

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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FILER

INAMED CORP

CIK: **109831** | IRS No.: **590920629** | State of Incorporation: **FL** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-09741** | Film No.: **96662755**
SIC: **3842** Orthopedic, prosthetic & surgical appliances & supplies

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United States
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

FORM 10-Q QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF
THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter ended September 30, 1996
Commission File Number: 0-7101

INAMED CORPORATION

State of Incorporation: Florida I.R.S. Employer
Identification No.: 59-0920629

3800 Howard Hughes Parkway, Suite #900, Las Vegas, Nevada 89109

Telephone Number: (702) 791-3388

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

On November 8, 1996 there were 8,006,050 Shares of the Registrant's Common Stock Outstanding.

This document contains 17 pages.

INAMED CORPORATION AND SUBSIDIARIES

Form 10-Q

Quarter Ended September 30, 1996

TABLE OF CONTENTS

	Page
PART I - FINANCIAL INFORMATION	
Item 1. Financial Statements	
Consolidated Balance Sheets	3
Unaudited Consolidated Income Statements	5
Unaudited Consolidated Statements of Cash Flows	7
Notes to the Unaudited Consolidated Financial Statements	9
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	13

PART I. FINANCIAL INFORMATION

ITEM 1.

INAMED CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS<TABLE>
<CAPTION>

	(Unaudited) September 30, 1996	December 31, 1995
	-----	-----
Assets		

<S>	<C>	<C> <C>
Current assets:		
Cash and cash equivalents	\$ 17,982,434	\$ 2,807,327
Trade accounts receivable, net of allowance for doubtful accounts and returns and allowances of \$2,409,839 at September 30, 1996 and \$6,641,177 at December 31, 1995	16,096,093	10,470,375
Notes receivable - trade	--	157,534
Related party notes receivable	13,546	385,508
Inventories	20,055,176	17,695,847
Prepaid expenses and other current assets	1,685,370	1,825,213
Income tax refund receivable	235,408	95,580
Deferred income taxes	2,010,622	2,014,589
	-----	-----
Total current assets	58,078,649	35,451,973
	-----	-----
Property and equipment, at cost:		
Machinery and equipment	9,816,728	8,923,564
Furniture and fixtures	3,946,873	3,714,717
Leasehold improvements	8,597,623	7,567,208
	-----	-----
	22,361,224	20,205,489
Less accumulated depreciation and amortization	(11,097,509)	(9,234,166)
	-----	-----
Net property and equipment	11,263,715	10,971,323
	-----	-----
Notes receivable, net of allowance of \$1,066,958 at September 30, 1996 and December 31, 1995	2,022,264	2,047,535
Intangible assets, net	1,427,862	1,658,926
Other assets, at cost	401,840	255,187
	-----	-----
Total assets	\$ 73,194,330	\$ 50,384,944
	-----	-----
	-----	-----

</TABLE>

(continued)

The Notes to Financial Statements are an integral part of this statement.

INAMED CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS<TABLE>
<CAPTION>

	(Unaudited) September 30, 1996	December 31, 1995
	-----	-----
<S>	<C>	<C>
Liabilities and Stockholders' (Deficit) Equity		

Current liabilities:		
Current installments of long-term debt	\$ 14,168	\$ 51,735
Notes payable to bank	1,481,381	1,273,476
Notes payable to others	--	493,511
Related party notes payable	--	1,759,417
Accounts payable	12,426,783	20,093,073

Accrued liabilities:		
Salaries, wages, and payroll taxes	4,086,006	9,559,348
Interest	1,672,313	1,609,947
Self-insurance	1,094,332	1,130,632
Stock option compensation	68,714	68,714
Other	1,265,241	2,200,860
Royalties payable	1,980,337	1,430,115
Income taxes payable	1,096,438	1,812,818
Deferred income taxes	26,595	10,065
	-----	-----
Total current liabilities	25,212,308	41,493,711
	-----	-----
Long-term debt, excluding current installments	100,472	89,437
Deferred grant income	1,129,148	1,114,735
Deferred income taxes	190,166	239,177
Litigation settlement	9,152,000	9,152,000
Convertible notes payable	34,560,000	--
Commitments and contingencies		
Stockholders' (deficit) equity:		
Common stock, \$0.01 par value.		
Authorized 20,000,000 shares;		
issued and outstanding 8,006,050	80,061	76,027
Additional paid-in capital	13,412,133	9,963,635
Cumulative translation adjustment	739,681	882,146
Accumulated deficit	(11,381,639)	(12,625,924)
	-----	-----
Stockholders' (deficit) equity	2,850,236	(1,704,116)
	-----	-----
Total liabilities and stockholders' (deficit) equity	\$ 73,194,330	\$ 50,384,944

</TABLE>

The Notes to Financial Statements are an integral part of
this statement.

INAMED CORPORATION AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS
(UNAUDITED)

<TABLE>

<CAPTION>

	Nine Months Ended September 30, 1996	Nine Months Ended September 30, 1995
	-----	-----
<S>	<C>	<C>
Net sales	\$ 70,977,044	\$ 64,136,586
Cost of goods sold	21,859,617	20,854,509
	-----	-----
Gross profit	49,117,427	43,282,077
	-----	-----
Operating expenses:		
Marketing	18,850,662	16,772,662
General and administrative	21,761,260	21,587,052
Research and development	3,560,114	3,276,591
	-----	-----
Total operating expenses	44,172,036	41,636,305
	-----	-----
Operating income	4,945,391	1,645,772
	-----	-----
Other income (expense):		
Interest income	756,526	648,866
Interest expense	(3,324,112)	(213,229)
Royalty Income	94,766	102,265
Foreign currency transaction losses	(222,123)	(414,175)
Miscellaneous income	156,663	238,348
	-----	-----
Net other income (expense)	(2,538,280)	362,075
	-----	-----
Income before income tax expense	2,407,111	2,007,847
	-----	-----
Income tax expense	1,162,827	715,491
	-----	-----

Net income	\$ 1,244,284	\$ 1,292,356
	-----	-----
Net income per share of common stock	\$ 0.16	\$ 0.17
	-----	-----
Weighted average common shares outstanding	7,743,767	7,559,073
	-----	-----

</TABLE>

The Notes to Financial Statements are an integral part of this statement.

INAMED CORPORATION AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS
(UNAUDITED)

<TABLE>
<CAPTION>

	Three Months Ended September 30, 1996	Three Months Ended September 30, 1995
	-----	-----
<S>	<C>	<C>
Net sales	\$ 22,715,511	\$ 18,279,111
Cost of goods sold	6,155,874	6,839,178
	-----	-----
Gross profit	16,559,637	11,439,933
	-----	-----
Operating expenses:		
Marketing	6,026,752	5,233,406
General and administrative	7,161,294	8,159,422
Research and development	1,456,633	1,165,297
	-----	-----
Total operating expenses	14,644,679	14,558,125
	-----	-----
Operating income (loss)	1,914,958	(3,118,192)
	-----	-----
Other income (expense):		
Interest income	181,387	325,790
Interest expense	(1,059,379)	(72,730)
Royalty income	--	74,287
Foreign currency transaction losses	(42,061)	(580,253)
Miscellaneous income	4,425	94,967
	-----	-----
Net other expense	(915,628)	(157,939)
	-----	-----
Income (loss) before income taxes	999,330	(3,276,131)
	-----	-----
Income taxes	653,828	(683,543)
	-----	-----
Net income (loss)	\$ 345,502	\$ (2,592,588)
	-----	-----
Net income (loss) per share of common stock	\$ 0.04	\$ (0.34)
	-----	-----
Weighted average common shares outstanding	7,998,507	7,662,257
	-----	-----

</TABLE>

The Notes to Financial Statements are an integral part of this statement

INAMED CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

<TABLE>
<CAPTION>

Nine Months ended September 30, 1996 and 1995
Increase (Decrease) in Cash and Cash Equivalents

1996 1995

<S>	<C>	<C>
Cash flows from operating activities:		
Net income	\$ 1,244,284	\$ 1,292,356
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation of property and equipment	1,810,802	1,940,954
Amortization of intangible assets	230,533	233,057
Deferred income taxes	(24,093)	532,535
Changes in assets and liabilities:		
Trade accounts receivable	(5,737,371)	(1,772,322)
Notes receivable	174,564	304,107
Inventories	(2,728,211)	(3,385,739)
Prepaid expenses and other current assets	117,451	1,472,731
Income tax refund receivable	(144,828)	20,091
Other assets	(147,455)	(7,062)
Accounts payable	(7,639,684)	415,305
Accrued salaries, wages and payroll taxes	(5,396,239)	3,672,596
Accrued interest	62,366	(1,027)
Accrued self-insurance	(36,300)	(54,573)
Other accrued liabilities	(919,304)	(452,066)
Royalties payable	550,222	921,692
Income taxes payable	(716,547)	(610,421)
Total adjustments	(20,544,094)	3,229,858
Net cash provided by (used in) operating activities	(19,299,810)	4,522,214
Cash flows from investing activities:		
Purchases of property and equipment	(2,266,227)	(3,907,150)
Net cash used in investing activities	(2,266,227)	(3,907,150)

</TABLE>

(continued)

The Notes to Financial Statements are an integral part of this statement.

INAMED CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

<TABLE>
<CAPTION>

Nine Months ended September 30, 1996 and 1995

Increase (Decrease) in Cash and Cash Equivalents

<S>	1996	1995
	<C>	<C>
Cash flows from financing activities:		
Increases in notes payable and long-term debt	\$ 34,836,498	\$ 190,580
Principal repayment of notes payable and long-term debt	(530,451)	(452,330)
(Increase) decrease in related party receivables	371,962	(322,756)
Increase (decrease) in related party payables	(1,759,417)	114,204
Net change in deferred grant income	13,520	51,222
Repurchases and retirements of common stock	(3,463)	(1,346)
Proceeds from exercise of stock options	--	181,250
Issuance of common stock	3,455,995	29,500
Cash overdraft	--	--
Net cash provided by (used in) financing activities	36,384,644	(209,676)
Effect of exchange rate changes on cash	356,500	(310,372)
Net increase in cash and cash equivalents	15,175,107	95,016
Cash and cash equivalents at beginning of period	2,807,327	673,951

Cash and cash equivalents at end of period	\$ 17,982,434	\$ 768,967
Supplemental disclosure of cash flow information:		
Cash paid during the nine months for:		
Interest	\$ 1,388,794	\$ 249,148
Income taxes	\$ 1,530,932	\$ 853,577

</TABLE>

Disclosure of accounting policy:

For purposes of the consolidated statement of cash flows, the Company considers all certificates of deposit to be cash equivalents.

The Notes to Financial Statements are an integral part of this statement.

INAMED CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 1996

Note 1 - Interim Financial Statements

The accompanying unaudited consolidated financial statements include all adjustments (of normal recurring accruals only) which are, in the opinion of management, necessary for fair presentation of the results of operations for the periods presented. Interim results are not necessarily indicative of the results to be expected for a full year.

Certain information and footnote disclosures normally included in financial statements, prepared in accordance with generally accepted accounting principles, have been condensed or omitted as allowed by Form 10-Q. The accompanying unaudited consolidated financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 1995 as filed with the Securities and Exchange Commission on Form 10-K/A.

Note 2 - Basis of Presentation and Summary of Significant Accounting Policies

The Company

INAMED Corporation's subsidiaries are McGhan Medical Corporation and CUI Corporation, which develop, manufacture and sell medical devices principally for the plastic and general surgery fields; BioEnterics Corporation which develops, manufactures and sells medical devices and associated instrumentation to the bariatric and general surgery fields; Biodermis Corporation which develops, produces and distributes premium products for dermatology, wound care and burn treatment; Bioplexus Corporation which is a development company that develops, produces and distributes specialty medical products for use by the general surgery profession; Flowmatrix Corporation which manufactures high quality silicone components and devices for INAMED's wholly-owned subsidiaries and distributes an international line of proprietary silicone products; Medisyn Technologies Corporation which develops and promotes the use of silicone chemistry in the fields of medical devices, pharmaceuticals and biotechnology; INAMED Development Company, which is engaged in the research and development of new medical devices using silicone-based technology; INAMED Japan an administration company for INAMED Medical Group, McGhan Limited, an Irish corporation which manufactures medical devices principally for the plastic and general surgery fields; Medisyn Technologies, Ltd. and Chamfield Ltd., Irish corporations which specialize in the development of silicone materials for use by INAMED's wholly-owned subsidiaries; and INAMED B.V., a Netherlands corporation, INAMED B.V.B.A., a Belgium corporation, INAMED GmbH, a German corporation, INAMED S.R.L., an Italian

corporation, INAMED Ltd., a United Kingdom corporation, INAMED S.A.R.L., a French corporation, INAMED, Mexico S.A. de C.V., a Mexican corporation, INAMED, S.A., a Spanish corporation, INAMED do Brazil, a Brazilian corporation, INAMED Medical Group, a Japanese corporation, and McGhan Medical Asia Pacific, a Hong Kong corporation, which all sell medical devices on a direct sales basis in the various countries in which they are located.

Basis of Presentation

The consolidated financial statements include the accounts of INAMED Corporation and its wholly-owned subsidiaries (collectively referred to as the Company for the purposes of financial reporting). All significant intercompany balances and transactions have been eliminated in consolidation.

INAMED CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 1996 (CONTINUED)

Net Income Per Share

Net income per share is based upon the weighted average number of shares outstanding during each of the respective periods.

Reclassification

Certain reclassifications were made to the 1995 consolidated financial statements to conform to the 1996 presentation.

Note 3 - Trade Accounts Receivable, Net of Allowance for Doubtful Accounts and Returns

The provision for doubtful accounts and returns was reduced from \$6,574,031 to \$2,409,839. Actual bad debt from 1993 to the present amounts to approximately 0.16% of sales per year and the return rate continues to decline.

Note 4 - Inventories

Inventories are summarized as follows:

<u><S></u>	September 30, 1996	December 31, 1995
<u><C></u>	<u><C></u>	<u><C></u>
Raw materials	\$ 3,261,974	\$ 2,513,862
Work in process	4,438,272	3,773,579
Finished goods	13,266,582	12,167,768
	-----	-----
	20,966,828	18,455,209
Less allowance for obsolescence	(911,653)	(759,362)
	-----	-----
	\$ 20,055,175	\$ 17,695,847

</TABLE>

On a limited basis, the Company is releasing inventory on consignment.

Note 5 - Convertible Notes Payable

In January 1996, the Company completed a private placement offering by issuing three-year secured convertible, non-callable notes due March 31, 1999 bearing an interest rate of 11%. The Company received \$35 million in proceeds from the offering to be used for the anticipated litigation settlement, for capital investments and improvements designed to expand production capacity, and for working capital purposes. Of the proceeds received from the offering, \$15 million was deposited to escrow for litigation settlement purposes based on the Company receiving a mandatory non-opt certification by the Federal Court.

The notes became convertible into shares of common stock at the option of the note holders on April 22, 1996. The conversion rate is one share of common stock for each \$10 principal amount of notes. Alternatively, the notes may automatically convert into shares of common stock upon the

occurrence of certain events in connection with the certification of the Company's Mandatory Class. In April 1996 the Company completed the Form S-3 registration of 3.5 million shares of its common stock in direct response to the private placement offering requirements.

INAMED CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 1996 (CONTINUED)

In June 1996, the Company received a waiver from the note holders of a majority in principal amount of the notes relating to a covenant default under the indenture for the notes for the quarter ended March 31, 1996. In connection with the waiver, the company agreed to issue to the note holders additional shares of common stock equal to five percent (5%) of the shares issuable upon conversion of the notes. The issuance of the additional shares of common stock is scheduled to occur on January 10, 1997.

Absent an extension of the current 11% convertible notes indenture, it is anticipated that \$15,000,000 will be extinguished as a liability in the first quarter of 1997.

Note 6 - Commitments and Contingencies

INAMED and/or its subsidiaries are defendants in numerous State court actions and a Federal class action in the United States District Court, Northern District of Alabama, Southern Division, under Chief Judge Sam C. Pointer, Jr., US District Court, regarding Master File No. C892-P-10000-S (Silicone Gel Breast Implants Product Liability Litigation MDL 926). The claims are for general and punitive damages substantially exceeding provisions made in the Company's consolidated financial statements. The accompanying consolidated financial statements have been prepared assuming that the Company will withstand the financial results of said litigation. The events described below are in chronological order.

Several US based manufacturers negotiated a settlement with the Plaintiffs' Negotiating Committee ("PNC"), and on March 29, 1994 filed a Proposed Non-Mandatory Class Action Settlement in the Silicone Breast Implant Products Liability (the "Settlement Agreement") providing for settlement of the claims as to the class (the "Settlement") as described in the Settlement Agreement. The Settlement Agreement provides for resolution of any existing or future claims, including claims for injuries not yet known, under any Federal or State law, from any claimant who received a silicone breast implant prior to June 1, 1993. A fairness hearing for the non-mandatory class was held before Judge Pointer on August 18, 1994. On September 1, 1994, Judge Pointer gave final approval to the non-mandatory class action settlement.

The Company was not originally a party to the Settlement Agreement. However, on April 8, 1994 the Company and the PNC reached an agreement which would join the Company into the Settlement. The agreement reached between the Company and the PNC added great value to the Settlement by enabling all plaintiffs and US based manufacturers to participate in the Settlement, and facilitating the negotiation of individual contributions by the Company, Minnesota Mining and Manufacturing Company ("3M"), and Union Carbide Corporation which total more than \$440 million.

Under the terms of the Settlement Agreement, the parties stipulate and agree that all claims of the Settlement Class against the Company regarding breast implants and breast implant materials shall be fully and finally settled and resolved on the terms and conditions set forth in the Settlement Agreement.

Under the terms of the Settlement Agreement, the Company will pay \$1 million to the Settlement fund for each of 25 years starting three years after Settlement approval by the Court. The Company recorded a pre-tax charge of \$9.1 million in the fourth quarter of 1993. The charge represents the present value (discounted at 8%) of the Company's settlement of \$25 million over a payment period of 25 years.

Under the Settlement, \$1.2 billion had been provided for "current claims" (disease compensation claims). In May, 1995, Judge Pointer completed a preliminary review of current claims

INAMED CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
September 30, 1996 (CONTINUED)

which had been filed as of September, 1994, in compliance with deadlines set by the court. Judge Pointer determined that based on the preliminary review, projected amounts of eligible current claims appeared to exceed the \$1.2 billion provided in the Settlement. The Settlement provided that in the event of such over subscription, the amounts to be paid to eligible current claimants would be reduced and claimants would have a right to "opt-out" of the Settlement at that time.

On October 1, 1995, Judge Pointer finalized details of a scaled-back breast implant injury settlement involving defendants Bristol-Myers Squibb, Baxter International, and 3M, which allows plaintiffs to reject this settlement and file their own lawsuits if they believe payments are too low. On November 14, 1995, McGhan Medical and Union Carbide were added to this list of settling defendants to achieve the Bristol, Baxter, 3M, McGhan and Union Carbide Revised Settlement Program (the "Revised Settlement Program").

At June 30, 1996, the Company's reasonable estimate of its liability to fund the Revised Settlement Program is a range between \$9.1 million, the original estimate as noted above, and \$50 million, with no amount within the range a better estimate. Due to the uncertainty of the ultimate resolution and acceptance of the Revised Settlement Program by the registrants, claimants, and plaintiffs and combined with the current lack of information related to the substance of the claims, the financial statements do not reflect any additional provision for the litigation settlement.

The Company has entered into a Settlement Agreement with health care providers by which the company, on or before December 17, 1996, will pay \$1 million into the MDL Settlement Fund ("the Fund") to be administered by Edgar C. Gentle, III, Esq. ("the Fund Agent"). The Company in the spirit of the Revised Settlement Program is contributing to the claims administration management for the settlement which year to date has totaled \$600,000.

The Company has opposed the plaintiffs' claims in these complaints and other similar actions, and continues to deny any wrongdoing or liability to the plaintiffs of any kind. However, the extensive burdens and expensive litigation the Company would continue to incur related to these matters prompted the Company to work toward and enter into the Settlement which insures a more satisfactory method of resolving claims of women who have received the Company's breast implants.

Management's commitment to the Settlement does not alter the Company's need for complete resolution sought under a mandatory ("non-opt-out") settlement class (the "Mandatory Class") or other acceptable settlement resolution. Therefore, the Company has petitioned the United States District Court, Northern District of Alabama, Southern Division, for certification of a Mandatory Class under the provisions of Federal Rules of Civil Procedure. On July 11, 1996, the Company filed an appearance of counsel and status report on the INAMED Mandatory Class Application to the United States District Court, Northern District of Alabama, Southern Division, Chief Honorable Judge Samuel C. Pointer, Jr.

The Company was a defendant with 3M in a case involving three plaintiffs in Houston, Texas, in March 1994, in which the jury awarded the plaintiffs \$15 million in punitive damages and \$12.9 million in damages plus fees and costs. However, the decision was reversed in March 1995 resulting in no financial responsibility on the part of the Company.

The Company is actively negotiating for class action settlement resolve.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

Results of Operations

Net sales as an aggregate were \$71 million during the nine months of 1996 which represents a 11% increase from the first nine months of 1995. Domestic sales growth was adversely affected during the first six months of 1996 by shortages of raw materials and by changes made by the Company in certain manufacturing processes and procedures in order to achieve regulatory approvals and attain higher standards of control. The Company expects international sales to continue to represent an increasing percentage of net sales, since this market is experiencing increasing demand. Management anticipates that continued market growth, an increase in production capacity, both domestically and internationally, and expansion of the international sales force will allow an increase in sales growth.

Gross profit was 69% of net sales for the first nine months of 1996 compared to 66% for the corresponding period in 1995. Management anticipates that the Company may experience future quarters with higher costs of production as modifications are made to accommodate changing FDA views and related regulations.

Marketing expense as a percentage of net sales was 27% in the first nine months of 1996, compared to 26% for the first nine months of 1995. This increase is primarily due to an increase in royalty payments.

General and administrative expenses as a percentage of net sales were 31% in the first nine months of 1996 compared to 34% in the first nine months of 1995. Management expects future general and administrative expenses to grow proportionally with sales, and to be reactive to litigation expense.

Research and development expenses increased slightly from \$3,276,591 in the first nine months of 1995 to \$3,560,114 in the first nine months of 1996. The Company continues its commitment to developing new and improved medical products for use by the medical profession and the public. As a percentage of net sales, this expense was 5.1% in the first nine months of 1995 and 5% in the first nine months of 1996. R & D expenses are expected to increase throughout the remaining quarter of 1996 and into 1997 as the Company increases research and development overseas due to the FDA backlog on approval of new devices in the United States.

Interest expense increased for the first nine months of 1996 in comparison with interest expense for the same period of 1995. The significant increase was entirely the result of interest incurred on the Company's convertible notes payable which were issued in January 1996.

On May 24, 1996 INAMED Corporation offered investors in the above subject convertible notes an incentive for early conversion. The investors were offered a ten percent (10%) bonus of INAMED common stock based upon the holders' respective amount of shares issuable upon conversion of the notes. The offer expired on May 29, 1996, at which time an amount of US\$ 440,000 had been converted to equity, resulting in the issuance of 4,400 bonus shares on September 24, 1996.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS
AND RESULTS OF OPERATIONS (CONTINUED)

On June 27, 1996 the Company entered into a Regulation S transaction ("Offshore Stock Subscription Agreement") with certain non-US investors outside the United States. This agreement was in connection with an offer and sale by the Company of 344,333 shares of common stock at \$8.7125 per share.

The Company continues to incur increased costs related to obtaining FDA, European Economic Community and Asian market approvals for the Company's products. The Company is continuing

to address FDA regulations related to pre-market approval of silicone mammary implants, and anticipates ongoing investment of employee hours and Company funds to facilitate compliance with all FDA regulations as determined by PMA studies and any new regulations which may be adopted. The FDA is expected to issue a call for PMA applications for saline-filled breast implants in 1998.

Financial Condition

During the first nine months of 1996, INAMED Corporation has maintained its position as one of the largest medical device companies serving the plastic, reconstructive and general surgical markets world-wide. In order to meet increasing demand, internationally, for its products, the Company has increased production in Europe through expansion of its manufacturing plant in Ireland. This plant supplies the majority of the products for the Company's international market. The Irish facility works closely with the Company's other subsidiaries in Europe to develop new products for that market. Internationally, the Company has significantly increased its market share by use of direct sales methods rather than distributors wherever it is financially advantageous to do so. The Company currently has direct marketing subsidiaries in eleven non-US countries.

Since December 31, 1995, the cash balance has increased and the current ratio has changed from 0.9 to 1 on December 31, 1995 to 2.4 to 1 on September 30, 1996. The majority of the Company's cash flows in the first nine months of 1996 were generated by the issuance of convertible notes as discussed in Note 5 to the financial statements, and by product sales. Growth, regulatory activities and legal expenses continue to consume a significant amount of available cash resources.

In June of 1990, the Company established a \$4.5 million comprehensive financing package for working capital with a major bank that utilizes domestic accounts receivable, inventories and certain other assets as collateral. In December of 1990, the line of credit was increased to \$5.3 million. The line of credit agreement expired August 31, 1993 and was extended through March 31, 1996. In January 1996, the obligation to the bank was satisfied.

In April 1994, the Company increased its international line of credit with a major Dutch bank. The current line is approximately 1.5 million Guilders and is collateralized by the accounts receivable, inventories and certain other assets of INAMED B.V. As of November 8, 1996, approximately 1.5 million Guilders had been drawn on the line of credit. The interest rate on the line of credit is European prime discount rate plus 2.5% per annum, at a minimum of 7% per annum.

The Company continues to develop a global banking relationship in order to most efficiently manage its increasingly international cash flows.

McGhan Limited continues to receive grants from the Irish Industrial Development Authority ("IDA") which include reimbursement for qualified training expenses, leasehold improvements and capital improvement costs at the Company's operation in Ireland. Additionally, McGhan Limited has obtained

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

approval for additional grants from the European Economic Community "Industry R & D Initiative" for approved research and development programs for up to \$1 million. The Company believes that additional approvals will be achieved in future years.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is a defendant in breast implant litigation as discussed in Note 6 to the unaudited consolidated financial statements.

ITEMS 2. THROUGH 5.

Not Applicable

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

None

INAMED CORPORATION

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INAMED CORPORATION

By /s/Donald K. McGhan

Donald K. McGhan
Chairman of the Board and President

Dated: November 13, 1996

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