

ARTES MEDICAL INC

Form S-8

February 27, 2007

As filed with the Securities and Exchange Commission on February 27, 2007

Registration No. 333- \_\_\_\_\_

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

**FORM S-8  
REGISTRATION STATEMENT  
UNDER THE SECURITIES ACT OF 1933**

**Artes Medical, Inc.**

(Exact name of Registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**33-0870808**

(I.R.S. Employer  
Identification No.)

**5870 Pacific Center Boulevard  
San Diego, California 92121**

(Address of Principal Executive Offices)

**Options Issued to Employees, Directors and Service Providers  
2000 Stock Option Plan  
Amended and Restated 2001 Stock Option Plan  
2006 Equity Incentive Plan  
Warrants Issued to Employees, Directors and Service Providers  
(Full title of the plans)**

**Diane S. Goostree  
President and Chief Executive Officer  
Artes Medical, Inc.  
5870 Pacific Center Boulevard  
San Diego, California 92121**

(Name and address of agent for service)

**(858) 550-9999**

(Telephone number, including area code, of agent for service)

Copy to:

**Jeffrey C. Thacker  
Heller Ehrman LLP  
4350 La Jolla Village Drive, 7<sup>th</sup> Floor  
San Diego, California 92122  
(858) 450-8400**

(Calculation of Registration Fee on following page)

**CALCULATION OF REGISTRATION FEE**

**Proposed  
maximum**

**Proposed  
maximum**

**Amount of**

| <b>Title of each class of securities to be registered</b>            | <b>Amount to be registered(1)</b> | <b>offering price per share</b> | <b>aggregate offering price</b> | <b>registration fee</b> |
|--|-----------------------------------|---------------------------------|---------------------------------|-------------------------|
| <b>Options Issued Pursuant to Individual Option Grants</b>           |                                   |                                 |                                 |                         |
| Common Stock, \$0.001 par value                                      | 29,880 Shares                     | \$0.52 (2)                      | \$15,537.60                     | \$0.48                  |
| <b>2000 Stock Option Plan</b>  |                                   |                                 |                                 |                         |
| Common Stock, \$0.001 par value (3)                                  | 25,880 Shares                     | \$2.34 (2)                      | \$60,559.20                     | \$1.86                  |
| <b>Amended and Restated 2001 Stock Option Plan</b>                   |                                   |                                 |                                 |                         |
| Common Stock, \$0.001 par value (3)                                  | 2,111,765 Shares                  | \$6.93 (2)                      | \$14,634,531.45                 | \$449.28                |
| <b>2006 Equity Incentive Plan</b>                                    |                                   |                                 |                                 |                         |
| Common Stock, \$0.001 par value (4)                                  | 4,444,971 Shares                  | \$9.06 (5)                      | \$40,271,437.26                 | \$1,236.33              |
| <b>Warrants Issued to Employees, Directors and Service Providers</b> |                                   |                                 |                                 |                         |
| Common Stock, \$0.001 par value                                      | 385,874 Shares                    | \$5.17 (2)                      | \$1,994,968.58                  | \$61.25                 |
| <b>TOTAL</b>   | <b>6,998,370 Shares</b>           |                                 | <b>\$56,977,034.09</b>          | <b>\$1,749.19</b>       |

(1) Pursuant to Rule 416 under the Securities Act of 1933 (the Securities Act ), this registration statement shall also cover any additional shares of common stock which become issuable under any of the plans being registered pursuant to this registration statement by reason of any stock dividend, stock split, recapitalization or any other similar transaction effected without the receipt of consideration which results in an increase in the number of the registrant's outstanding

shares of  
common stock.

- (2) Computed in accordance with Rule 457(h) under the Securities Act solely for the purpose of calculating the registration fee. Computation based on the weighted average per share exercise price (rounded to nearest cent) of outstanding options under the referenced plan, or outstanding warrants, as the case may be, the shares issuable under which are registered hereby.
- (3) Represents shares of common stock subject to outstanding awards under the 2000 Stock Option Plan (the 2000 Plan) or the Amended and Restated 2001 Stock Option Plan (the 2001 Plan), as the case may be. Any of such shares of common stock that are subject to awards that

expire or are canceled without having been exercised in full or are repurchased or forfeited will be available for future issuance under the 2006 Equity Incentive Plan (the 2006 Plan ).

- (4) Represents shares of common stock currently reserved for future issuance under the 2006 Plan, including 818,062 shares of common stock that became issuable under the 2006 Plan pursuant to an automatic annual increase in the number of shares reserved under the 2006 Plan that became effective on January 1, 2007.
- (5) Estimated in accordance with Rule 457(h) under the Securities Act solely for the purpose of calculating the registration fee. The computation with respect to unissued options

is based upon  
the average high  
and low sale  
prices of the  
common stock  
as reported on  
the Nasdaq  
Global Market  
on February 21,  
2007.

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**PART II**  
**INFORMATION REQUIRED IN THE REGISTRATION STATEMENT**

**Item 3. Incorporation of Documents by Reference.**

The Securities and Exchange Commission (the Commission ) allows us to incorporate by reference the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this registration statement, and later information filed with the SEC will update and supersede this information. The following documents filed with the Commission are hereby incorporated by reference:

(a) Our prospectus filed with the Commission on December 20, 2006 pursuant to Rule 424(b) of the Securities Act, which contains audited financial statements for our latest fiscal year for which such statements have been filed.

(b) All other reports filed by us pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the Exchange Act ), since the end of the fiscal year covered by the prospectus referred to in (a) above.

(c) The description of our common stock contained in the Registration Statement on Form 8-A filed with the Commission under Section 12 of the Exchange Act on December 11, 2006, including any amendment or report filed for the purpose of updating such description.

All documents subsequently filed by the registrant pursuant to Sections 13(a), 13(c), 14 and 15(d) of the Exchange Act, prior to the filing of a post-effective amendment which indicates that all securities offered hereby have been sold or which deregisters all securities then remaining unsold, shall be deemed to be incorporated by reference in this registration statement and to be part hereof from the date of filing such documents.

For the purposes of this registration statement, any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this registration statement.

Under no circumstances will any information filed under current items 2.02 or 7.01 of Form 8-K be deemed incorporated herein by reference unless such Form 8-K expressly provides to the contrary.

You may request a copy of these filings, at no cost, by writing or telephoning us at:

Artes Medical, Inc.  
5870 Pacific Center Boulevard  
San Diego, California 92121  
(858) 550-9999

You should rely only on the information provided or incorporated by reference in this registration statement or any related prospectus. We have not authorized anyone to provide you with different information. You should not assume that the information in this registration statement or any related prospectus is accurate as of any date other than the date on the front of the document.

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Item 4. **Description of Securities.** Not applicable.

Item 5. **Interests of Named Experts and Counsel.** Not applicable.

Item 6. **Indemnification of Directors and Officers.**

Our amended and restated certificate of incorporation limits the liability of our directors for monetary damages for breach of their fiduciary duties, except for liability that cannot be eliminated under the Delaware General Corporation Law. Delaware law provides that directors of a corporation will not be personally liable for monetary damages for breach of their fiduciary duties as directors, except liability for any of the following:

any breach of their duty of loyalty to the corporation or its stockholders;

acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law;

unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the Delaware General Corporation Law; or

any transaction from which the director derived an improper personal benefit.

This limitation of liability does not apply to liabilities arising under the federal securities laws and does not affect the availability of equitable remedies such as injunctive relief or rescission.

Our amended and restated certificate of incorporation and our amended and restated bylaws also will provide that we shall indemnify our directors and executive officers and may indemnify our other officers and employees and other agents to the fullest extent permitted by law. Our amended and restated bylaws also permit us to secure insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in this capacity, regardless of whether our amended and restated bylaws would permit indemnification.

We have entered into, and continue to enter separate indemnification agreements with our directors and executive officers, in addition to indemnification provided for in our charter documents. These agreements, among other things, provide for indemnification of our directors and executive officers for expenses, judgments, fines and settlement amounts incurred by this person in any action or proceeding arising out of this person's services as a director or executive officer or at our request. We believe that these provisions and agreements are necessary to attract and retain qualified persons as directors and executive officers.

At present, there is no pending litigation or proceeding involving any of our directors, officers, employees or agents in which indemnification by us is sought, nor are we aware of any threatened litigation or proceeding that may result in a claim for indemnification.

We have purchased a policy of directors' and officers' liability insurance that insures our directors and officers against the cost of defense, settlement or payment of a judgment in some circumstances.

Item 7. **Exemption from Registration Claimed.** Not applicable.

Item 8. **Exhibits.**

Exhibit  
Number

4.1\* Specimen common stock certificate.

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Exhibit  
Number

- 4.3\* Form of warrant to purchase common stock issued to employees, consultants and service providers.
- 4.4\* Amended warrant to purchase up to 650,000 shares of common stock, dated June 9, 2006, issued to Christopher J. Reinhard, as corrected.
- 4.12\* Amended warrant to purchase up to 150,000 shares of common stock, dated June 9, 2006, issued to Christopher J. Reinhard, as corrected.
- 4.13\* Amendment dated June 23, 2006, to warrant to purchase common stock, issued to employees, consultants and service providers, entered into by us and each of the warrant holders listed on Exhibit A thereto.
- 5.1 Opinion of Heller Ehrman LLP.
- 10.1\* 2000 Stock Option Plan.
- 10.2\* Form of Non-Qualified Stock Option Agreement under the 2000 Stock Option Plan.
- 10.3\* Amended and Restated 2001 Stock Option Plan.
- 10.4\* Form of Notice of Option Grant under the Amended and Restated 2001 Stock Option Plan.
- 10.5\* Form of Incentive Stock Option Agreement under the Amended and Restated 2001 Stock Option Plan.
- 10.6\* Form of Non-Qualified Stock Option Agreement under the Amended and Restated 2001 Stock Option Plan.
- 10.7\* 2006 Equity Incentive Plan.
- 10.8.1\* Form of Notice of Grant of Stock Option under 2006 Equity Incentive Plan.
- 10.8.2\* Form of Option Exercise and Stock Purchase Agreement under 2006 Equity Incentive Plan.
- 10.8.3\* Form of Restricted Stock Grant Notice under 2006 Equity Incentive Plan.
- 23.1 Consent of Heller Ehrman LLP (included in Exhibit 5.1).
- 23.2 Consent of Independent Registered Public Accounting Firm.
- 24.1 Powers of Attorney (included on signature page).

\* Incorporated by  
reference to  
exhibits filed

with our  
Registration  
Statement on  
Form S-1 (File  
No.  
333-134086),  
and as declared  
effective by the  
Commission on  
December 19,  
2006.

Item 9. **Undertakings.**

We hereby undertake:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement;

(i) to include any prospectus required by Section 10(a)(3) of the Securities Act;

(ii) to reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof), which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the SEC pursuant to Rule 424(b) if, in the aggregate, the

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changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set for the in the Calculation of Registration Fee table in the effective registration statement; and

(iii) to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement; provided, however, that paragraphs (1)(i) and (1)(ii) do not apply if the registration statement is on Form S-8, and the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed by us pursuant to Section 13 or Section 15(d) of the Exchange Act that are incorporated by reference in the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) That, for the purpose of determining liability of the registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities:

The undersigned registrant undertakes that in a primary offering of securities of the undersigned registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of the undersigned registrant relating to the offering required to be filed pursuant to Rule 424 (§230.424 of this chapter);

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrant or used or referred to by the undersigned registrant;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrant or its securities provided by or on behalf of the undersigned registrant; and

(iv) Any other communication that is an offer in the offering made by the undersigned registrant to the purchaser.

We hereby undertake that, for purposes of determining any liability under the Securities Act, each filing of our annual report pursuant to Section 13(a) or Section 15(d) of the Exchange Act (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Exchange Act) that is incorporated by reference in this registration statement shall be deemed to be a new registration statement, relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by us of expenses incurred or paid by one of our directors, officers or controlling persons in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, we will, unless in the opinion of our counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by us is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

[Signature Pages Follow]

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**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-8 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of San Diego, State of California, on February 27, 2007.

**Artes Medical, Inc.**

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

**POWER OF ATTORNEY**

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Diane S. Goostree and Peter C. Wulff, jointly and severally, his or her attorneys-in-fact and agents, each with the power of substitution and resubstitution, for him or her and in his or her name, place or stead, in any and all capacities, to sign any amendments to this Registration Statement on Form S-8, and to file such amendments, together with exhibits and other documents in connection therewith, with the Securities and Exchange Commission, granting to each attorney-in-fact and agent, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully as he or she might or could do in person, and ratifying and confirming all that the attorneys-in-fact and agents, or his or her substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

| Signature  | Title   | Date              |
|--|---|-------------------|
| /s/ Diane S. Goostree<br>Diane S. Goostree             | President, Chief Executive Officer and<br>Director (Principal Executive Officer)                        | February 27, 2007 |
| /s/ Peter C. Wulff<br>Peter C. Wulff                   | Executive Vice President and Chief<br>Financial Officer (Principal Financial and<br>Accounting Officer) | February 27, 2007 |
| /s/ Christopher J. Reinhard<br>Christopher J. Reinhard | Executive Chairman of the Board of<br>Directors   | February 27, 2007 |
| /s/ Daren J. Barone<br>Daren J. Barone                 | Director  | February 27, 2007 |
| /s/ John R. Costantino<br>John R. Costantino           | Director  | February 27, 2007 |
| /s/ Lon E. Otremba                                     | Director  | February 27, 2007 |

Lon E. Otremba

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**INDEX TO EXHIBITS**

Exhibit  
Number

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- 4.13\* Amendment dated June 23, 2006, to warrant to purchase common stock, issued to employees, consultants and service providers, entered into by us and each of the warrant holders listed on Exhibit A thereto.
- 5.1 Opinion of Heller Ehrman LLP.
- 10.1\* 2000 Stock Option Plan.
- 10.2\* Form of Non-Qualified Stock Option Agreement under the 2000 Stock Option Plan.
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- 10.8.3\* Form of Restricted Stock Grant Notice under 2006 Equity Incentive Plan.
- 23.1 Consent of Heller Ehrman LLP (included in Exhibit 5.1).
- 23.2 Consent of Independent Registered Public Accounting Firm.
- 24.1 Powers of Attorney (included on signature page).

\* Incorporated by reference to exhibits filed with our Registration Statement on Form S-1 (File No. 333-134086), and as declared effective by the Commission on December 19, 2006.

ternational Metals, Inc. (manufacture and distribution of titanium), Canadian National Railway (railroad) and White Mountains Insurance Group, Ltd. (holding company).

**Principal Occupation During at Least the Past 5 Years:**

Director or Trustee of various companies and trusts; and **formerly**, Assistant to the President of the United States and Secretary of the Cabinet (1990-1993); General Counsel to the United States Treasury Department (1989-1990); and Counselor to the Secretary and Assistant Secretary for Public Affairs and Public Liaison-United States Treasury Department (1988-1989).

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J. Michael Trustee Since 2009 137 Boeing Capital  
Luttig (1954) Corporation (aircraft  
financing) (2006-2013).  
One Franklin  
Parkway  
San Mateo, CA  
94403-1906

**Principal Occupation During at Least the Past 5 Years:**

Executive Vice President, General Counsel and member of Executive Council, The Boeing Company (aerospace company); and **formerly**, Federal Appeals Court Judge, U.S. Court of Appeals for the Fourth Circuit (1991-2006).

Frank A. Olson Trustee Since 2005 137 Hess Corporation  
(1932) (exploration and  
refining of oil and  
gas) (1998-2013).  
One Franklin  
Parkway  
San Mateo, CA  
94403-1906

**Principal Occupation During at Least the Past 5 Years:**

Director of various companies; and **formerly**, Chairman of the Board, The Hertz Corporation (car rental) (1980-2000) and Chief Executive Officer (1977-1999)); Chairman of the Board, President and Chief Executive Officer, UAL Corporation (airlines) (June-December 1987).

Larry D. Trustee Since 2007 137 Cbeyond, Inc.  
Thompson (1945) (business  
communications  
provider)  
One Franklin (2010-2012), The  
Parkway Southern Company  
(energy company)  
San Mateo, CA (December 2014;  
94403-1906 previously  
2010-2012) and  
Graham Holdings  
Company (education  
and media



organization)  
(2011-present).

**Principal Occupation During at Least the Past 5 Years:**

Executive Vice President - Government Affairs, General Counsel and Corporate Secretary, PepsiCo, Inc. (consumer products) (2012-present); and **formerly**, John A. Sibley Professor of Corporate and Business Law, University of Georgia School of Law (2011-2012); Senior Vice President - Government Affairs, General Counsel and Secretary, PepsiCo, Inc. (2004-2011); Senior Fellow of The Brookings Institution (2003-2004); Visiting Professor, University of Georgia School of Law (2004); and Deputy Attorney General, U.S. Department of Justice (2001-2003).

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|                          |                                |   |     |      |
|--------------------------|--------------------------------|---|-----|------|
| John B. Wilson<br>(1959) | Lead<br>Independent<br>Trustee | Trustee since<br>2006 and Lead<br>Independent | 111 | None |
| One Franklin<br>Parkway  |                                | Trustee since<br>2008                         |     |      |

San Mateo, CA  
94403-1906

**Principal Occupation During at Least the Past 5 Years:**

President, Staples Europe (office supplies) (2012-present); President and Founder, Hyannis Port Capital, Inc. (real estate and private equity investing); serves on private and non-profit boards; and **formerly**, Chief Operating Officer and Executive Vice President, Gap, Inc. (retail) (1996-2000); Chief Financial Officer and Executive Vice President - Finance Strategy, Staples, Inc. (1992-1996); Senior Vice President - Corporate Planning, Northwest Airlines, Inc. (airlines) (1990-1992); and Vice President and Partner, Bain & Company (consulting firm) (1986-1990).

**Nominees for Interested Trustee**

| Name, Year of<br>Birth and<br>Address | Position | Length of<br>Time Served | Number of<br>Portfolios in Other Directorships<br>Fund Complex Held During at Least<br>Overseen by the Past 5 Years<br>Board Member* |      |
|---------------------------------------|----------|--------------------------|--|------|
| **Gregory E.<br>Johnson (1961)        | Trustee  | Since 2013               | 147  | None |

One Franklin  
Parkway  
  
San Mateo, CA  
94403-1906

**Principal Occupation During at Least the Past 5 Years:**

Chairman of the Board, Member - Office of the Chairman, Director, President and Chief Executive Officer, Franklin Resources, Inc.; officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 44 of the investment companies in Franklin Templeton Investments; and Vice Chairman, Investment Company Institute.

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|                                  |  |   |      |
|----------------------------------|--|---|------|
| ***Rupert H. Johnson, Jr. (1940) | Chairman of Board, Trustee and Senior Vice President | Chairman of the Board since 2013 and Trustee and Senior Vice President since 1988 | None |
|----------------------------------|--|---|------|

One Franklin Parkway  
San Mateo, CA  
94403-1906

**Principal Occupation During at Least the Past 5 Years:**

Vice Chairman, Member - Office of the Chairman and Director, Franklin Resources, Inc.; Director, Franklin Advisers, Inc.; Senior Vice President, Franklin Advisory Services, LLC; and officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 43 of the investment companies in Franklin Templeton Investments.

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\*We base the number of portfolios on each separate series of the U.S. registered investment companies within the Franklin Templeton Investments fund complex. These portfolios have a common investment manager or affiliated investment managers.

\*\*Gregory E. Johnson is considered to be an interested person of the Fund under the federal securities laws due to his position as an officer and director of Franklin Resources, Inc. (Resources), which is the parent company of the Fund's investment manager and distributor.

\*\*\*Rupert H. Johnson, Jr. is considered to be an interested person of the Fund under the federal securities laws due to his position as officer and director and major shareholder of Resources, which is the parent company of the Fund's investment manager and distributor.

Note 1: Rupert H. Johnson, Jr. is the uncle of Gregory E. Johnson.

The following tables provide the dollar range of equity securities of the Fund and of all funds overseen by the Trustees in the Franklin Templeton Investments

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fund complex beneficially owned by the Trustees as of December 31, 2014.

**Independent Trustee:**

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| <b>Name of Nominee</b> | <b>Aggregate Dollar Range of Equity</b> |  |
|------------------------|---|--|
|                        | <b>Dollar Range of Equity</b>           | <b>Securities in all Funds Overseen by the Board Member in the Franklin Templeton Investments Fund Complex</b> |
| Harris J. Ashton.....  | \$10,001 - \$50,000                     | Over \$100,000   |
| Mary C. Choksi         | None                                    | None   |
| Sam Ginn.....          | None                                    | Over \$100,000   |
| Edith E. Holiday.....  | None                                    | Over \$100,000   |
| J. Michael Luttig..... | None                                    | Over \$100,000   |
| Frank A. Olson.....    | None                                    | Over \$100,000   |
| Larry D. Thompson..... | None                                    | Over \$100,000   |
| John B. Wilson.....    | None                                    | Over \$100,000   |

**Interested Trustee:**

| <b>Name of Nominee</b>     | <b>Aggregate Dollar Range of Equity</b> |  |
|----------------------------|---|--|
|                            | <b>Dollar Range of Equity</b>           | <b>Securities in all Funds Overseen by the Board Member in the Franklin Templeton Investments Fund Complex</b> |
| Gregory E. Johnson.....    | None                                    | Over \$100,000   |
| Rupert H. Johnson, Jr..... | \$1-\$10,000                            | Over \$100,000   |

***How often do the Trustees meet and what are they paid?***

The role of the Trustees is to provide general oversight of the Fund's business, and to ensure that the Fund is operated for the benefit of all shareholders. The Trustees anticipate meeting at least eight times during the current fiscal year to review the operations of the Fund and the Fund's investment performance. The Trustees also oversee the services furnished to the Fund by Franklin Advisers, Inc., the Fund's investment manager (the "Investment Manager"), and various other service providers.

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The Fund's Independent board members constitute the sole independent directors/trustees of 27 investment companies in the Franklin Templeton Investments complex, for which each Independent Director/Trustee currently is paid a \$247,000 annual retainer fee, together with a \$7,000 per meeting fee for attendance at board meetings, a portion of which is allocated to the Fund. To the extent held, compensation may also be paid for attendance at specially held Board meetings. The Fund's lead independent trustee is paid an annual supplemental retainer of \$25,000 for service to such investment companies, a portion of which is allocated to the Fund. Trustees who serve on the Audit Committee of the Fund and such other funds receive a flat fee of \$3,000 per Committee meeting attended in person and \$2,000 per telephonic meeting, a portion of which is allocated to the Fund. John B. Wilson, who serves as chairman of the Audit Committee of the Fund and such other funds, receives an additional fee of \$50,000 per year, a portion of which is allocated to the Fund. Members of a committee are not separately compensated for any committee meeting held on the day of a Board meeting. Independent Directors/Trustees are also reimbursed for expenses incurred in connection with attending meetings.

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During the fiscal year ended -August 31, 2014, there were eight meetings of the Board, two meetings of the Nominating Committee, and three meetings of the Audit Committee. Each of the Trustees who served on the Board during the fiscal year ended August 31, 2014 attended at least 75% of the aggregate of the total number of meetings of the Board and the total number of meetings held by all committees of the Board on which the Trustee served.

The Fund does not currently have a formal policy regarding Trustees' attendance at the Annual Shareholders' Meeting. None of the Trustees attended the Fund's last annual meeting held on March 21, 2014.

Certain Interested Trustees and officers of the Fund are shareholders of Resources and may receive indirect remuneration due to their participation in the management fees and other fees received from the Franklin Templeton funds by the Investment Manager and its affiliates. The Investment Manager or its affiliates pay the salaries and expenses of the officers. No pension or retirement benefits are accrued as part of Fund -expenses.

The table below indicates the aggregate compensation paid to the nominees for Independent Trustee by the Fund individually and by all of the funds in the Franklin Templeton Investments fund complex. These Trustee nominees also serve as directors or trustees of other Franklin Templeton funds, many of which hold meetings at different dates and times. The Trustees and the Fund's management believe that having the same individuals serving on the boards of many of the funds in the Franklin Templeton Investments fund complex enhances the ability of each fund to obtain, at a relatively modest cost to each separate fund, the services of high caliber, experienced and knowledgeable Independent Trustees who can bring their experience and talents to, and more effectively oversee the management of, the funds.

| Name of Trustee | Aggregate<br>Compensation<br>from the Trust* | Total Compensation from<br>Franklin Templeton<br>Investments Fund Complex** | Number of Boards within  |
|-----------------|--|---|--|
|                 |  |   | Franklin Templeton<br>Investments Fund Complex<br>in which Trustee Serves*** |



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|                    |       |         |           |    |    |
|--------------------|-------|---------|-----------|----|----|
| Harris J. Ashton   |       | \$1,372 | \$493,000 |    | 41 |
| Mary C. Choksi**** |       | N/A     | 82,750    |    | 27 |
| Sam Ginn           |       | 1,372   | 303,000   |    | 27 |
| Edith E. Holiday   |       | 1,372   | 532,000   |    | 41 |
| J. Michael Luttig  | 3,374 |         | 509,000   | 41 |    |
| Frank A. Olson     |       | 3,372   | 493,000   |    | 41 |
| Larry D. Thompson  | 1,372 |         | 509,000   | 41 |    |
| John B. Wilson     |       | 3,424   | 394,000   |    | 27 |

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\* Compensation received for the fiscal year ended August 31, 2014.

\*\* Compensation received for the calendar year ended December 31, 2014.

\*\*\* We base the number of boards on the number of U.S. registered investment companies in the Franklin Templeton Investments fund complex. This number does not include the total number of series or funds within each investment company for which the Board members are responsible. Franklin Templeton Investments currently includes 46 U.S. registered investment companies, with approximately 154 U.S. based funds or series.

\*\*\*\* Mary C. Choksi began serving as a Trustee for the Trust effective October 1, 2014.

Board members historically have followed a policy of having substantial investments in one or more of the funds in Franklin Templeton Investments, as is consistent with their individual financial goals. In February 1998, this policy was formalized through adoption of a requirement that each board member invest one-third of fees received for serving as a director or trustee of a Templeton fund (excluding committee fees) in shares of one or more Templeton funds and one-third of fees received for serving as a director or trustee of a Franklin fund (excluding committee fees) in shares of one or more Franklin funds until the value of such investments equals or exceeds five times the annual retainer and regular board meeting fees paid to such board member. Investments in the name of family members or entities controlled by a board member constitute fund holdings of such board member for purposes of this policy, and a three year - phase-in period applies to such investment requirements for newly elected board members. In implementing such policy, a board member's fund holdings existing on February 27, 1998, were valued as of such date with subsequent investments valued at cost.

***Who are the Executive Officers of -the Fund?***

Officers of the Fund are appointed by the Trustees and serve at the pleasure of the Board. Listed below, for each Executive Officer, are his or her name, year of birth, address, a brief description of his or her professional experience

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for the past 5 years, and his or her position and length of service with the Fund:

| <b>Name, Year of Birth and Address</b>   | <b>Position</b>  | <b>Length of Time Served</b>  |
|--|--|---|
| Rupert H. Johnson, Jr. (1940)<br>One Franklin Parkway<br>San Mateo, CA<br>94403-1906 | Chairman of Board,<br>Trustee and Senior<br>Vice President | Chairman of the Board since 2013<br>and Trustee and Senior Vice<br>President since 1988 |

**Principal Occupation During at Least the Past 5 Years:**

Please refer to the table "Nominees for Interested Trustee" for additional information about Mr. Rupert H. Johnson, Jr.

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Alison E. Baur Vice President Since 2012

(1964)

One Franklin Parkway

San Mateo, CA  
94403-1906

**Principal Occupation During at Least the Past 5 Years:**

Deputy General Counsel, Franklin Templeton Investments; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 46 of the investment companies in Franklin Templeton Investments.

Laura F. Ferguson Chief Executive Officer Since 2009  
(1962) - Finance and  
Administration

One Franklin Parkway

San Mateo,

CA 94403-1906

**Principal Occupation During at Least the Past 5 Years:**

Senior Vice President, Franklin Templeton Services, LLC; officer of 46 of the investment companies in Franklin Templeton Investments.

Gaston Gardey (1967) Treasurer, Chief Since 2009  
Financial Officer and  
One Franklin Parkway Chief Accounting  
Officer

San Mateo,

CA 94403-1906

**Principal Occupation During at Least the Past 5 Years:**

Director, Fund Accounting, Franklin Templeton Investments; and officer of 27 of the investment companies in Franklin Templeton Investments.

Aliya S. Gordon (1973) Vice President Since 2009

One Franklin Parkway

San Mateo, CA  
94403-1906

**Principal Occupation During at Least the Past 5 Years:**

Senior Associate General Counsel, Franklin Templeton Investments; officer of 46 of the investment companies in Franklin Templeton Investments; and **formerly**, Litigation Associate, Steefel, Levitt & Weiss, LLP (2000-2004).

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Steven J. Gray (1955) Vice President Since 2009

One Franklin Parkway

San Mateo, CA 94403-1906

**Principal Occupation During at Least the Past 5 Years:**

Senior Associate General Counsel, Franklin Templeton Investments; Vice President, Franklin Templeton Distributors, Inc. and Franklin Alternative Strategies Advisers, LLC; and officer of 46 of the investment companies in Franklin Templeton Investments.

Selena L. Holmes (1965) Vice President – AML Since 2012

Compliance

100 Fountain Parkway

St. Petersburg, FL 33716-1205

**Principal Occupation During at Least the Past 5 Years:**

Director, Global Compliance Monitoring; Chief Compliance Officer, Franklin Alternative Strategies Advisers, LLC; Vice President, Franklin Templeton Companies, LLC; and officer of 46 of the investment companies in Franklin Templeton Investments.

Edward B. Jamieson (1948) President and Chief Executive Officer – Investment Management President since 1993 and Chief Executive Officer – Investment Management since 2002

One Franklin Parkway

San Mateo, CA 94403-1906

**Principal Occupation During at Least the Past 5 Years:**

President, Chief Investment Officer and Director, Franklin Advisers, Inc.; Executive Vice President, Franklin Templeton Institutional, LLC; and officer and/or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 10 of the investment companies in Franklin Templeton Investments.

Kimberly H. Novotny (1972) Vice President Since 2013

300 S.E. 2nd Street

Fort Lauderdale,

FL 33301-1923

**Principal Occupation During at Least the Past 5 Years:**

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Associate General Counsel, Franklin Templeton Investments; Vice President and Secretary, Fiduciary Trust International of the South; Vice President, Templeton Investment Counsel, LLC; Assistant Secretary, Franklin Resources, Inc.; and officer of 46 of the investment companies in Franklin Templeton Investments.

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Robert C. Rosselot (1960)      Chief Compliance Officer      Since 2013

300 S.E. 2nd Street

Fort Lauderdale,

FL 33301-1923

**Principal Occupation During at Least the Past 5 Years:**

Director, Global Compliance, Franklin Templeton Investments; Vice President, Franklin Templeton Companies, LLC; officer of 46 of the investment companies in Franklin Templeton Investments; and **formerly**, Senior Associate General Counsel, Franklin Templeton Investments (2007-2013); and Secretary and Vice President, Templeton Group of Funds (2004-2013).

Karen L. Skidmore (1952)      Vice President and Secretary      Since 2006

One Franklin Parkway

San Mateo, CA 94403-1906

**Principal Occupation During at Least the Past 5 Years:**

Senior Associate General Counsel, Franklin Templeton Investments; and officer of 46 of the investment companies in Franklin Templeton Investments.

Craig S. Tyle (1960)      Vice President      Since 2005

One Franklin Parkway

San Mateo, CA 94403-1906

**Principal Occupation During at Least the Past 5 Years:**

General Counsel and Executive Vice President, Franklin Resources, Inc.; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 46 of the investment companies in Franklin Templeton Investments.

Lori A. Weber (1964)      Vice President      Since 2011

300 S.E. 2<sup>nd</sup> Street

Fort Lauderdale,

FL 33301-1923



**Principal Occupation During at Least the Past 5 Years:**

Senior Associate General Counsel, Franklin Templeton Investments; Assistant Secretary, Franklin Resources, Inc.; Vice President and Secretary, Templeton Investment Counsel, LLC; Vice President, Fiduciary Trust International of the South; and officer of 46 of the investment companies in Franklin Templeton Investments.

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Note 1: Officer information is current as of the date of this report. It is possible that after this date, information about officers may change.

**ADDITIONAL INFORMATION ABOUT -THE FUND**

**The Investment Manager.** The Investment Manager is Franklin Advisers, Inc., a California corporation, whose principal address is One Franklin Parkway, San Mateo, CA 94403. The Investment Manager is a -wholly-owned subsidiary of Resources.

**The Administrator.** The administrator of the Fund is Franklin Templeton Services, LLC ("FT Services"), whose principal address is also One Franklin Parkway, San Mateo, CA 94403. Under an agreement with the Investment Manager, FT Services performs certain administrative functions, such as portfolio recordkeeping, for the Fund. FT Services is an indirect, -wholly-owned subsidiary of -Resources.

**The Transfer Agent.** The transfer agent, registrar and dividend disbursement agent for the Fund is BNY Mellon Investment Servicing, c/o Computershare, P.O. Box 30170, College Station, Texas 77842-3170.

**The Custodian.** Bank of New York, Mutual Funds Division, 90 Washington Street, New York, NY 10286, acts as custodian of the Fund's securities and other - assets.

**Reports to Shareholders and Financial Statements.** The Fund's last audited financial statements and annual report for the fiscal year ended - August 31, 2014, are available free of charge. To obtain a copy, please call (800) DIAL BEN/342-5236 or forward a written request to Franklin Templeton Investor Services, LLC, P.O. Box 997151, Sacramento, CA - 95899-9983.

**Principal Shareholders.** As of January 16, 2015, the Fund had 25,131,894 shares outstanding and total net assets of \$203,568,999. The Fund's shares are listed on the NYSE (symbol: FT). From time to time, the number of shares held in "street name" accounts of various securities dealers for the benefit of their clients may exceed 5% of the total shares outstanding. To the knowledge of the Fund's management, as of January 16, 2015, there were no entities holding beneficially or of record more than 5% of the Fund's outstanding shares, except as shown in the following table:

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| Name and Address  | Amount and Nature of Beneficial Ownership | Percent of Outstanding Common Shares |
|---|---|--------------------------------------|
| Financial & Investment Group,<br>Ltd.<br><br>111 Cass Street<br><br>Traverse City, MI 49684 | 1,257,476 <sup>1</sup>                    | 5.00% <sup>2</sup>                   |

1. The nature of beneficial ownership is shared voting and dispositive power, as

reported on Schedule 13G, filed with the SEC as of December 31, 2014.

2. As reported on Schedule 13G, filed with the SEC as of December 31, 2014.

In addition, to the knowledge of the Fund's management, as of January 16, 2015, no Trustee of the Fund owned 1% or more of the outstanding shares of the Fund, and the officers and Trustees of the Fund owned, as a group, less than 1% of the outstanding shares of -the Fund.

**Contacting the Board of Trustees.** If a shareholder wishes to send a communication to the Board, such correspondence should be in writing and addressed to the Board of Trustees at the Fund's offices, One Franklin Parkway, San Mateo, California 94403. The correspondence will then be given to the Board for their review and -consideration.

**AUDIT COMMITTEE**

The Board has a standing Audit Committee currently consisting of Messrs. Wilson (Chairman), Luttig and Thompson, all of whom are Independent Trustees and also are considered to be "independent" as that term is defined by the NYSE's listing standards. The Fund's Audit Committee is responsible for the appointment, compensation and retention of the Fund's independent registered public accounting firm (auditors), including evaluating their independence,

recommending the selection of the Fund's auditors to the full Board, and meeting with such auditors to consider and review matters relating to the Fund's financial reports and internal accounting.

**Selection of Auditors.** The Audit Committee and the Board have selected the firm of PricewaterhouseCoopers LLP ("PwC") as auditors of the Fund for the current fiscal year. Representatives of PwC are not expected to be present at the Meeting, but will have the opportunity to make a statement if they wish, and will be available should any matter arise requiring their presence.

**Audit Fees.** The aggregate fees paid to PwC for professional services rendered by PwC for the audit of the Fund's annual financial statements or for services that are normally provided by PwC in connection with statutory and regulatory filings or engagements were \$41,507 for the fiscal year ended August 31, 2014, and \$41,902 for the fiscal year ended August 31, 2013.

**Audit-Related Fees.** There were no fees paid to PwC for assurance and related services rendered by PwC to the Fund that are reasonably related to the performance of the audit or review of the Fund's financial statements and are not reported under "Audit Fees" above for the fiscal years ended August 31, 2014 and August 31, 2013.

There were no fees paid to PwC for assurance and related services rendered by PwC to the Investment Manager and any entity controlling, controlled by or under common control with the Investment Manager that provides ongoing services to the Fund that are reasonably related to the performance of the audit of financial statements for the fiscal years ended August 31, 2014 and August 31, 2013.

**Tax Fees.** There were no fees paid to PwC for professional services rendered by PwC to the Fund for tax compliance, tax advice and tax planning for the fiscal years ended August 31, 2014 and August 31, 2013.

The aggregate fees paid to PwC for professional services rendered by PwC to the Investment Manager and any entity controlling, controlled by or under common control with the Investment Manager that provides ongoing services to the Fund for tax compliance, tax advice and tax planning were \$3,830 for the fiscal year ended August 31, 2014, and \$3,100 for the fiscal year ended August 31, 2013.

**All Other Fees.** The fees paid to PwC for products and services rendered by PwC to the Fund, not reported in previous paragraphs, were \$61 the fiscal year ended August 31, 2014 and \$0 for the fiscal year ended August 31, 2013.

The fees paid to PwC for products and services rendered by PwC to the Investment Manager and any entity controlling, controlled by or under common control with the Investment Manager that provides ongoing services to the Fund, not reported in previous paragraphs, were \$159,675 for the fiscal year ended August 31, 2014 and \$0 for the fiscal year ended August 31, 2013.

**Audit Committee -Pre-Approval Policies and Procedures.** As of the date of this proxy statement, the Audit Committee has not adopted -pre-approval policies and procedures. As a result, all such services described above and provided by PwC must be directly - pre-approved by the Audit -Committee.

**Aggregate Non-Audit Fees.** The aggregate fees paid to PwC for non-audit services to the Fund and to the Investment Manager and any entity controlling, controlled by, or under common control with the Investment Manager that provides ongoing services to the Fund, were \$163,566 for the fiscal year ended August 31, 2014, and \$3,100 for the fiscal year ended August 31, 2013.

The Audit Committee has considered whether the provision of the non-audit services that were rendered to the Investment Manager and to any entities controlling, controlled by, or under common control with the Investment Manager that provide ongoing services to the Fund that were not pre-approved pursuant to paragraph (c) (7) (ii) of Rule 2-01 of Regulation S-X is compatible with maintaining PwC's independence.

**Audit Committee Report.** The Board has adopted and approved a revised formal written charter for the Audit Committee, which sets forth the Audit Committee's responsibilities. A copy of the charter is attached as "Appendix A" to this proxy statement.

As required by the charter, the Audit Committee reviewed the Fund's audited financial statements and met with management, as

well as with PwC, the Fund's auditors, to discuss the financial statements.

The Audit Committee received the written disclosures and the letter from PwC required by Independence Standards Board Standard No. 1. The Audit Committee also received the report of PwC regarding the results of their audit. In connection with their review of the financial statements and the auditors' report, the members of the Audit Committee discussed with a representative of PwC, PwC's independence, as well as the following: the auditors' responsibilities in accordance with generally accepted auditing standards; the auditors' responsibilities for information prepared by the Fund's management that accompanies the Fund's audited financial statements and any procedures performed and the results; the initial selection of, and whether there were any changes in, significant accounting policies or their application; the Fund's management's judgments and accounting estimates; whether there were any significant audit adjustments; whether there were any disagreements with the Fund's management; whether there was any consultation with other accountants; whether there were any major issues discussed with the Fund's management prior to the auditors' retention; whether the auditors encountered any difficulties in dealing with the Fund's management in performing the audit; and the auditors' judgments about the quality of the Fund's accounting - principles.

Based on its review and discussions with the Fund's management and the Fund's auditors, the Audit Committee did not become aware of any material misstatements or omissions in the financial statements.

Accordingly, the Audit Committee recommended to the Board that the audited financial statements be included in the Fund's Annual Report to Shareholders for the fiscal year ended -August 31, 2014, for filing with -the SEC.



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THE AUDIT -COMMITTEE

John B. Wilson (Chairman)

J. Michael Luttig

Larry D. Thompson

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**ADDITIONAL INFORMATION ABOUT THE BOARD**

**Board Role in Risk Oversight.** The Board, as a whole, considers risk management issues as part of its general oversight responsibilities throughout the year at regular Board meetings, through regular reports that have been developed by management, in consultation with the Board and its counsel. These reports address certain investment, valuation and compliance matters. The Board also may receive special written reports or presentations on a variety of risk issues, either upon the Board's request or upon the Investment Manager's initiative. In addition, the Audit Committee of the Board meets regularly with the Investment Manager's internal audit group to review reports on their examinations of functions and processes within Franklin Templeton Investments that affect the Fund.

With respect to investment risk, the Board receives regular written reports describing and analyzing the investment performance of the Fund. In addition, the portfolio managers of the Fund meet regularly with the Board to discuss portfolio performance, including investment risk. To the extent that the Fund changes a particular investment strategy that could have a material impact on the Fund's risk profile, the Board generally is consulted with respect to such change. To the extent that the Fund invests in certain complex securities, including derivatives, the Board receives periodic reports containing information about exposure of the Fund to such instruments. In addition, the Investment Manager's investment risk personnel meet regularly with the Board to discuss a variety of issues, including the impact on the Fund of the investment in particular securities or instruments, such as derivatives.

With respect to valuation, the Fund's administrator provides regular written reports to the Board that enable the Board to monitor the number of fair valued securities in a particular portfolio, the reasons for the fair valuation and the methodology used to arrive at the fair value. Such reports also include information concerning illiquid securities within a Fund's portfolio. The Board also reviews dispositional analysis information on the sale of securities that require special valuation considerations such as illiquid or fair valued securities. In addition, the Fund's Audit Committee reviews valuation procedures and results with the Fund's independent auditors in connection with such Committee's review of the results of the audit of the Fund's year-end financial statements.

With respect to compliance risks, the Board receives regular compliance reports prepared by the Investment Manager's compliance group and meets regularly with the Fund's Chief Compliance Officer ("CCO") to discuss compliance issues, including compliance risks. As required under SEC rules, the Independent Trustees meet at least quarterly in executive session with the CCO and the Fund's CCO prepares and presents an annual written compliance report to the Board. The Fund's Board adopts compliance policies and procedures for the Fund and approves such procedures for the Fund's service providers. The compliance policies and procedures are specifically designed to detect and prevent violations of the federal securities laws.

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The Investment Manager periodically provides an enterprise risk management presentation to the Board to describe the way in which risk is managed on a complex-wide level. Such presentation covers such areas as investment risk, reputational risk, personnel risk, and business continuity risk.

**Board Structure.** Seventy-five percent or more of Board members consist of Independent Trustees who are not deemed to be "interested persons" by reason of their relationship with the Fund's management or otherwise as provided under the 1940 Act. While the Chairman of the Board is an interested person, the Board is also served by a Lead Independent Trustee. The Lead Independent Trustee, together with independent counsel, reviews proposed agendas for Board meetings and generally acts as a liaison with management with respect to questions and issues raised by the Independent Trustees. The Lead Independent Trustee also presides at separate meetings of Independent Trustees held in advance of each scheduled Board meeting where various matters, including those being considered at such Board meeting are discussed. It is believed such structure and activities assure that proper consideration is given at Board meetings to matters deemed important to the Fund and its shareholders.

#### **FURTHER INFORMATION ABOUT VOTING AND THE -MEETING**

**Solicitation of Proxies.** Your vote is being solicited by the Board. The cost of soliciting these proxies, including the fees of any proxy soliciting agent, is borne by the Fund. The Fund reimburses brokerage firms and others for their expenses in forwarding proxy material to the beneficial owners and soliciting them to execute their proxies. In addition, the Fund may retain a professional proxy solicitation firm to assist with any necessary solicitation of proxies. The Fund expects that the solicitation would be primarily by mail, but may also include telephone, telecopy, electronic or oral solicitations. If the Fund does not receive your proxy by a certain time you may receive a telephone call from a proxy soliciting agent asking you to vote. If professional proxy solicitors are retained, it is expected that soliciting fees would be approximately \$5,000, plus expenses. The Fund does not reimburse Trustees and officers of the Fund, or regular employees and agents of the Investment Manager, involved in the solicitation of proxies. The Fund intends to pay all costs associated with the solicitation and the Meeting.

**Voting by -Broker-Dealers.** The Fund expects that, before the Meeting, broker-dealer firms holding shares of the Fund in "street name" for their customers will request voting instructions from their customers and beneficial owners. If these instructions are not received by the date specified in the broker-dealer firms' proxy solicitation materials, the Fund understands that NYSE rules permit the broker-dealers to vote on the Proposal to be considered at the Meeting on behalf of their customers and beneficial owners. Certain broker-dealers may exercise discretion over shares held in their name for which no instructions are received by voting those shares in the same proportion as they vote shares for which they received instructions. Accordingly, the Fund does not anticipate receiving any "broker non-votes" (i.e., proxy cards returned by broker-dealers without voting instructions for shares held of record).

**Quorum.** Forty percent of the shares entitled to vote – present in person or represented by proxy – constitutes a quorum at the Meeting. The shares over which -broker-dealers have discretionary voting power, the shares that represent "broker - non-votes" (i.e., shares held by brokers or nominees as to which (i) instructions have not been received from the beneficial owners or persons entitled to vote and (ii) the broker or nominee does not have discretionary voting power on a particular matter), and the shares whose proxies reflect an abstention on any item are all counted as shares present and entitled to vote for purposes of determining whether the required quorum of shares -exists.

**Required Vote.** Provided that a quorum is present, the election of Trustees requires a plurality of shares voted, meaning that the nine nominees receiving the greatest number of votes shall be elected. All voting rights are non-cumulative, which means that the holders of more than 50% of the shares voting for the election of Trustees can elect 100% of such Trustees if they choose to do so, and in such event, the holders of the remaining shares voting will not be able to elect any Trustees.

**Adjournment.** Whether or not a quorum is present at the Meeting, the Meeting may be adjourned by a majority vote of the shares represented at the Meeting, either in person or by proxy, properly cast upon the question of adjournment. If the Meeting is adjourned, notice need not

be given of the adjourned meeting at which the adjournment is taken, unless a new record date of the adjourned meeting is fixed or unless the adjournment is for more than 60 days from the date set for the original Meeting, in which case the Board of Trustees shall set a new

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date. At any adjourned Meeting, the Fund may transact any business which might have been transacted at the original Meeting.

Whether or not a quorum is present, the persons named as proxies may propose one or more adjournments of the Meeting to permit the further solicitation of proxies. The persons named as proxies will vote in their discretion on questions of adjournment those shares for which proxies have been received that grant discretionary authority to vote on matters that may properly come before the Meeting, and on any other proposals properly raised at the Meeting to the extent permitted by the SEC's proxy rules, including proposals for which management of the Fund did not have timely notice, as set forth in the SEC's proxy rules.

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**Shareholder Proposals.** The Fund anticipates mailing this proxy statement on or about February 13, 2015. The Fund anticipates that its next Annual Shareholders' Meeting will be held on or about Friday, March 18, 2016. Shareholder proposals to be presented at the next annual meeting must be received at the Fund's offices, One Franklin Parkway, San Mateo, California 94403, Attention: Secretary, no later than October 16, 2015, in order to be considered for inclusion in the Fund's proxy statement and proxy card relating to that meeting and presented at that meeting. Submission of a proposal by a shareholder does not guarantee that the proposal will be included in the proxy statement. A shareholder who wishes to make a proposal at the 2016 Annual Shareholders' Meeting without including the proposal in the Fund's proxy statement must notify the Fund at the Fund's offices of such proposal by December 30, 2015. If a shareholder fails to give notice by this date, then the persons named as proxies in the proxies solicited by the Board for the 2016 Annual Shareholders' Meeting may exercise discretionary voting power with respect to any such proposal.

No business other than the matters described above is expected to come before the Meeting, but should any other matter requiring a vote of shareholders arise, including any question as to an adjournment or

postponement of the Meeting, the designated proxy holders will vote

on such matters in accordance with the views of the Fund's management.

By order of the Board of Trustees,

Karen L. Skidmore

*Vice President & Secretary*

Dated: February 13, 2015

San Mateo, California





**APPENDIX A**

**FRANKLIN FUNDS**

**AUDIT COMMITTEE CHARTER**

**I. The Committee.**

The Audit Committee ("Committee") is a committee of, and established by, the Board of Directors/Trustees of the Fund (the "Board"). The Committee shall consist of such number of members as set by the Board from time to time, but in no event less than three, and its members shall be selected by the Board. The Committee shall be comprised entirely of "independent" members, as defined in Item 3(a)(2) of SEC Form N-CSR ("Disinterested Board members"). Members shall be financially literate, meaning that each member is able to read and understand fundamental financial statements, including the Fund's balance sheet and income statement. At least one member of the Committee shall be designated by the Board as an "audit committee financial expert," as defined in Item 3(b) of SEC Form N-CSR, unless the Board determines that the Fund does not have an audit committee financial expert on the Committee.

**II. Purposes of the Committee.**

The function of the Committee is to be directly responsible for overseeing the Fund's accounting and auditing processes, which shall include the appointment, compensation, retention and oversight of the work of the Fund's independent registered public accounting firm ("auditors") engaged (including resolution of disagreements between management and the auditors regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Fund. It is management's responsibility to maintain appropriate systems for accounting and internal controls. It is the auditors' responsibility to plan and carry out an audit in accordance with the standards of the Public Company Accounting Oversight Board and to report directly to the Committee. It is not the duty of the Committee to plan or conduct audits or to determine that the Fund's financial statements are complete and in accordance with generally accepted accounting principles; it is the responsibility of the auditors to conduct audits and the responsibility of management to prepare the Fund's financial statements in accordance with generally accepted accounting principles.

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In giving its recommendations to the Board with respect to the Fund's financial statements, the Committee will rely on:

1) management's representation that such financial statements have been prepared with integrity and objectivity and in conformity with generally accepted accounting principles,

2) the report of the Fund's auditors with respect to such financial statements.

Consistent with such allocation of functions, the purposes of the Committee are:

(a) To oversee the Fund's accounting and financial reporting policies and practices and its internal controls, and to obtain, where it deems appropriate, reports on internal controls of service providers to the Fund;

(b) To oversee the quality, objectivity and integrity of the Fund's financial statements and the independent audit thereof;

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(c) To act as a liaison between the Fund's auditors and the Board; and

(d) To consider such other matters as it deems appropriate in carrying out its purpose and any other matters that may be assigned to it by the Board.

In addition, the Committee shall serve as the Fund's Qualified Legal Compliance Committee ("QLCC") pursuant to Section 205 of the SEC's Standards of Professional Conduct for Attorneys (the "Standards"). In this capacity, the Committee is required to adopt and maintain written procedures for the confidential receipt, retention and consideration of any report of evidence of a material violation. "Evidence of a material violation" means credible evidence, based upon which it would be unreasonable, under the circumstances, for a prudent and competent attorney not to conclude that it is reasonably likely that a material violation of an applicable U.S. federal or state securities law, a material breach of fiduciary (or similar duty) to the Fund arising under U.S. federal or state law, or a similar material violation of any U.S. federal or state law has occurred, is ongoing, or is about to occur.

### **III. Powers and Duties.**

The Committee shall have the following powers and duties to carry out its purposes:

(a) To select the auditors, subject to approval both by the Board and by a separate vote of the Disinterested Board members, and, in connection therewith, to evaluate the independence and qualifications of the auditors in accordance with applicable federal securities laws and regulations and the rules and standards of the Independence Standards Board and American Institute of Certified Public Accountants.

(b) To be directly responsible for approving the services to be provided by, and the compensation of, the auditors, including:

(i) pre-approval of all audit and audit related services;

(ii) pre-approval of all non-audit related services to be provided to the Fund by the auditors;

(iii) pre-approval of all non-audit related services to be provided by the auditors to the Fund's investment adviser or to any entity that controls, is controlled by or is under common control with the Fund's investment adviser and that provides ongoing services to the Fund where the non-audit services relate directly to the operations or financial reporting of the Fund; and

(iv) if deemed necessary or appropriate, as an alternative to Committee pre-approval of services to be provided by the auditors, as required by paragraphs (ii) and (iii) above;

(A) establishment by the Committee of policies and procedures to pre-approve such services , provided the policies and procedures are detailed as to the particular service and the Committee is informed of each service and such policies and procedures do not include delegation of audit committee responsibilities, as contemplated under the Securities Exchange Act of 1934, to management; or

(B) delegation by the Committee to one or more designated members of the Committee who are Disinterested Board members authority to pre-approve such services, provided the Committee is informed of the decisions of any member pursuant to such delegated authority no later than its next scheduled meeting;

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subject, in the case of (ii) through (iv), to any waivers, exceptions or exemptions that may be available under applicable law or rules.

(c) To meet with the auditors, including private meetings, as necessary to (i) review the arrangements for and scope of the annual audit and any special audits; (ii) discuss any matters or concerns relating to the Fund's financial statements, including any recorded and/or unrecorded adjustments to such statements recommended by the auditors, or other results of audits; (iii) consider the auditors' comments with respect to the Fund's financial, accounting and reporting policies, procedures and internal controls and management's responses thereto; and (iv) to review the form of opinion the auditors propose to render.

(d) To receive and consider reports from the auditors:

(i) as required by generally accepted accounting standards; and

(ii) annually and by update as required by SEC Regulation S-X, regarding: (w) all critical accounting policies and practices of the Fund to be used; (x) alternative treatments within generally accepted accounting principles for policies and practices related to material items that have been discussed with management of the Fund, including ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the auditors; (y) other material written communications between the auditors and management of the Fund, such as any management letter or schedule of unadjusted differences; and (z) all non-audit services provided to any entity in an investment company complex, as defined in SEC Regulation S-X, that were not pre-approved by the Committee pursuant to SEC Regulation S-X.

(e) To consider the effect upon the Fund of any changes in accounting principles or practices proposed by management or the auditors.

(f) In considering the independence of the auditors, to request from, and discuss with, the auditors a written statement, and other reports as necessary,

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describing all relationships between the auditors and the Fund, the Fund's investment adviser and service providers, and other entities advised or serviced by, including any entities controlling, controlled by or under common control with, the investment adviser or any other service providers to the Fund that, in the auditors' judgment, could be thought to bear upon the auditors' independence; to receive and consider, if applicable, periodic reports from the auditors regarding whether the provision of non-audit services is compatible with maintaining the auditors' independence; and to request from the auditors a certificate that they are independent auditors under the Federal securities laws and are in compliance with all standards adopted by the Independence Standards Board.

(g) To require that the auditors regularly provide timely information to the Committee with respect to new rules and pronouncements by applicable regulatory and accounting standards agencies, along with an explanation of how such developments may affect the Fund's financial statements and accounting principles and practices.

(h) To review, at such times and in the manner deemed appropriate by the Committee, the results of the annual audit of, and the report of the auditors on the Fund's annual financial statements, including footnotes and any significant audit findings.

(i) To consider any reports of difficulties that may have arisen during the course of the audit, including any limitations of the scope of the audit, and management's response thereto.

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(j) To review certifications of the Fund's Chief Executive Officer - Finance and Administration, and Chief Financial Officer and Chief Accounting Officer concerning (i) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the Fund's ability to record, process, summarize and report financial information; and (ii) any fraud, whether or not material, that involves management or other employees who have a significant role in the Fund's internal controls over financial reporting, and for any other purposes the Committee deems appropriate, as required by §302 of the Sarbanes-Oxley Act.

(k) To inform the chief legal officer ("CLO") and chief executive officer ("CEO") of the Fund (or the equivalents thereof) of any report of evidence of a material violation by the Fund, its officers, directors/trustees, employees (if any), or agents (collectively, "affiliates"). In connection therewith, the Committee shall:

(i) determine whether an investigation is necessary regarding any report of evidence of a material violation by the Fund or its affiliates;

(ii) if the Committee determines such an investigation is necessary or appropriate, (A) notify the Board; (B) initiate an investigation, which may be conducted by either the CLO or by outside attorneys; and (C) retain such additional expert personnel as the Committee deems necessary to assist in the investigation;

(iii) at the conclusion of any such investigation, (A) recommend by a majority vote, that the Fund implement an appropriate response (as defined in Section 205.2(b) of the Standards) to evidence of a material violation, and (B) inform the CLO and the CEO and the Board of the results of such investigation and the appropriate remedial measures to be adopted;

(iv) acting by majority vote, take all other appropriate action, including the authority to notify the SEC in the event the Fund fails in any material respect to implement an appropriate response that the Committee has recommended the Fund to take; and

(v) otherwise respond to evidence of a material violation.

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**IV. Other Functions and Procedures of the Committee.**

(a) The Committee shall meet at least twice each year or more frequently, in open or executive sessions, as may be necessary to fulfill its responsibilities. The Committee shall meet as frequently as circumstances require with (i) the auditors as provided in III (c), above; and (ii) management's internal audit department to review and discuss internal audit functions and reports. The Committee may invite members of management, the auditors, counsel, advisers and others to attend its meetings as it deems appropriate. The Committee shall have separate sessions with the auditors, management and others, as and when it deems appropriate.

(b) The Committee shall establish procedures for (i) the receipt, retention and treatment of complaints received by the Fund or the Fund's adviser regarding accounting, internal accounting controls, or accounting matters relating to the Fund; and (ii) the confidential, anonymous submission by employees of the Fund or the Fund's adviser, administrator, principal underwriter or any other provider of accounting related services for the Fund, of concerns regarding questionable accounting or auditing matters.

(c) The Committee shall have the authority to engage special counsel, experts and advisers as and when it determines necessary to carry out its duties and the Fund must provide for appropriate funding, as determined by the Committee, for payment of (i) compensation to any auditors engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Fund; (ii) compensation to any advisers employed by the Committee; and (iii) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

(d) The Committee shall have unrestricted access to the Fund's management and management of the Fund's adviser, including, but not limited to, their chief executive officer(s), chief financial officer(s), internal auditors and any other executives and financial officers.

(e) The Committee shall report its activities to the Board and make such recommendations as the Committee may deem necessary or appropriate.

(f) The Committee shall review and assess the adequacy of this Charter annually, or more frequently if it chooses, and recommend any changes to the Board.

(g) The Chair of the Committee shall meet periodically on an informal basis with the Chairpersons of the Audit Committees of other Funds within the Franklin/Templeton/Mutual Series complex to share information and discuss items of mutual interest and shall report back to the Committee on any issues of substance discussed at such periodic meetings. In addition, the Committee shall meet jointly with Audit Committees of other Funds within the Franklin/Templeton/Mutual Series complex as may be appropriate, to attend presentations and review proposals and other matters of common concern to all such Audit Committees.

**ADDITIONAL STATEMENTS FOR CLOSED-END FUNDS ONLY**

(The provisions set forth in Appendix A hereto are intended to cover specific requirements and wording mandated by applicable Stock Exchange listing requirements.)

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**Appendix A**

In addition to the purposes set forth above, the purposes of the Committee include:

(a) preparation of the Audit Committee Disclosure Report required to be included in the Fund's annual proxy statement; and

(b) the assistance of oversight, as either part of the full Board or as a Committee, of the Fund's compliance with legal and regulatory requirements.

In addition to the powers and duties set forth above, the Committee shall have the following powers and duties to carry out its purposes:

(a) To obtain and review a report by the auditors, at least annually, describing:

(i) All relationships between the auditors and the Fund, the Fund's adviser, and any control affiliate of the adviser that provides ongoing services to the Fund;

(ii) Any material issues raised by the most recent internal quality-control review, or peer review, of the auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the auditors, and any steps taken to deal with any such issues; and

(iii) The auditors' internal quality-control procedures;

(b) To discuss generally, to the extent the Fund issues any earnings press releases or any financial information and earnings guidance provided to analysts and rating agencies, any such releases or information and guidance;

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(c) To discuss in a general manner, as either part of the full Board or as a Committee, the Fund's processes with respect to risk assessment and risk management;

(d) To review and approve, as either part of the full Board or as a Committee, clear policies relating to the hiring by entities within Franklin Templeton Investments of employees or former employees of the auditors;

(e) To evaluate, as either part of the full Board or as a Committee, its performance at least annually; and

(f) Upon appointment of a member (i) to the Committee or (ii) to the audit committee of another public company, who simultaneously serves on the audit committees of three or more public companies, to request the Board to determine that such simultaneous service would not impair the ability of such member to effectively serve on the Committee.

The Committee shall comply with such other rules of the New York Stock Exchange, Inc., other applicable national securities exchanges and the U.S. Securities and Exchange Commission applicable to closed-end funds, as such may be adopted and amended from time to time.

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**EVERY SHAREHOLDER'S VOTE IS IMPORTANT**

Please detach at perforation before mailing.

**PROXY**

**TRUST**

**FRANKLIN UNIVERSAL  
PROXY**

# ANNUAL MEETING OF SHAREHOLDERS

## TO BE HELD ON MARCH 20, 2015

**THIS PROXY IS BEING SOLICITED BY THE BOARD OF TRUSTEES OF THE FUND.** The undersigned hereby revokes all previous proxies for his or her shares of Franklin Universal Trust (the "Fund") and appoints Craig S. Tyle, Karen L. Skidmore and Alison Baur, and each of them, proxies of the undersigned with full power of substitution to vote all shares of the Fund that the undersigned is entitled to vote at the Fund's Annual Shareholders' Meeting (the "Meeting") to be held at One Franklin Parkway, Building 920, San Mateo, CA 94403-1906 at 2:00 p.m., Pacific time, on March 20, 2015, including any postponements or adjournments thereof, upon the matter set forth on the reverse side, and instructs them to vote upon any other matters that may properly be acted upon at the Meeting.

**The Board of Trustees of the Fund solicits this proxy. It will be voted as specified on the reverse. If no specification is made, this proxy shall be voted FOR the election of nominees for Trustee for the terms specified in the proxy statement. If any other matters properly come before the Meeting to be voted on, the proxy holders will vote, act and consent on those matters in accordance with the views of management. Management is not aware of any such matters.**

**You are urged to date and sign this proxy and return it promptly whether or not you plan to attend the meeting in person. This will save the expense of follow-up letters to shareholders who have not responded.**

**Note:** Please sign exactly as your name(s) appear(s) on this Proxy. Joint owners should each sign personally. When signing as attorney, executor, administrator, trustee, officer of corporation or other entity or in another representative capacity, please give the full title under the signature.

Signature and Title, if applicable

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Signature (if held jointly)

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Date

YES NO

**I plan to attend the Annual Meeting.**

**PLEASE SIGN, DATE AND RETURN THE PROXY PROMPTLY USING THE ENCLOSED ENVELOPE.**

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**EVERY SHAREHOLDER'S VOTE IS IMPORTANT**

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR  
THE ANNUAL SHAREHOLDERS' MEETING TO BE HELD ON MARCH 20, 2015.**

**The Fund's Notice of 2015 Annual Shareholders' Meeting, Proxy Statement and form of Proxy are  
available on the Internet at**

<https://www.proxy-direct.com/fra-26292>

**The form of proxy on the Internet site cannot be used to cast your vote.**

Please detach at perforation before mailing.

**THIS PROXY WILL BE VOTED AS DIRECTED, OR IF NO DIRECTION IS INDICATED, WILL BE VOTED "FOR" THE ELECTION OF ALL NOMINEES.**

**TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK. Example:**

**Election of Trustees**

**THE BOARD OF TRUSTEES UNANIMOUSLY RECOMMENDS A VOTE FOR THE ELECTION OF ALL NOMINEES.**

**1. Election of Trustees:**

|                 |                |               |            |
|-----------------|----------------|---------------|------------|
| <b>WITHHOLD</b> | <b>FOR ALL</b> |               | <b>FOR</b> |
| <b>ALL</b>      | <b>ALL</b>     | <b>EXCEPT</b> |            |

- |                       |                        |                            |
|-----------------------|------------------------|----------------------------|
| 01. Harris J. Ashton  | 02. Mary C. Choksi     | 03. Sam Ginn               |
| 04. Edith E. Holiday  | 05. Gregory E. Johnson | 06. Rupert H. Johnson, Jr. |
| 07. J. Michael Luttig | 08. Frank A. Olson     | 09. Larry D. Thompson      |

10. John B. Wilson

**INSTRUCTIONS:** To withhold authority to vote for any individual nominee(s), mark the box “FOR ALL EXCEPT” and write the nominee’s number on the line provided below.

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**PLEASE SIGN AND DATE ON THE REVERSE SIDE**

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