eXegenics Inc
Form 10-Q
May 16, 2007

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

x **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2007.

OR

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

For the transition period from to ____.

Commission file number 000-27748

eXegenics Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	75-2402409
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

4400 Biscayne Blvd., Suite 900
Miami, FL 33137
(Address of Principal Executive Offices)

(305) 575-6015
(Registrant s Telephone Number, Including Area Code)

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

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

Large accelerated filer___Accelerated filer___Nonaccelerated filer x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): YES o NO x

As of May 9, 2007, the registrant had 36,640,830 shares of common stock outstanding.

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Exhibit Index

Exhibit 10.1*	Merger Agreement and Plan of Reorganization, dated March 27, 2007, by and among eXegenics Inc. a Delaware corporation (eXegenics), Acuity Pharmaceuticals, Inc., a Delaware corporation, Froptix Corporation, a Florida corporation e-Acquisition Company I-A, LLC, a Delaware limited liability company, which is a wholly owned subsidiary of eXegenics and e-Acquisition Company II-B, LLC, a Delaware limited liability company which is a wholly owned subsidiary of eXegenics.
Exhibit 10.2*	Credit Agreement, dated as of March 27, 2007, by and among eXegenics Inc., The Frost Group, LLC, and Acuity Pharmaceuticals, LLC.
Exhibit 10.3*	Amended and Restated Venture Loan and Security Agreement, dated as March 27, 2007, by and among Horizon Technology Funding Company LLC, Acuity Pharmaceuticals, LLC and eXegenics, Inc.
Exhibit 10.4*	Amended and Restated Subordination Agreement, dated as of March 27, 2007, by and among The Frost Group, LLC, Horizon Technology Funding Company LLC, Acuity Pharmaceuticals, LLC, and eXegenics Inc.
Exhibit 10.5*	Employment letter dated March 29, 2007, between Samuel J. Reich and eXegenics Inc.
Exhibit 31.1	Certification by Phillip Frost, MD, Chief Executive Officer, pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities and Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for the quarterly period ended March 31, 2007.
Exhibit 31.2	Certification by Rao Uppaluri, Chief Financial Officer, pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities and Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for the quarterly period ended March 31, 2007.
Exhibit 32.1	Certification by Phillip Frost, MD, Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 907 of the Sarbanes-Oxley Act of 2002 for the quarterly period ended March 31, 2007.
Exhibit 32.2	Certification by Rao Uppaluri, Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 907 of the Sarbanes-Oxley Act of 2002 for the quarterly period ended March 31, 2007.

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PART I. FINANCIAL INFORMATION

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

The statements set forth under the captions Management s Discussion and Analysis of Financial Condition and Results of Operations, and Risk Factors, and other statements included elsewhere in this Quarterly Report on Form 10-Q, which are not historical, constitute Forward Looking Statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding the expectations, beliefs, intentions or strategies for the future. When used in this report, the terms anticipate, believe, estimate, expect and intend and words or phrases of similar import, as they relate to our or ou subsidiaries or our management, are intended to identify forward-looking statements. We intend that all forward-looking statements be subject to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are only predictions and reflect our views as of the date they are made with respect to future events and financial performance. Forward-looking statements are subject to many risks and uncertainties that could cause our actual results to differ materially from any future results expressed or implied by the forward-looking statements.

Examples of the risks and uncertainties include, but are not limited to the following:

- the inherent risks and uncertainties in developing drugs and products of the type we are developing;
- we are highly dependent on the success of our lead product candidate, bevasiranib, and we cannot give any assurance that it will receive regulatory approval or be successfully commercialized;
- the results of previous clinical trials may not be predictive of future results, and our current and planned clinical trials may not satisfy the requirements of the FDA or other non-U.S. regulatory authorities;
- delays in our preparation and filing of applications for regulatory approval;
- delays in the approval or potential rejection of any applications we file with the FDA, or other health regulatory authorities;
- any lack of progress of our research and development (including the results of clinical trials being conducted by us);
- obtaining on a timely basis sufficient patient enrollment in our clinical trials;
- the impact of development of competing therapies and/or technologies by other companies;
- our ability to obtain additional financings required to fund our research programs;
- the risk that we will not be able to develop a successful sales and marketing organization in a timely manner, if at all;
- our ability to establish and maintain strategic license, collaboration and distribution arrangements and to manage our relationships with collaborators, distributors and partners;
- as we evolve from a company primarily involved in development to a company also involved in commercialization, we may encounter difficulties in managing our growth and expanding our operations successfully;
- potential product liability risks and risks of securing adequate levels of product liability and clinical trial insurance coverage;

the availability of reimbursement to patients from healthcare payors for procedures in which our products are used;

the possibility of infringing a third party s patents or other intellectual property rights; and

the uncertainty of obtaining patents covering our products and processes and in successfully enforcing them against third parties.

In addition, companies in the pharmaceutical and biotechnology industries have suffered significant setbacks in advanced clinical trials, even after obtaining promising earlier trial results. These and other risks and uncertainties are detailed in our Current Report on Form 8-K dated March 27, 2007 and described from time to time in our future reports filed with the Securities and Exchange Commission. We undertake no obligation to update, and we do not have a policy of updating or revising, these forward-looking statements.

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Item 1. Financial Statements:

eXegenics Inc.
D/B/A Opko Health, Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS
(A Development-Stage Company)
(in thousands except share data)

	March 31, 2007	December 31, 2006
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 17,075	$ 116
Prepaid expenses and other current assets	313	
Total current assets	17,388	116
Property and equipment	84	
Total assets	$ 17,472	$ 116
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current portion of notes payable	$ 2,612	$
Accounts payable	1,642	95
Accrued expenses	1,670	
Total current liabilities	5,924	95
Line of credit with a related party, net of unamortized discount of $475	3,525	
Notes payable, net of amortized discount of $102	1,286	
Total liabilities	10,735	95
Commitments and contingencies		
Shareholders equity:		
Series A Preferred stock $0.01 par value, 4,000,000 shares authorized; 1,081,800 and 0 shares issued and outstanding (liquidation value of $2,704)	11	
Series C Preferred Stock $0.01 par value, 500,000 shares authorized; 457,589 and 0 shares issued and outstanding (liquidation value of $35,234)	5	
Common stock $0.01 par value, 225,000,000 shares authorized; 113,218,000 and 61,775,000 shares issued and outstanding, respectively	1,132	618
Additional paid-in capital	256,410	279
Deficit accumulated during development stage	(250,821)	(876)
Total shareholders equity	6,737	21
Total liabilities and shareholders equity	$ 17,472	$ 116

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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eXegenics Inc.
D/B/A Opko Health, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(A Development-Stage Company)
(in thousands, except per share data)

	Three Months Ended March 31, 2007	Period from June 23, 2006 (inception) to March 31, 2007
	(unaudited)	
Revenue:	$	$
Operating expenses:		
General and administrative	90	465
Research and development	6,072	6,580
Write-off of acquired in-process research and development	243,761	243,761
Total operating expenses	(249,923)	(250,806)
Operating loss	(249,923)	(250,806)
Other expense, net	(12)	(5)
Loss before income taxes	(249,935)	(250,811)
Income taxes		
Net loss	(249,935)	(250,811)
Preferred stock dividend	(10)	(10)
Net loss attributable to common shareholders	$ (249,945)	$ (250,821)
Loss per share, basic and diluted	$ (3.87)	
Weighted average number of shares outstanding basic and diluted	64,632,855	

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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eXegenics Inc.
D/B/A Opko Health, Inc.
CONDENSED CONSOLIDATED STATEMENTS SHAREHOLDERS EQUITY
(A Development-Stage Company)
(in thousands except share data)
For the cumulative period from inception (June 23, 2006) to March 31, 2007 (unaudited)

	Series A Preferred Stock Shares		Series C Preferred Stock Shares		Common Stock Shares		Additional Paid-In-Capital	Accumulated Deficit	Total
Issuance of capital stock to founders of Froptix		$		$	61,775,000	$ 618	$ 20	$	$ 638
Stock-based compensation expense							259		259
Net loss								(876)	(876)
Balance at December 31, 2006					61,775,000	618	279	(876)	21
Stock based compensation expense							6,035		6,035
Issuance of common and preferred stock and options and warrants for net monetary assets	1,081,800	11			36,606,000	366	15,626		16,003
Acquisition of Acuity Pharmaceuticals, Inc.			457,589	5	14,837,000	148	234,470		234,623
Preferred stock dividend								(10)	(10)
Net loss								(249,935)	(249,935)
Balance at March 31, 2007	1,081,800	$ 11	457,589	$ 5	113,218,000	$ 1,132	$ 256,410	$ (250,821)	$ 6,737

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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eXegenics Inc.
D/B/A Opko Health, Inc.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(A Development-Stage Company)
(in thousands)

	Three Months Ended March 31, 2007	Period from June 23, 2006 (inception) to March 31, 2007
	(unaudited)	
Cash flows from operating activities:		
Net loss	$ (249,935)	$ (250,811)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	1	1
Write-off of in-process research and development	243,761	243,761
Amortization of debt discount related to notes payable	4	4
Stock compensation employees and vendors	6,035	6,294
Changes in:		
Prepaid expenses and other current assets	210	210
Accounts payable	(381)	(287)
Accrued expenses	(155)	(155)
Net cash (used in) operating activities	(460)	(983)
Cash flows from investing activity:		
Cash acquired in asset acquisition	1,135	1,135
Net cash provided by investing activity	1,135	1,135
Cash flows from financing activities:		
Issuance of common and preferred stock and options and warrants for cash	16,284	16,284
Proceeds from sale of capital stock, net		639
Net cash provided by financing activities	16,284	16,923
Net change in cash	16,959	17,075
Cash and cash equivalents at beginning of period	116	
Cash and cash equivalents at end of period	$ 17,075	$ 17,075

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

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eXegenics Inc.
D/B/A Opko Health, Inc.
NOTES TO FINANCIAL STATEMENTS
(A Development-Stage Company)

Note 1 Business and Organization

Through March 26, 2007, eXegenics, Inc., or eXegenics, was a public shell company whose assets consisted of cash and nominal other assets. On February 9, 2007, eXegenics completed the sale of 19,440,491 shares of its common stock for $8.0 million, constituting 51% of its issued and outstanding shares of capital stock on a fully diluted basis, to a small group of investors led by The Frost Group, LLC, or the Frost Group, a related party. The stock sale was made pursuant to the terms of a previously announced stock purchase agreement dated August 14, 2006, as amended as of November 30, 2006. The investors paid eXegenics an aggregate purchase price of $8.6 million at the closing. Of the $8.6 million which was paid, approximately $0.6 million was payable at March 31, 2007 to the group of investors led by the Frost Group. In connection with the above sale eXegenics also issued 100,000 shares of its common stock to two board members.

On March 27, 2007, pursuant to the terms of a Merger Agreement and Plan of Reorganization, Froptix Corporation, or Froptix, a development stage research and development company, controlled by the Frost Group, and Acuity Pharmaceuticals, Inc., or Acuity, a development stage research and development company and eXegenics were part of a three-way merger. Per that agreement, eXegenics issued new capital stock to acquire all of the issued and outstanding capital stock of Froptix and Acuity. Froptix was incorporated on June 23, 2006.

After the merger, eXegenics began doing business as Opko Health, Inc., or Opko, and intends to change its name as such. Opko and its wholly-owned subsidiaries (including Froptix and Acuity) are referred to as We or the Company .

The Company is engaged through its wholly-owned subsidiaries, in the development of innovative therapies for the treatment and prevention of ophthalmic disease. Our lead pharmaceutical product candidate in clinical development is bevasiranib for the treatment of wet age-related macular degeneration (Wet AMD). We are a Delaware corporation, headquartered in Miami, Florida with clinical operations in Morristown, New Jersey.

Froptix was the accounting acquirer in the three-way merger. The three-way merger has been accounted for as:

a reverse merger between Froptix and eXegenics (a public shell company). For accounting purposes Froptix has been treated as the continuing registrant. As a result, all post merger comparative historical financials statements filed by us will be those of Froptix. Further, Froptix historical shareholders equity prior to the merger has been retroactively restated (recapitalized) for the equivalent number of shares received in the reverse merger. Loss per share calculations have also been retroactively restated to give effect to the recapitalization for all periods presented. Lastly, the merger between Froptix and eXegenics has been accounted for as a capital transaction equivalent to the issuance of capital stock by Froptix for the net monetary assets of eXegenics.

The asset acquisition of Acuity by Froptix.

The Merger Agreement provided for the merger of Froptix with and into e-Acquisition Company I-A, LLC, with e-Acquisition Company
I-A, LLC surviving as our wholly-owned subsidiary (referred to as the Froptix Merger) and the merger of Acuity with and into
e-Acquisition Company II-B, LLC, with e-Acquisition Company II-B, LLC surviving as our wholly-owned

subsidiary (referred to as the Acuity Merger and, with the Froptix Merger, the Mergers). In connection with the consummation of the Mergers (1) e-Acquisition Company I-A, LLC changed its name to Froptix, LLC, (2) e-Acquisition Company II-B, LLC changed its name to Acuity Pharmaceuticals, LLC and (3) eXegenics became the parent company of these two wholly-owned operating subsidiaries.

At the closing of the Mergers, the former shareholders of Froptix and Acuity received shares of our common stock and preferred stock as well as warrants to purchase our common stock in exchange for all of their shares of Froptix and Acuity.

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As a result, at the closing of the Mergers, we issued (a) an aggregate of 61,775,000 shares of our common stock to the former holders of Froptix common stock, (b) an aggregate of 14,836,000 shares of our common stock to the former holders of Acuity common stock and Acuity Series A preferred stock, and (c) an aggregate of 457,589 shares of our Series C preferred stock, convertible into 45,758,900 shares of our common stock, to the former holders of Acuity Series B preferred stock. We also granted 21,144,128 warrants to purchase shares of our common stock to former shareholders of Froptix and Acuity. We also granted 15,810,063 options to purchase our common stock to former option holders of Froptix and Acuity.

Acuity Asset Acquisition. On March 27, 2007, the Company purchased Acuity s assets in a stock for stock transaction. We valued our common stock issued to Acuity shareholders at the average closing price of the common stock on the date of acquisition and the two days prior to the transaction.

The following table summarizes the estimated fair value of the net assets acquired at the date of acquisition:

(in thousands)	
Current assets (including cash of $1,135)	$ 1,350
Property and equipment	85
In-process research and development	243,761
Accounts payable and accrued expenses	(3,154)
Line of credit and term loan	(7,419)
Total purchase price	$ 234,623

The portion of the purchase price allocated to in-process research and development of $243.8 million was immediately expensed. The purchase price includes $1.5 million of costs incurred by eXegenics to acquire Acuity including $1.3 million of costs associated with the issuance of warrants to the Frost Group (See Note 4). The purchase consideration issued and the purchase price allocation are preliminary pending completion and review of related valuation procedures. As a result the amounts above are subject to change.

Treatment of Warrants and Options. In connection with the Mergers, we assumed the obligations under outstanding warrants previously granted by Acuity to purchase 1,247,271 shares of Acuity common stock and 325,000 shares of Acuity Series B preferred stock and, in connection therewith, we issued warrants to purchase 7,214,730 shares of our common stock and 16,866 shares of Series C preferred stock to such Acuity warrant holders, convertible into 1,686,600 shares of our common stock.

Immediately before the closing of the Mergers, Froptix had outstanding options to purchase 65 shares of Froptix common stock and Acuity had outstanding options to purchase 2,191,619 shares of Acuity common stock and options to purchase 141,000 shares of Acuity Series B preferred stock. Pursuant to the terms of the Merger Agreement, the Company assumed all of the outstanding obligations under such options and, accordingly, the Company anticipates issuing 15,810,063 shares of its common stock and 7,317 shares of its Series C preferred stock, convertible into 731,700 shares of our common stock, upon the exercise of such options in lieu of shares of common stock of Froptix or common stock and/or preferred shares of Acuity.

The following table includes the pro forma results of the combined companies as though the merger had been completed as of January 1, 2007.

(in thousands, except per share amounts)	**As reported**	**Pro forma adjustments**	**Pro forma**

Revenue	$	$	$
Net loss	$ (249,935)	$ (6,792)	$ (256,727)
Basic and diluted loss per share	$ (3.87)	$ (0.09)	$ (3.26)

On January 11, 2007, the Frost Group extended a $7.0 million line of credit to Acuity. As part of the merger transaction on March 27, 2007, the Frost Group increased its line of credit to Acuity to $12 million and consented to the transfer of Acuity s repayment obligation to eXegenics.

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Note 2 Development Stage Risks and Liquidity

We have been in the development stage since inception and have not generated any revenues. We have not achieved profitable operations and we expect to incur substantial losses in future periods. Accordingly, the accompanying financial statements have been prepared using the accounting formats prescribed by SFAS No. 7 Accounting and Reporting by Development Stage Enterprises. The successful completion of our development program and our transition to commercial operations, if at all, is dependent upon obtaining necessary regulatory approvals from the United States Food and Drug Administration (FDA) prior to selling our products within the United States, and foreign regulatory approvals must be obtained to sell our products internationally. There can be no assurance that our products will receive regulatory approvals, and a substantial amount of time may pass before we achieve a level of sales adequate to support our operations, if at all. We will also incur substantial expenditures in connection with the development and regulatory approval process for our products and we will need to raise significant additional capital during the developmental period. Obtaining marketing approval will be directly dependent on our ability to implement the necessary regulatory steps required to obtain marketing approval in the United States and other countries and the success of our clinical trials. We cannot predict the outcome of these activities. Additionally, there is no assurance that profitable operations, if ever achieved, could be sustained on a continuing basis. In addition, development activities and clinical and preclinical testing and commercialization of our proprietary technology will require significant additional financing. Our deficit accumulated during the development stage through March 31, 2007 aggregated to $250.8 million, and we expect to incur substantial and increasing losses in future periods. Further, our future operations are dependent on, among other factors, the services of our employees and consultants, the success of our research, development, manufacture, and, ultimately, upon regulatory approval and market acceptance of our proposed future products.

Our future operations are dependent on the timely and successful completion of our ongoing research and development, the development of competitive therapies by other biotechnology and pharmaceutical companies, other treatment modalities for our targeted diseases, and ultimately, regulatory approval and market acceptance of our proposed future products.

We anticipate that we will require additional funding before the end of 2008. We plan to finance future operations with a combination of private placements; payments from potential strategic research and development, licensing and/or marketing arrangements; public offerings; debt financing; and revenues from future product sales, if any. We have not generated positive cash flows from operations, and there are no assurances that we will be successful in obtaining an adequate level of financing for the development and commercialization of our planned products. Our ability to continue as a going concern is dependent upon the infusion of addition capital in the future.

Note 3 Summary of Significant Accounting Policies

Basis of Presentation. The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. However, in the opinion of management, all adjustments (consisting of only normal recurring adjustments) considered necessary to present fairly the Company s results of operations, financial position and cash flows have been made. The results of operations and cash flows for the three months ended March 31, 2007, are not necessarily indicative of the results of operations and cash flows that may be reported for the remainder of 2007 or for future periods. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the Notes to Consolidated Financial Statements

included in our Current Report on Form 8-K filed as a result of the Merger on March 27, 2007. Refer to Note 1.

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

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Cash and Cash Equivalents. We consider all non-restrictive, highly liquid short-term investments purchased with an original maturity of three months or less to be cash equivalents.

Property and Equipment. Property and equipment are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, generally five to ten years. Expenditures for repairs and maintenance are charged to expense as incurred, while betterments are capitalized.

Impairment of Long-Lived Assets. In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets*, long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, then an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. As of March 31, 2007, we believe that no revision of the remaining useful lives or write-down of long-lived assets is required.

Research and Development. Research and product development costs are charged to expense as incurred. We record expense for in-process research and development as those that had not reached technological feasibility and which had no alternative use.

Income Taxes. Income taxes are accounted for under the asset-and-liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and the respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the enactment date.

Loss Per Common Share. Basic and diluted loss per common share is based on the net loss increased by dividends on preferred stock divided by the weighted average number of common shares outstanding during the period. No effect has been given to outstanding options, warrants or convertible preferred stock in the diluted computation, as their effect would be antidilutive. As of March 31, 2007, we have 113,218,000 common shares outstanding, in addition, we have options, warrants and convertible preferred stock outstanding at March 31, 2007 that, if converted/exercised would result in 97,737,000 incremental shares of common stock being outstanding resulting in 210,995,000 potential common shares outstanding. The diluted loss per share does not include the weighted average impact of these securities of 4,925,631 for the three months ended March 31, 2007.

Share-Based Compensation. We follow the provisions of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (Statement) No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R), which requires that a company measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost is recognized in the statement of operations over the period during which an employee is required to provide service in exchange for the award. SFAS 123R also requires that excess tax benefits, as defined, realized from the exercise of stock options be reported as a financing cash inflow rather than as a reduction of taxes paid in cash flow from operations. Refer to Note 5. Stock-based compensation arrangements to non-employees are accounted for in accordance with SFAS No. 123 and Emerging Issues Task Force Issue No. 96-18 (EITF 96-18), Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services, which requires that these equity instruments are recorded at their fair value on the measurement date. The measurement of stock-based

compensation is subject to periodic adjustment as the underlying equity instruments vest.

Comprehensive Loss. Our comprehensive loss has no components other than net loss for all periods presented.