 17, 2003
/s/ Michael Macaluso Michael Macaluso	Chief Executive Officer and Director	November 17, 2003
/s/ Michael Avignon Michael Avignon	Director	November 17, 2003
/s/ Jeffrey W. Tomz Jeffrey W. Tomz	Chief Financial Officer	November 17, 2003
/s/ Steven Morrell Steven Morrell	Director	November 17, 2003
/s/ Ashley Smith Ashley Smith	Director	November 17, 2003
/s/ Ralph De Martino	Director	November 17, 2003

Ralph De Martino

EXHIBIT INDEX

EXHIBIT NO.	IDENTIFICATION OF EXHIBIT
3.1	Certificate of Incorporation (incorporated by reference to Exhibit 3.1 of the Registrant's Form 10-K for the fiscal year ended December 31, 1991)
3.2	Bylaws (incorporated by reference to Exhibit 3.2 of the Registrant's Form 10-K for the fiscal year ended December 31, 1991)
4.1	Specimen of Common Stock certificate (incorporated by reference to Exhibit 4.4 of the Registrant's Form 10-KSB for the fiscal year ended December 31, 2001)
10.1*	2001 Stock Option and Stock Appreciation Rights Plan
10.2*	Employment Agreement dated August 10, 2001 between Isolagen, Inc. and Olga Marko
10.3*	Employment Agreement dated August 10, 2001 between Isolagen, Inc. and William K. Boss, as amended on February 28, 2002
10.4*	2003 Stock Option and Stock Appreciation Rights Plan
21.1	List of Subsidiaries (incorporated by reference to Exhibit 21.1 of the Registrant's Form 10-KSB for the fiscal year ended December 31, 2002)
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

*Indicated management compensatory plan, contract or arrangement.

Index to Consolidated Financial Statements

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders of
Isolagen, Inc.

We have audited the accompanying consolidated balance sheets of Isolagen, Inc. and Subsidiaries (a Delaware corporation) as of December 31, 2002 (as restated) and 2001 (as restated), and the related consolidated statements of operations (as restated), shareholders' equity (as restated) and cash flows (as restated) 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 of America. 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Isolagen, Inc. and Subsidiaries as of December 31, 2002 and 2001 and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, the Company restated its financial statements for the years ended December 31, 2002 and 2001.

/s/ PANNELL KERR FORSTER OF TEXAS, P.C.
Houston, TX

March 12, 2003
(except for Restatement of Financial Statements described in Note 2 for which the date is October 17, 2003)

Isolagen, Inc.
(A Development Stage Company)
Consolidated Balance Sheets

	Dec 2002
ASSETS	
Current assets	
Cash and cash equivalents	$ 4,244,640
Inventory	138,910
Accounts receivable, net of allowance for doubtful accounts	40,204
Other receivables	153,583
Prepaid expenses	284,557
Total current assets	4,861,894
Property and equipment, net	2,159,913
Other assets	235,857
Total assets	$ 7,257,664
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities	
Accounts payable	$ 1,881,236
Accrued expenses	112,224
Deferred revenue	57,274
Total current liabilities	2,050,734
Commitments and contingencies	
Shareholders' equity (deficit)	
Preferred stock, $.001 par value; 5,000,000 shares authorized	3,039
Common stock, $.001 par value; 50,000,000 shares authorized	15,228
Additional paid-in capital	25,573,999
Other comprehensive income	13,875
Accumulated deficit during development stage	(20,399,211
Total shareholders' equity (deficit)	5,206,930
Total liabilities and shareholder's equity	$ 7,257,664

The accompanying notes are an integral part of these statements.

Isolagen, Inc.
(A Development Stage Company)
Consolidated Statements of Operations

	For the Year Ended December 31,		Cumul Perio Decemb 1995 (incept Decemb
	2002	2001	20
Revenues			
Sales	$ 50,991	$ 25,482	$ 1,4
License fees	40,000	80,000	2
Total revenues	90,991	105,482	1,7
Cost of sales	35,133	17,891	4
Gross profit	55,858	87,591	1,2
Selling, general and administrative expenses	3,994,782	715,468	7,1
Research and development	1,735,244	933,907	3,7
Operating loss	(5,674,168)	(1,561,784)	(9,6
Other income (expense)			
Interest income	208,692	17	2
Other income	32,421	-	
Loss on disposal of asset	-	(8,222)	
Interest expense	-	(82,015)	(3
Net loss	$ (5,433,055)	$ (1,652,004)	$ (9,7
Deemed dividend associated with beneficial conversion of preferred stock	(10,178,944)	-	(10,1
Preferred stock dividends	(502,661)	-	(5
Net loss attributable to common shareholders	$(16,114,660)	$ (1,652,004)	$(20,3
Per share information			
Net loss - basic and diluted	$ (.36)	$ (.22)	$
Deemed dividend associated with beneficial conversion of preferred stock	(.67)	-	

Preferred stock dividends	(.03)	-	
Net loss per common share - basic and diluted	$ (1.06)	$ (.22)	$
Weighted average number of basic and diluted common shares outstanding	15,205,554	7,618,947	5,0

The accompanying notes are an integral part of these statements

Isolagen, Inc.
(A Development Stage Company)
Consolidated Statements of Shareholders' Equity

	Series A Preferred Stock		Common Stock		
	Number of Shares	Amount	Number of Shares	Amount	Additional Paid-In Capital
Issuance of common stock for cash on 12/28/95	--	$ --	2,285,291	$2,285	$ (1,465)
Issuance of common stock for cash on 11/7/96	--	--	11,149	11	49,989
Issuance of common stock for cash on 11/29/96	--	--	2,230	2	9,998
Issuance of common stock for cash on 12/19/96	--	--	6,690	7	29,993
Issuance of common stock for cash on 12/26/96	--	--	11,148	11	49,989
Net loss	--	--	--	--	--
Balance, 12/31/96	--	$ --	2,316,508	$2,316	$ 138,504
Issuance of common stock for cash on 12/27/97	--	--	21,182	21	94,979
Issuance of common stock for Services on 9/1/97	--	--	11,148	11	36,249
Issuance of common stock for Services on 12/28/97	--	--	287,193	287	9,968
Net loss	--	--	--	--	--
Balance, 12/31/97	--	$ --	2,636,031	$2,635	$ 279,700

			Treasury Stock		
	Accumulated Deficit During Development Stage	Other Comprehensive Income	Number of Shares	Amount	Total Shareholders' Equity (Deficit)

Issuance of common stock for cash on 12/28/95	$ --	$--	--	$--	$ 820
Issuance of common stock for cash on 11/7/96	--	--	--	--	50,000
Issuance of common stock for cash on 11/29/96	--	--	--	--	10,000
Issuance of common stock for cash on 12/19/96	--	--	--	--	30,000
Issuance of common stock for cash on 12/26/96	--	--	--	--	50,000
Net loss	(270,468)	--	--	--	(270,468)
Balance, 12/31/96	$ (270,468)	$--	--	$--	$ (129,648)
Issuance of common stock for cash on 12/27/97	--	--	--	--	95,000
Issuance of common stock for Services on 9/1/97	--	--	--	--	36,260
Issuance of common stock for Services on 12/28/97	--	--	--	--	10,255
Net loss	(52,550)	--	--	--	(52,550)
Balance, 12/31/97	$ (323,018)	$--	--	$--	$ (40,683)

The accompanying notes are an integral part of these statements.

Isolagen, Inc.
(A Development Stage Company)
Consolidated Statements of Shareholders' Equity (Continued)

	Series A Preferred Stock		Common Stock		
	Number of Shares	Amount	Number of Share	Amount	Additional Paid-In Capital
Issuance of common stock for cash on 8/23/98	--	$ --	4,459	$ 4	$ 20,063
Repurchase of common stock on 9/29/98	--	--	--	--	--
Net loss	--	--	--	--	--
Balance, 12/31/98	--	$ --	2,640,490	$2,639	$ 299,763
Issuance of common stock for cash on 9/10/99	--	--	52,506	53	149,947
Net loss	--	--	--	--	--
Balance, 12/31/99	--	$ --	2,692,996	$2,692	$ 449,710
Issuance of common stock for cash on 1/18/00	--	--	53,593	54	1,869
Issuance of common stock for Services on 3/1/00	--	--	68,698	69	(44)
Issuance of common stock for Services on 4/4/00	--	--	27,758	28	(18)
Net loss	--	--	--	--	--

Balance, 12/31/00	--	$ --	2,843,045	$2,843	$ 451,517

	Accumulated Deficit During Development Stage	Other Comprehensive Income	Treasury Stock Number of Shares	Treasury Stock Amount	Total Shareholders Equity (Deficit)
Issuance of common stock for cash on 8/23/98	$ --	$ --	--	$ --	$ 2
Repurchase of common stock on 9/29/98	--	--	2,400	(50,280)	(5
Net loss	(195,675)	--	--	--	(19
Balance, 12/31/98	$ (518,693)	$ --	2,400	$ (50,280)	$ (26
Issuance of common stock for cash on 9/10/99	--	--	--	--	15
Net loss	(1,306,778)	--	--	--	(1,30
Balance, 12/31/99	$ (1,825,471)	$ --	2,400	$ (50,280)	$ (1,42
Issuance of common stock for cash on 1/18/00	--	--	--	--	
Issuance of common stock for Services on 3/1/00	--	--	--	--	
Issuance of common stock for Services on 4/4/00	--	--	--	--	
Net loss	(807,076)	--	--	--	(80
Balance, 12/31/00	$ (2,632,547)	$ --	2,400	$ (50,280)	$ (2,22

The accompanying notes are an integral part of these statements.

Isolagen, Inc.
(A Development Stage Company)
Consolidated Statements of Shareholders' Equity (Continued)

	Series A Preferred Stock Number of Shares	Series A Preferred Stock Amount	Common Stock Number of Shares	Common Stock Amount	Additional Paid-In Capital
Issuance of common stock for services on 7/1/01	--	$--	156,960	$ 157	$ (101)
Issuance of common stock for services on 7/1/01	--	--	125,000	125	(80)

Issuance of common stock for capitalization of accrued salaries on 8/10/01	--	--	70,000	70	328,055
Issuance of common stock for conversion of convertible debt on 8/10/01	--	--	1,750,000	1,750	1,609,596
Issuance of common stock for conversion of convertible shareholder notes payable on 8/10/01	--	--	208,972	209	135,458
Issuance of common stock for bridge financing on 8/10/01	--	--	300,000	300	(192)
Retirement of treasury stock on 8/10/01	--	--	--	--	(50,280)
Issuance of common stock for net assets of Gemini on 8/10/01	--	--	3,942,400	3,942	(3,942)
Issuance of common stock for net assets of AFH on 8/10/01	--	--	3,899,547	3,900	(3,900)
Issuance of common stock for cash on 8/10/01	--	--	1,346,669	1,347	2,018,653
Transaction and fund raising expenses on 8/10/01	--	--	--	--	(48,547)
Issuance of common stock for services on 8/10/01	--	--	60,000	60	--
Issuance of common stock for cash on 8/28/01	--	--	26,667	27	39,973
Issuance of common stock for services on 9/30/01	--	--	314,370	314	471,241

	Accumulated Deficit During Development Stage	Other Comprehensive Income	Treasury Stock		Total Shareholders' Equity (Deficit)
			Number of Shares	Amount	
Issuance of common stock for services on 7/1/01	$--	$--	--	$ --	$ 56
Issuance of common stock for services on 7/1/01	--	--	--	--	45
Issuance of common stock for capitalization of accrued salaries on 8/10/01	--	--	--	--	328,125
Issuance of common stock for conversion of convertible debt on 8/10/01	--	--	--	--	1,611,346
Issuance of common stock for conversion of convertible shareholder notes payable on 8/10/01	--	--	--	--	135,667
Issuance of common stock					

for bridge financing on 8/10/01	--	--	--	--	108
Retirement of treasury stock on 8/10/01	--	--	(2,400)	50,280	--
Issuance of common stock for net assets of Gemini on 8/10/01	--	--	--	--	--
Issuance of common stock for net assets of AFH on 8/10/01	--	--	--	--	--
Issuance of common stock for cash on 8/10/01	--	--	--	--	2,020,000
Transaction and fund raising expenses on 8/10/01	--	--	--	--	(48,547)
Issuance of common stock for services on 8/10/01	--	--	--	--	60
Issuance of common stock for cash on 8/28/01	--	--	--	--	40,000
Issuance of common stock for services on 9/30/01	--	--	--	--	471,555

The accompanying notes are an integral part of these statements.

Isolagen, Inc.
(A Development Stage Company)
Consolidated Statements of Shareholders' Equity (Continued)

	Series A Preferred Stock		Common Stock	
	Number of Shares	Amount	Number of Shares	Amount
Uncompensated contribution of services - 3rd Qtr.	--	$ --	--	$ --
Issuance of common stock for services on 11/1/01	--	--	145,933	146
Uncompensated contribution of services - 4th Qtr.	--	--	--	--
Net loss	--	--	--	--
Balance, 12/31/01	--	$ --	15,189,563	$15,190
Uncompensated contribution of services - 1st Qtr.	--	--	--	--
Issuance of preferred stock for cash on 4/26/02	905,000	905	--	--
Issuance of preferred stock for cash on 5/16/02	890,250	890	--	--
Issuance of preferred stock for cash on 5/31/02	795,000	795	--	--
Issuance of preferred stock for cash on 6/28/02	229,642	230	--	--
Uncompensated contribution of				

services - 2nd Qtr.	--	--	--	--
Issuance of preferred stock for cash on 7/15/02	75,108	75	--	--
Issuance of common stock for cash on 8/1/02	--	--	38,400	38
Issuance of warrants for services on 9/06/02	--	--	--	--
Uncompensated contribution of services - 3rd Qtr.	--	--	--	--
Uncompensated contribution of services - 4th Qtr.	--	--	--	--
Issuance of preferred stock for dividends	143,507	144	--	--
Deemed dividend associated with beneficial conversion of preferred stock	--	--	--	--
Comprehensive income:				
Net loss	--	--	--	--
Other comprehensive income, foreign currency translation adjustment	--	--	--	--
Comprehensive loss	--	--	--	--
Balance, 12/31/02	3,038,507	$ 3,039	15,227,963	$15,228

	Accumulated Deficit During Development Stage	Other Comprehensive Income	Treasury Stock		Sha
			Number of Shares	Amount	
Uncompensated contribution of services - 3rd Qtr.	$ --	$ --	--	$ --	$
Issuance of common stock for services on 11/1/01	--	--	--	--	
Uncompensated contribution of services - 4th Qtr.	--	--	--	--	
Net loss	(1,652,004)	--	--	--	(
Balance, 12/31/01	$ (4,284,551)	$ --	--	$ --	$
Uncompensated contribution of services - 1st Qtr.	--	--	--	--	
Issuance of preferred stock for cash on 4/26/02	--	--	--	--	
Issuance of preferred stock for cash on 5/16/02	--	--	--	--	
Issuance of preferred stock for cash on 5/31/02	--	--	--	--	
Issuance of preferred stock for cash on 6/28/02	--	--	--	--	
Uncompensated contribution of services - 2nd Qtr.	--	--	--	--	
Issuance of preferred stock for cash on 7/15/02	--	--	--	--	
Issuance of common stock for cash on 8/1/02	--	--	--	--	
Issuance of warrants for services on 9/06/02	--	--	--	--	
Uncompensated contribution of					

services - 3rd Qtr.	--	--	--	--	
Uncompensated contribution of services - 4th Qtr.	--	--	--	--	
Issuance of preferred stock for dividends	(502,661)	--	--	--	
Deemed dividend associated with beneficial conversion of preferred stock	(10,178,944)	--	--	--	
Comprehensive income:					
Net loss	(5,433,055)	--	--	--	(
Other comprehensive income, foreign currency translation adjustment	--	13,875	--	--	
Comprehensive loss	--	--	--	--	(
Balance, 12/31/02	$(20,399,211)	$13,875	--	$ --	$

The accompanying notes are an integral part of these statements.

Isolagen, Inc.
(A Development Stage Company)
Consolidated Statements of Cash Flows

	For the Year Ended December 31,		Cumula Period Decembe 1995 (d incepti Decembe
	2002	2001	200
Cash flows from operating activities			
Net loss	$ (5,433,055)	$ (1,652,004)	$ (9,71
Adjustments to reconcile net loss to net cash used in operating activities:			
Common stock issued for services	157,704	788,970	1,20
Uncompensated contribution of services	400,000	155,556	55
Depreciation	99,812	15,368	16
Loss on sale of property and equipment	-	8,222	
Change in operating assets and liabilities:			
Decrease (increase) in accounts receivable	(39,137)	1,288	(4
Increase in other receivables	(153,583)		(15
Increase in inventory	(138,910)	-	(13
Increase in prepaid expenses	(284,557)	-	(28
Decrease (increase) in other assets	(115,507)	25,420	(11
Increase in accounts payable	1,673,040	59,932	1,88
Increase in accrued expenses	88,906	13,045	11
Increase (decrease) in deferred revenue	(222,726)	(80,000)	5
Net cash used in operating activities	(3,968,013)	(664,203)	(6,45

Cash flows from investing activities			
Purchase of property and equipment	(2,252,368)	-	(2,33
Proceeds from the sale of property and equipment	-	1,000	
Net cash provided by (used in) operating activities	(2,252,368)	1,000	(2,33
Cash flows from financing activities			
Proceeds from convertible debt	-	-	1,45
Proceeds from notes payable to shareholders	-	30,000	13
Proceeds from the issuance of preferred stock	9,012,722	-	9,01
Proceeds from the issuance of common stock	57,600	2,060,000	2,52
Merger and acquisition expenses	-	(48,547)	(4
Repurchase of common stock	-	-	(5
Net cash provided by financing activities	9,070,322	2,041,453	13,02
Effect of exchange rate changes on cash balances	13,875	-	1
Net increase in cash and cash equivalents	2,863,816	1,378,250	4,24
Cash and cash equivalents, beginning of period	1,380,824	2,574	
Cash and cash equivalents, end of period	$ 4,244,640	$ 1,380,824	$ 4,24
Supplemental cash flow information:			
Cash paid for interest	$ -	$ 1,020	$ 15
Deemed dividend associated with beneficial conversion of preferred stock	10,178,944	-	10,17
Preferred stock dividend	502,661	-	50
Common stock issued for services	157,704	788,970	1,20
Uncompensated contribution of services	400,000	155,556	55

The accompanying notes are an integral part of these statements.

Isolagen, Inc.
(A Development Stage Company)
Notes to Consolidated Financial Statements

NOTE 1 - BASIS OF PRESENTATION, BUSINESS AND ORGANIZATION

Isolagen, Inc. f/k/a American Financial Holding, Inc., a Delaware corporation ("Isolagen" or the "Company") is the parent company of Isolagen Technologies, Inc., a Delaware corporation ("Isolagen Technologies"). Isolagen Technologies is the parent company of Isolagen Europe Limited, a company organized under the laws of the United Kingdom and wholly-owned subsidiary of Isolagen Technologies ("Isolagen Europe"). Isolagen Technologies is the parent company of Isolagen Australia Pty Limited, a company organized under the laws of the Australia and wholly-owned subsidiary of Isolagen Technologies ("Isolagen Australia"). The common stock, par value $0.001 per share, of the Company ("Common Stock") is traded on the American Stock Exchange ("AMEX") under the symbol "ILE."

Isolagen is a Houston, Texas based biotechnology company which has developed a patented process for the propagation of autologous cells to be used to stimulate a patient's own collagen and elastin production (the "Isolagen Process"). Autologous cells are a patient's own cells taken from a small skin sample. From such sample millions of cells are grown and then injected into the patient to correct and reduce the normal effects of aging like wrinkles, laugh lines, smokers lines, fine lines and all types of depressed scars. The procedure is minimally invasive and non-surgical.

In 1995, Isolagen Technologies began treating a small percentage of patients with the Isolagen Process to correct defects (e.g., wrinkles, depressions and scarring) in the patient's face. Between 1995 and 1999, approximately 200 doctors utilized the Isolagen Process on approximately 963 patients with positive results. In 1997, the FDA began regulating the science of biologics. Biologics, in contrast to drugs that are chemically synthesized, are derived from living sources (such as humans, animals, and microorganisms) like the Isolagen Process. In 1995, when Isolagen Technologies began operations, the FDA had no regulations governing this area of biologics. After reviewing the new regulations and seeking the advice of consultants, Isolagen concluded that the use of the Isolagen Process in cosmetic applications did not require the approval of the FDA. In 1999, Isolagen Technologies filed a request for authorization from the FDA to administer an investigational drug or biological product to humans (referred to herein as an "IND"). Such authorization must be secured prior to commercialization of any new drug or biological product. The FDA placed the IND on clinical hold until Isolagen Technologies' manufacturing processes and procedures were changed to meet these new biologics standards, and FDA approval is obtained. In April 2002, the FDA released Isolagen's IND and clinical trial negotiations are underway.

As a result, a 397 patient retrospective study has been completed. The results demonstrated both safety and efficacy as Phase II data. Using Isolagen Technologies recently completed cGMP laboratory facility in Houston, Texas, several studies are taking place. These include: dosage management, dental application relating to gum and bone, cosmetic correction and scarring. They are operational under currently active INDs with the FDA. The Company anticipates that these INDs are scheduled for License Application (approval) by the FDA in 2003, although there can be no assurance that such approval will be obtained or obtained on a timely basis.

The Company's goal is to become the industry leader in the research, development and commercialization of the Isolagen Process and the use of autologous cellular systems ("ACS") which stimulate a patient's own collagen production. The Company is also pursuing, through Isolagen Europe, commercial operations in the UK and is pursuing commercial operations through subsidiaries, joint ventures or license arrangements in Australia, South Korea, Hong Kong, Brazil, Mexico and elsewhere. The Company is investigating regulatory and other requirements in these countries and evaluating markets and potential joint venture partners and licensees.

Through December 31, 2002, the Company has been primarily engaged in developing its initial product technology, recruiting personnel, commencing its UK operations and raising capital. In the course of its development activities, the Company has sustained losses and expects such losses to continue through at least 2003. The Company will finance its operations primarily through its existing cash, future financing and revenues.

The Company's ability to operate profitably under its current business plan is largely contingent upon its success in obtaining further sources of debt

and equity capital, prompt regulatory approval to sell its products and upon its continued expansion. The Company will require additional capital in the future to expand its operations. No assurance can be given that the Company will be able to obtain any such additional capital, either through equity or debt financing, on satisfactory terms or at all. Additionally, no assurance can be given that any such financing, if obtained, will be adequate to meet the Company's ultimate capital needs and to support the Company's growth. If adequate capital cannot be obtained on satisfactory terms, the Company's operations could be negatively impacted.

If the Company achieves growth in its operations in the next few years, such growth could place a strain on its management, administrative, operational and financial infrastructure. The Company's ability to manage its operations and growth requires the continued improvement of operational, financial and management controls, reporting systems and procedures. In addition, the Company may find it necessary to hire additional management, financial and sales and marketing personnel to manage the Company's expanding operations. If the Company is unable to manage this growth effectively and successfully, the Company's business, operating results and financial condition may be materially adversely affected.

As of December 31, 2002, the Company had a cash balance of $4,244,640. As of March 25, 2003, the Company had a cash balance of approximately $1.4 million. The Company does not have any credit facilities with which to fund ongoing working capital needs. As of March 25, 2003, the Company believes its existing cash and cash equivalents will be adequate to meet its anticipated capital and liquidity requirements until June 30, 2003 The Company needs to close a financing transaction within the next three months to have sufficient working capital until December 31, 2003. In the event such a financing transaction is not successful, the Company may need to pursue alternative funding sources such as temporary bridge financing to meet its cash flow needs or curtail its plan of operations to preserve its available cash for fiscal 2003. The long-term viability of the Company is dependent upon successful operation of its business and the ability to raise additional debt and equity within the near future.

Acquisition and merger and basis of presentation

On August 10, 2001, Isolagen Technologies consummated a merger with American Financial Holdings, Inc. ("AFH") and Gemini IX, Inc. ("Gemini"). Pursuant to an Agreement and Plan of Merger, dated August 1, 2001, by and among AFH, ISO Acquisition Corp, a Delaware corporation and wholly-owned subsidiary of AFH ("Merger Sub"), Isolagen Technologies, Gemini, a Delaware corporation, and William J Boss, Jr., Olga Marko and Dennis McGill, stockholders of Isolagen Technologies (the "Merger Agreement"), AFH (i) issued 5,453,977 shares of its common stock, par value $0.001 to acquire, in a privately negotiated transaction, 100% of the issued and outstanding common stock (195,707 shares, par value $0.01, including the shares issued immediately prior to the Merger for the conversion of certain liabilities, as discussed below) of Isolagen Technologies, and (ii) issued 3,942,000 shares of its common stock to acquire 100% of the issued and outstanding common stock of Gemini. Pursuant to the terms of the Merger Agreement, Merger Sub, together with Gemini, merged with and into Isolagen Technologies (the "Merger"), and AFH was the surviving corporation. AFH subsequently changed its name to Isolagen, Inc. on November 13, 2001.

Prior to the Merger, Isolagen Technologies had no active business and was seeking funding to begin U.S. Food and Drug Administration ("FDA") trials of the Isolagen Process. AFH was a non-operating, public shell company with limited assets. Gemini was a non-operating private company with limited assets and was unaffiliated with AFH.

Since AFH and Gemini had no operations and limited assets at the time

of the Merger, the merger has been accounted for as a recapitalization of Isolagen Technologies and an issuance of common stock by Isolagen Technologies for the net assets of AFH and Gemini. In the recapitalization, Isolagen Technologies is treated as having affected (i) a 27.8694 for 1 stock split, whereby the 195,707 shares of its common stock outstanding immediately prior the merger are converted into the 5,453,977 shares of common stock received and held by the Isolagen Technologies stockholders immediately after the merger, and (ii) a change in the par value of its common stock, from $0.01 per share to $0.001 per share. The stock split and change in par value have been reflected in the accompanying consolidated financial statements by retroactively restating all share and per share amounts. The stock issuances are accounted for as the issuance of (i) 3,942,400 shares for the net assets of Gemini, recorded at their book value, and (ii) the issuance of 3,899,547 shares (the number of shares AFH had outstanding immediately

prior to the Merger) for the net assets of AFH, recorded at their book value.

Immediately prior to and as a condition of the Merger, Isolagen Technologies issued an aggregate of 2,328,972 shares (post split) of its common stock to convert to equity an aggregate of $2,075,246 of liabilities, comprised of (i) accrued salaries of $328,125, (ii) convertible debt and related accrued interest of $1,611,346, (iii) convertible shareholder notes and related accrued interest of $135,667 and (iv) bridge financing costs of $108. Simultaneous with the Merger, the Company sold 1,346,669 shares of restricted common stock to certain accredited investors in a private placement transaction. The consideration paid by such investors for the shares of common stock aggregated $2,020,000 in transactions exempt from the registration requirements of the Securities Act. The net cash proceeds of this private placement were used to fund Isolagen's research and development projects and the initial FDA trials of the Isolagen Process, to explore the viability of entering foreign markets, to provide working capital and for general corporate purposes.

The financial statements presented include Isolagen, Inc. and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated. Isolagen Technologies was, for accounting purposes, the continuing entity of the Merger, and accordingly for the periods prior to the Merger, the financial statements reflect the financial position, results of operations and cash flows of Isolagen Technologies. The assets, liabilities, operations and cash flows of AFH and Gemini are included in the consolidated financial statements from August 10, 2001 onward.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Restatement of financial statements

Subsequent to the issuance of the Company's financial statements as of December 31, 2002 and for the year then ended, the Company identified several errors that were required to be corrected in the previously reported financial statements. The principal reasons and effects of the adjustments are summarized below:

Beneficial Conversion Feature: During 2002, the Company completed a private placement of Series A Convertible Preferred Stock. Imbedded within the instruments was a beneficial conversion feature that was not recorded. Accordingly, the Company revised its financial statements as of December 31, 2002 and for the year then ended to record a deemed dividend to the holders of the preferred stock totaling $10,178,944. The Company's financial statements reflect an increase in the retained deficit and a corresponding increase in

paid-in capital for this amount. The deemed dividend associated with the beneficial conversion is calculated as the difference between the fair value of the underlying common stock less the proceeds that have been received for the Series A Preferred Stock limited to the value of the proceeds received. Also, the Company has included preferred dividends accrued in 2002 totaling $502,661 in the computation of net loss attributable to common shareholders. (see Note 6)

Contributed Services: During 2002 and 2001, the certain officers and directors of the Company were not compensated for a portion of their services provided to Company. The financial statements are to reflect the total cost of conducting its business which includes the value of contributed services. Accordingly, the Company has recorded contribution services from officers totaling $400,000 and $155,556 for the years ended December 31, 2002 and 2001, respectively. We estimated the value of the contributed services based upon our estimate of their fair market value. This contribution of services was recorded as an increase in compensation expense and an increase in additional paid in capital. (see Note 6)

Weighted Average Shares Utilized in the Calculation Percentage Loss Per Share: As described in Note 1, the Merger was accounted for as a recapitalization of Isolagen Technologies and the issuance of shares of common stock for the net assets of AFH and Gemini. The number of weighted average shares outstanding computed for the purposed of computing basic and diluted loss per share were revised to correctly reflect this accounting treatment.

Together these restatements changed the net loss per share from $0.33 to $1.06 for the year ended December 31, 2002, $0.20 to $0.22 for the year ended December 31, 2001, and the cumulative from inception net loss per share has increased from $1.19 to $4.02.

Statement of cash flows

For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Concentration of credit risk

The Company maintains its cash with a major U.S. domestic bank. The amounts held in this bank exceed the insured limit of $100,000 from time to time. The terms of these deposits are on demand to minimize risk. The Company has not incurred losses related to these deposits.

The Company is subject to risks common to companies in the development stage including, but not limited to, development of new products, development of markets and distribution channels, dependence on key personnel, and the ability to obtain additional capital as needed to fund its product plans. The Company has a limited operating history and has yet to generate any significant revenues from customers. To date, the Company has been funded by private debt and equity financings. The Company's ultimate success is dependent upon its ability to raise additional capital and to successfully develop and market its products.

The products developed by the Company require approvals from the United States FDA or other international regulatory agencies prior to commercial sales. There can be no assurance that all of the Company's products will receive the necessary approvals. If the Company was denied such approvals or such approvals were delayed, it may have a material adverse impact on the Company.

Inventory

Inventory primarily consists of raw materials used in the Isolagen Process. Inventory is stated at the lower of cost or market and cost is determined by the weighted average method.

Property and equipment

Property and equipment, consisting primarily of lab equipment, computer equipment, leasehold improvements, and office furniture and fixtures is carried at cost less accumulated depreciation. Depreciation for financial reporting purposes is provided by the straight-line method over the estimated useful lives of three to five years subject to half year convention. Leasehold improvements are amortized using the straight-line method over the remaining life of the lease. The cost of repairs and maintenance is charged against income as incurred.

Earnings per share data

Basic earnings (loss) per share is calculated based on the weighted average common shares outstanding during the period, after giving effect to the manner in which the merger was accounted for as described in Note 1. Diluted earnings per share also gives effect to the dilutive effect of stock options, warrants and convertible preferred stock (calculated based on the treasury stock method). The Company does not present diluted earnings per share for years in which it incurred net losses as the effect of potentially dilutive shares from convertible debt is antidilutive.

Stock-based compensation

The Company accounts for its stock-based compensation under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123 - "Accounting for Stock Based Compensation." Under SFAS No. 123, the Company is permitted to either record expenses for stock options and other employee compensation plans based on their fair value at the date of grant or to continue to apply its current accounting policy under Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees," ("APB No. 25"), and recognize compensation expense, if any, based on the intrinsic value of the equity instrument at the measurement date. The Company elected to continue following the provisions of APB No. 25.

In December 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure". This statement provides guidance for those companies

wishing to voluntarily change to the fair value based method of accounting for stock-based compensation. The statement also amends the disclosure requirements of Statement 123, requiring prominent disclosure in annual and interim financial statements regarding a company's method for accounting for stock-based employee compensation and the effect of the method on reported results. While Isolagen continues to utilize the disclosure-only provisions of SFAS No. 123, the Company has modified its disclosures to comply with the new statement. See Note 6.

Income taxes

An asset and liability approach is used for financial accounting and reporting for income taxes. Deferred income taxes arise from temporary differences between income tax and financial reporting and principally relate to

recognition of revenue and expenses in different periods for financial and tax accounting purposes and are measured using currently enacted tax rates and laws. In addition, a deferred tax asset can be generated by net operating loss carryforwards ("NOLs"). If it is more likely than not that some portion or all of a deferred tax asset will not be realized, a valuation allowance is recognized.

Revenue recognition

The Company recognizes revenue from product sales when goods are shipped and the risk of loss transfers to the customer. Revenue from licenses and other upfront fees are recognized on a ratable basis over the term of the respective agreement. Milestone payments are recognized upon successful completion of a performance milestone event. Any amounts received in advance of performance are recorded as deferred revenue. The Company recognizes revenue over the period the service is performed in accordance with SEC Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" ("SAB 101"). SAB 101 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services rendered, (3) the fee is fixed and determinable, and (4) collectibility is reasonably assured. We believe that all of these conditions are met at the time of shipment. Currently, three injections are recommended, although the decision to utilize one, two or three injections is between the attending physician and his/her patient. The amount invoiced is fixed and determinable and only varies among customers depending upon the number of injections requested. There is no performance provision under any arrangement with any doctor and there is no right to refund, or returns for unused injections.

Currently the Isologen Process is delivered through an attending physician to each patient in the Company's recommended regimen of up to three injections. Each injection has stand alone value to the patient. The Company invoices the attending physician upon that physician submitting his/her patient's tissue sample to the Company; thus the contractual arrangement is between the Company and the medical professional. The amount invoiced varies directly with the number of injections requested. All orders are paid in advance by the physician and are not refundable. Revenue is deferred until shipment, provided no significant obligations remain, and is recognized in installments corresponding to the number of injections shipped to the attending physician. Due to the short shelf life, each injection is cultured on an as needed basis and shipped prior to the individual injection being administered by the physician. The amount of the revenue deferral represents the fair value of the remaining undelivered injections defined in accordance with EITF 00-21, which addresses the issue of accounting for arrangements that involve the delivery of multiple products or services. Should the physician discontinue the regimen prematurely all remaining deferred revenue is recognized.

Promotional incentives

The Company periodically offers promotional incentives to physicians on a case-by-case basis. Promotional incentives are provided to physicians in the form of 'at no charge' Isolagen Treatments and Isolagen Treatments offered at a discount to the suggested price list. The Company does not receive any identifiable benefit from the physicians in exchange for any promotional incentives granted.

The Company does not record any revenue related to 'at no charge' Isolagen Treatments and the cost to provide such treatments is expensed as incurred. The Company records any discounts granted as a reduction in revenue (i.e.net revenue after discount) from that specific transaction. The Company believes this accounting treatment complies with Emerging Issues Task Force ("EITF")-01-09: "Accounting for Consideration Given by a Vendor to a Customer

(Including a Reseller of the Vendor's Products)."

Foreign currency translation

The financial position and results of operations of the Company's foreign subsidiaries are generally determined using the local currency as the functional currency. Assets and liabilities of these subsidiaries are translated at the exchange rate in effect at each year-end. Income statement accounts are translated at the average rate of exchange prevailing during the year. Adjustments arising from the use of differing exchange rates from period to period are included in other comprehensive income in stockholders' equity. Gains and losses resulting from foreign currency transactions are included in earnings and have not been material in any one year.

Comprehensive income

Comprehensive income encompasses all changes in equity other than those with stockholders and consists of net earnings and foreign currency translation adjustments. The Company does not provide for U.S. income taxes on foreign currency translation adjustments since it does not provide for such taxes on undistributed earnings of foreign subsidiaries.

Research and development expenses

Research and development include direct costs, research-related overhead, and costs associated with improved process science, manufacturing and cost reduction are charged to operations as incurred.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent accounting pronouncements

In December 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure". This statement provides guidance for those companies wishing to voluntarily change to the fair value based method of accounting for stock-based compensation. The statement also amends the disclosure requirements of Statement 123, requiring prominent disclosure in annual and interim financial statements regarding a company's method for accounting for stock-based employee compensation and the effect of the method on reported results. While Isolagen continues to utilize the disclosure-only provisions of SFAS No. 123, the Company has modified its disclosures to comply with the new statement. See Note 6.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment is comprised of:

	December 31,

	2002	2001
Lab Equipment	$ 682,640	$ 52,454
Computer Equipment	333,826	6,326
Office furniture and fixtures	20,536	
Leasehold Improvements	1,274,146	-
	2,311,148	58,780
Less: Accumulated depreciation	(151,235)	(51,423)
Property and equipment, net	$2,159,913	$ 7,357

NOTE 4 - FEDERAL INCOME TAXES

The components of the Company's deferred tax assets at December 31, 2002 and 2001 are as follows:

	December 31,	
	2002	2001
Deferred tax assets:		
Loss carryforwards	$4,467,456	$3,007,506
Deferred tax liabilities:		
Deferred revenue	(19,473)	(95,200)
	4,447,983	2,912,306
Less: Valuation allowance	(4,447,983)	(2,912,306)
	$ -	$ -

As of December 31, 2002, the Company had generated NOLs of approximately $13,100,000 available to reduce future income taxes. These carryforwards begin to expire in 2003. A change in ownership, as defined by federal income tax regulations, could significantly limit the Company's ability to utilize its carryforwards. Additionally, because federal tax laws limit the time during which the NOLs may be applied against future taxes, the Company may not be able to take full advantage of the NOLs to reduce future income taxes if it fails to generate taxable income prior to expiration of the NOLs. As the Company has had cumulative losses and there is no assurance of future taxable income, valuation allowances have been recorded to fully offset the deferred tax asset at December 31, 2002 and 2001. The valuation allowance increased $1,535,677 during 2002 due to the Company's current period net loss.

NOTE 5 - COMMITMENTS AND CONTINGENCIES

Leases

The Company leases office, warehouse and laboratory facilities in London, England and Sydney, Australia under third party non-cancelable operating leases through 2010. Future minimum lease commitments at December 31, 2002 are as follows:

YEAR ENDED DECEMBER 31	
2003	$ 226,150
2004	219,778
2005	149,684
2006	149,684
2007	149,684
Thereafter	636,154
Total	$ 1,531,134

For the year ended December 31, 2002, rental expense totaled $105,206.

Certain officers of the Company provide office space and laboratory facilities at no charge until August 2003. Beginning September 2003, the lease rate will be approximately $1.80 per month per square foot.

License agreement

Effective July 1, 2000, the Company granted exclusive rights to develop and market its technologies and products within Japan. Should the development efforts result in a marketable product, the Company will receive royalties based on product sales. Upon execution of the license agreement, the Company received an initial up-front fee of $400,000 which was deferred and will be recognized on a ratable basis over the five year term of the agreement in accordance with the terms of the agreement. For the years ended December 31, 2002 and 2001, the Company recognized $40,000 and $80,000, respectively, of contract revenues pursuant to this agreement.

During 2002, the Company began negotiations to revoke the license agreement. As a result, the Company reclassified to a payable the remaining deferred revenue totaling $240,000 and accrued an additional $160,000 in anticipation of a settlement totaling approximately $400,000. Thus, the entire amount of the initial up-front fee of $400,000 has been accrued as management's estimate of the amount necessary to satisfy the Company's obligation under the Agreement.

Employment agreements

The Company has entered into employment agreements with Olga Marko, William K. Boss, Jr., Brian Whitley, Robert E. Tompkins and Vaughan Clift.

Ms. Marko entered into an employment agreement with the Company, dated

August 10, 2001, for a term of sixty months at an annual base salary of $130,000. The base salary shall increase on an annual basis by the same percentage that the Consumer Price Index has increased during the same time frame or at the direction of the Board of Directors, whichever is higher. Mrs. Marko is eligible for an annual bonus to be determined by the Board of Directors in its sole discretion. If the employment agreement is terminated by the Company without cause, Mrs. Marko will be entitled to a twelve month severance payment.

Dr. Boss entered into an employment agreement with the Company, dated August 10, 2001, and later amended on February 28, 2002 as follows: (a) during the first year of the term, Dr. Boss will receive 60,000 shares of Common Stock; (b) an annual salary of $50,000 for 2002; and (c) an annual salary of $60,000 for 2003. For this compensation, Dr. Boss agrees to devote 25 mutually agreeable days per year as requested by the Company (i.e., out-of-town meetings, etc.). If the employment agreement is terminated by the Company without cause, Dr. Boss will be entitled to a three-month severance payment.

Mr. Whitley entered into an employment agreement with the Company, dated September 1, 2001, for a term of sixty (60) months at an annual base salary as follows: (a) $4,000 per month for September 2001 through December 2001; and (b) $10,000 per month for months subsequent to December 31, 2001. Mr. Whitley is eligible for an annual bonus to be determined by the Board of Directors in its sole discretion. If the employment agreement is terminated by the Company without cause, Mr. Whitley will be entitled to a three month severance payment. Mr. Whitley left the employment of the Company in March 2003.

Mr. Tompkins entered into an employment agreement with the Company, dated September 17, 2001, for a term of thirty-six (36) months at an annual base salary of $90,000. Mr. Tompkins is eligible for an annual bonus to be determined by the Board of Directors in its sole discretion. If the employment agreement is terminated by the Company without cause, Mr. Tompkins will be entitled to a two month severance payment. Mr. Tompkins left the employment of the Company in September 2002. All amounts related to his separation of employment are reflected in the 2002 statement of operations.

Mr. Clift entered into an employment agreement with the Company, dated May 28, 2002, for a term of thirty-six (36) months at an annual base salary of $175,500. Mr. Clift is eligible for an annual bonus to be determined by the Board of Directors in its sole discretion. If the employment agreement is terminated by the Company without cause, Mr. Clift will be entitled to a two (2) month severance payment.

Consulting agreement

Effective August 20, 2001, the Company entered into an agreement with Cato Research Ltd. to provide drug development, regulatory advisory and other services. Pursuant to the terms of the agreement, the Company issued 133,333 shares of restricted common stock with an assigned value of $200,000 as a retainer fee, which was capitalized as a prepaid expense. As services are rendered, 80% of the invoiced amount is payable in cash with the remaining 20% payable through a reduction in the retainer fee. At December 31, 2002 and 2001, $120,350 and $174,666, respectively, was capitalized as other assets related to this agreement.

In addition, the agreement includes a special incentive performance arrangement. In the event the Company receives FDA approval on or before August 20, 2003 as a result of the consulting services, the Company will issue 250,000 restricted common shares as an incentive bonus. If the regulatory approval is

received after August 20, 2003, but before February 20, 2004, the Company will issue 100,000 restricted shares as an incentive bonus. On August 19, 2002, the agreement was amended to revoke the special incentive performance arrangement.

SEC enforcement

On October 9, 1996, the Company was advised by the Enforcement Division of the Securities and Exchange Commission (the "Commission") that it is considering recommending that the Commission bring an enforcement action, which could include a civil penalty, against the Company in U.S. District Court for failing to file timely periodic reports in violation of Section 13(a) of the Securities and Exchange Act of 1934 and the rules thereunder.

In October 1996, the Company also received a request for the voluntary production of information to the Enforcement Division of the Commission related to the resignation of Coopers & Lybrand LLP and the termination of Arthur Andersen LLP and the appointment of Jones, Jensen & Company as the Company's independent public accountants and the reasons therefore. In addition, the Company was requested to provide certain information respecting its previous sales of securities. The Company cooperated in providing information in response to these inquiries in early 1997. The Company has not been advised of the outcome of the foregoing, and has had no further contact by the Enforcement Division of the Commission.

NOTE 6 - EQUITY, STOCK PLAN AND WARRANTS

Uncompensated contributed services

From the date of the Merger through December 31, 2002, the Company has not paid compensation to certain officers and directors. Accordingly, the Company has capitalized the estimated fair value of these services. The uncompensated contributed services totaled $400,000 and $155,556 for the years ended December 31, 2002 and 2001, respectively. We estimated the value of the contributed services based upon our estimate of their fair market value. This contribution of services was recorded as an increase to compensation expense and increase in additional paid in capital.

Equity instruments issued to non-employees

From time to time, in order to preserve cash and to fund operating activities of the Company, common stock or other equity instruments may be issued for cash or in exchange for goods or services. Equity instruments issued for goods or services are recorded at the fair value of the goods or services received or the fair value of the equity instruments issued, whichever is more reliably measurable.

As referred to in Note 1, the Company became a publicly traded enterprise as a result of the Merger. Noncash transactions involving the issuance of equity instruments prior to the Merger were recorded at the fair value of the goods or services received, while transactions occurring after the Merger were recorded at the fair value of the equity instruments issued, which were determined based on quoted market prices.

Series A Convertible Preferred Stock

In July 2002, the Company completed a private offering of 2,895,000 shares of Series A Convertible Preferred Stock, par value $0.001 per share, at an offering price of $3.50 per share. Each share of Series A Preferred Stock is

convertible into two shares of common stock at any time after issuance and accrues dividends at 8% per annum payable in cash or additional shares of Series A Preferred Stock. In conjunction with the private offering, the Company issued to the placement agent warrants to purchase 1,158,000 shares of common stock with an exercise price of $1.93 per share. The warrants are exercisable immediately after grant and expire five years thereafter.

The fair market of the warrants granted to the placement agent, based on the Black-Scholes valuation model, is estimated to be $1.57 per warrant, assuming the following: no dividend yield, a risk-free interest rate of 4%, an expanded term of the warrants of 2 years, and an expected volatility of 129%. The value of the warrants granted has been offset against the proceeds received from the sale of the Series A Preferred Stock.

During the year ended December 31, 2002, the Company issued an additional 143,507 shares of Series A Preferred Stock in lieu of cash for payment of dividends on the Series A Preferred Stock totaling $502,661.

The price of the preferred stock sold was $3.50 per share. The market value of the Company's common stock sold on the dates that the preferred stock sold or was issued as a dividend had a range of $2.30 - $5.40 per common share. In accordance with EITF 00-27 this created a beneficial conversion to the holders of the preferred stock and a deemed dividend to the preferred stockholders totaling $10,178,944 was recorded by the Company with a corresponding amount recorded as additional paid-in capital. The deemed dividend associated with the beneficial conversion is calculated as the difference between the fair value of the underlying common stock less the proceeds that have been received for the Series A Preferred Stock limited to the value of the proceeds received.

2001 Stock Option and Stock Appreciation Rights Plan

Effective August 10, 2001, the Company adopted the Isolagen, Inc. 2001 Stock Option and Stock Appreciation Rights Plan (the "Stock Plan"). The Stock Plan is discretionary and allows for an aggregate of up to 5,000,000 shares of the Company's common stock to be awarded through incentive and non-qualified stock options and stock appreciation rights. The Stock Plan is administered by the Company's Board of Directors, who has exclusive discretion to select participants who will receive the awards and to determine the type, size and terms of each award granted.

As allowed by SFAS No. 123, "Accounting for Stock-Based Compensation", the Company has elected to continue to follow Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees", in accounting for its Stock Plan. Under APB No. 25, the Company does not recognize compensation expense on the issuance of its stock options because the terms are fixed and the exercise price equals or exceeds the fair market value of the underlying stock on the grant date.

Information regarding the options and warrants granted in 2002 and 2001 is as follows:

	YEAR ENDED DECEMBER 31, OPTIONS		YEAR ENDED DECEM WARRANTS	
	2002	2001	2002	
Outstanding, beginning of year	3,792,500	-	450,000	
Granted	698,000	3,792,500	1,533,000	

Exercised	(38,400)	-	-	
Expired or cancelled	(200,000)	-	(450,000)	
Outstanding, end of year	4,252,100	3,792,500	1,533,000	
Exercisable, end of year	458,017	4,167	1,243,000	
Available for grant, end of year	509,500	1,207,500		

The weighted average and warrant exercise price information for 2002 and 2001 is as follows:

	YEAR ENDED DECEMBER 31, OPTIONS		YEAR ENDED DECEMBER 31 WARRANTS	
	2002	2001	2002	2001
Outstanding, beginning of year	$ 2.70	$ -	$ 1.50	$
Granted during the year	$ 6.07	$ 2.70	$ 1.93	$ 1.5
Exercised during the year	$ 1.50	$ -	$ -	$
Expired or cancelled during the year	$ 1.50	$ -	$ 1.50	$
Outstanding at end of year	$ 5.08	$ 2.70	$ 2.05	$ 1.5
Exercisable at end of year	$ 2.08	$ -	$ 1.94	$ 1.5

Significant option and warrant groups outstanding at December 31, 2002, and related weighted average exercise price and life information is as follows:

GRANT DATE	OPTIONS OUTSTANDING	WARRANTS OUTSTANDING	EXERCISABLE	WEIGHTED EXERCISE PRICE	REMAINI LIFE (YE
September 2001	2,975,000	-	124,750	$ 5.47	8.67
September 2001	61,600	-	61,600	$ 1.50	8.71
October 2001	340,000	-	140,000	$ 1.50	8.75
November 2001	117,500	-	71,667	$ 2.40	8.83
December 2001	60,000	-	60,000	$ 3.57	8.92
May 2002	100,000	-	-	$ 6.00	9.42
May 2002	112,000	-	-	$ 6.00	9.42
May 2002	150,000	-	-	$ 6.00	9.42
June 2002	20,000	-	-	$ 6.00	9.50
June 2002	96,000	-	-	$ 6.50	9.50
July 2002	-	1,158,000	1,158,000	$ 1.93	4.50
September 2002	-	375,000	75,000	$ 2.43	10.75
November 2002	100,000	-	-	$ 6.00	9.83
December 2002	100,000	-	-	$ 6.00	9.92
December 2002	20,000	-	-	$ 6.00	9.92

The weighted average fair value at date of grant for options and warrants granted during 2002 and 2001 was $3.96 and $1.12, respectively, per option. The fair value of options at date of grant was estimated using the Black-Scholes model with the following weighted average assumptions:

	YEAR ENDED DECEMBER 31,	
	2002	2001
Expected life (years)	6 years	6 years
Interest rate	4%	4%
Dividend yield	-	-
Forfeiture rate	5%	5%
Volatility	129%	98%

Had compensation costs for the Company's stock option plan been determined based on the fair value at the grant date in 2002 and 2001 consistent with the provisions of SFAS No. 123, the Company's net loss and net loss per share would have increased to the pro forma amounts indicated below:

	YEAR ENDED DECEMBER 31,	
	2002	2001
Net loss - as reported	$ (5,433,055)	$ (1,652,004)
Net loss - pro forma	$ (6,441,617)	$ (1,801,568)
Net loss per share - as reported		
Basic and diluted	$ (.36)	$ (.14)
Net loss per share - pro forma		
Basic and diluted	$ (.42)	$ (.15)

NOTE 7 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

On January 22, 2001, the Company, then known as American Financial Holding, Inc. entered into a purchase agreement (the "Purchase Agreement") with Alyda Macaluso, Laura Avignon, and Lighthouse Capital Insurance Co. whereby the Company issued 15,000,000 shares of common stock (pre-split) and issued $150,000 of promissory notes to the purchasers for $300,000 in cash. Under the terms of the Purchase Agreement, the Company obtained shareholder approval for a 21:4 reverse stock split, which resulted in the 4,279,449 shares of common stock outstanding at December 31, 2000 being consolidated into 199,974 post-split shares. In addition, the 15,000,000 pre-split shares of common stock issued to the purchasers were consolidated into 700,935 post split shares and the $150,000 promissory notes were automatically converted into 2,299,065 post-split shares of common stock; thus bringing the total interest in the Company held by the purchasers to 3,000,000 post-split shares of common stock. Accordingly, the Purchase Agreement resulted in a change in control of the Company.

On August 10, 2001, the Company acquired Isolagen Technologies through the merger of its wholly-owned subsidiary, Isolagen Acquisition Corp., a

Delaware corporation ("Merger Sub"), and an affiliated entity, Gemini IX, Inc., a Delaware corporation ("Gemini"), with and into Isolagen Technologies (the "Merger"). As a result of the Merger, Isolagen Technologies became a wholly-owned subsidiary of the Company. Simultaneously with the Merger, the Company issued 1,346,669 shares, at $1.50 per share, of the Company's restricted common stock to Timothy J. Till, Michael Avignon, Michael Macaluso, and BASR Partnership for consideration totaling $2,020,000 in a private placement and converted $1,450,000 principal amount of Company debt and approximately $625,000 of accrued liabilities of the Company to equity. On November 13, 2001, the Company changed its name to Isolagen, Inc.

NOTE 8 - SUBSEQUENT EVENTS

Additional financing

The Company has adopted a plan of financing in order to raise additional capital.

2003 Stock Option and Appreciation Rights Plan

On January 29, 2003, the Company's Board of Directors approved the 2003 Stock Option and Appreciation Rights Plan (the "2003 Stock Plan"). The 2003 Stock Plan is discretionary and allows for an aggregate of up to 2,500,000 shares of the Company's common stock to be awarded through incentive and non-qualified stock options and stock appreciation rights. The 2003 Stock Plan is administered by the Company's Board of Directors which has exclusion discretion to select participants who will receive the awards and to determine the type, size and terms of each award granted. The 2003 Stock Plan is subject to approval by a vote of the Company's stockholders at their next annual meeting.

Stock options

On February 25, 2003, the Company issued to certain officers options to purchase 920,000 shares of the of the Company's common stock at an exercise price of $4.50 per share. The options vest equally over a two year period from the grant date.

Intellectual property purchase agreement

Subsequent to December 31, 2002, the Company entered into an Intellectual Property Purchase Agreement to acquire two pending patent applications. As consideration, the Company issued the seller 100,000 shares of its Common Stock and royalty equal to (a) 5% of all revenues recognized by the Company or its Affiliates from commercial application of the Intellectual Property made, provided, distributed, sold or manufactured directly by the Company or its Affiliates, or (b) 25% of all revenues recognized by the Company or its Affiliates from licensing, sublicensing, transferring or selling the Intellectual Property to a third party, without offset or deduction for general and administrative or operating costs, subject to a total maximum royalty of $2 million.