MICROSTRATEGY INC
Form S-3/A
May 20, 2002

As filed with the Securities and Exchange Commission on May 20, 2002

Registration Statement No. 333-58136

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

AMENDMENT NO. 7

TO
FORM S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

MICROSTRATEGY INCORPORATED
(Exact name of registrant as specified in its charter)

Delaware	51-0323571
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1861 International Drive
McLean, Virginia 22102
(703) 848-8600
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Mr. Michael J. Saylor
Chief Executive Officer
MicroStrategy Incorporated
1861 International Drive
McLean, Virginia 22102
(703) 848-8600

Copy to:

Thomas S. Ward, Esq.
Hale and Dorr LLP
60 State Street
Boston, Massachusetts 02109
(617) 526-6000

Approximate date of commencement of proposed sale to public: As soon as practicable after this Registration Statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. [_]

If any of the securities being registered on this Form are to be offered on

a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. [X]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [_] 333- .

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [_] 333- .

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [_]

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The information in this prospectus is not complete and may be changed. We may not sell these securities or accept an offer to buy these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED MAY 20, 2002

PROSPECTUS

MICROSTRATEGY INCORPORATED

1,900,000 Shares of Class A Common Stock

The shares of class A common stock described in this prospectus are issuable upon exercise of warrants to be issued to class members pursuant to a settlement agreement among us, some of our officers and directors and plaintiffs' counsel, approved by the United States District Court for the Eastern District of Virginia on April 2, 2001, relating to a consolidated class action lawsuit filed against us, some of our officers and directors and our independent accountants. We will sell the shares to the class members upon exercise of the warrants at an exercise price of $40.00 per share. If all of the warrants were exercised for cash, we would receive aggregate gross cash proceeds of $76,000,000. However, holders of the warrants may not exercise some or all of the warrants. In addition, the warrants may be exercised by the surrender of notes issued by us to the class members pursuant to the settlement agreement as payment of the exercise price, valued for this purpose at 133% of the principal amount and all accrued and unpaid interest on the notes so surrendered. Therefore, the amount of any cash proceeds that we may receive upon exercise of the warrants is uncertain.

We have filed a registration statement (File No. 333-64104) for the resale of 25,563,896 shares of class A common stock by various selling stockholders, which were issued in exchange for our series A preferred stock or are issuable upon conversion of or as dividends on our series B preferred stock, series C

preferred stock, series D preferred stock and series E preferred stock. These 25,563,896 shares are not offered by means of this prospectus. These shares may be sold by the selling stockholders from time to time, including concurrently with the offering made pursuant to this prospectus.

Our class A common stock is traded on the Nasdaq National Market under the symbol "MSTR." On May 17, 2002, the closing sale price of our class A common stock on Nasdaq was $1.49 per share.

Investing in our class A common stock involves a high degree of risk. See "Risk Factors" beginning on page 6.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved of these securities or determined whether this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2002.

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We have not authorized anyone to provide you with information different from that contained or incorporated by reference in this prospectus. The selling stockholder is offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of the shares.

WHERE TO FIND MORE INFORMATION

We file annual, quarterly, and current reports, proxy statements, and other

documents with the Securities and Exchange Commission (the "SEC"). You may read and copy any document we file at the SEC's public reference room at Judiciary Plaza Building, 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549. You should call 1-800-SEC-0330 for more information on the public reference room. Our SEC filings are also available to you on the SEC's Internet site at http://www.sec.gov. Our common stock is quoted on Nasdaq. Reports, proxy statements and other information concerning MicroStrategy may be inspected at the offices of The Nasdaq Stock Market, Inc., 1735 K Street, N.W., Washington, D.C. 20006.

This prospectus is part of a registration statement that we filed with the SEC. The registration statement contains more information than this prospectus regarding MicroStrategy and the common stock, including certain exhibits and schedules. You can obtain a copy of the registration statement from the SEC at the address listed above or from its Internet site.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The SEC allows us to "incorporate" into this prospectus information we file with the SEC in other documents. This means that we can disclose important information to you by referring to other documents that contain that information. The information incorporated by reference is considered to be part of this prospectus, and information that we file with the SEC in the future and incorporate by reference will automatically update and may supersede the information contained in this prospectus. We incorporate by reference the documents listed below and any future filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), prior to the sale of all the shares covered by this prospectus.

The following documents that we have filed with the SEC are incorporated herein by reference:

(1) Our Annual Report on Form 10-K for the year ended December 31, 2001;

(2) Our definitive proxy statement on Schedule 14A, relating to our 2001 Annual Meeting of Stockholders, filed June 28, 2001;

(3) Our Current Report on Form 8-K filed February 8, 2002;

(4) Our Current Report on Form 8-K filed May 1, 2002;

(5) Our Quarterly Report on Form 10-Q for the quarter ended March 31, 2002;

(6) Our Quarterly Report on Form 10-Q/A for the quarter ended September 30, 2001, filed on May 14, 2002;

(7) All of our filings pursuant to the Exchange Act after the date of filing the initial registration statement and prior to effectiveness of the registration statement; and

(8) The description of our class A common stock contained in our

Registration Statement on Form 8-A, including any amendments or reports filed for the purpose of updating such description.

You may request a copy of these documents, at no cost, by writing to:

MicroStrategy Incorporated
1861 International Drive
McLean, Virginia 22102
Attention: Investor Relations
Telephone: (703) 848-8600

SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION

This prospectus contains or incorporates forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Exchange Act. You can identify these forward-looking statements by our use of the words "believes," "anticipates," "plans," "expects," "may," "will," "intends," "estimates" and similar expressions, whether in the negative or affirmative. Although we believe that these forward-looking statements reasonably reflect our plans, intentions and expectations, we cannot guarantee that we actually will achieve these plans, intentions or expectations. Our actual results could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements we make. We have included important factors in the cautionary statements below (particularly under the heading "Risk Factors") that we believe could cause our actual results to differ materially from the forward-looking statements that we make. We do not intend to update information contained in any forward-looking statement we make.

BUSINESS

We are a leading worldwide provider of business intelligence software that enables companies to analyze the raw data stored across their enterprise to reveal the trends and answers needed to manage their business effectively. Our software delivers this critical insight to workgroups, the enterprise and extranet communities via e-mail, web, wireless and voice communication channels. Businesses can use our software platform to develop user-friendly solutions, proactively optimize revenue-generating strategies, enhance cost-efficiency and productivity and improve their customer relationships.

Our software platform enables users to query and analyze the most detailed, transaction-level databases, turning data into business intelligence and delivering reports and alerts about the users' business processes. Our web architecture provides reporting, security, performance and standards that are critical for web deployment. Within intranets, our products provide employees with information to enable them to make better, more cost-effective business decisions. In extranets, enterprises can use our MicroStrategy 7i software to build stronger relationships by linking customers and suppliers via the Internet. We also offer a comprehensive set of consulting, education and technical support services for our customers and partners.

Our principal corporate offices are located in McLean, Virginia. We also maintain domestic sales offices throughout the United States and international sales offices throughout Europe, South America and the Asia-Pacific region. International sales accounted for 34.1%, 25.9% and 24.0% of our total revenues in 2001, 2000 and 1999, respectively.

MicroStrategy's executive offices are located at 1861 International Drive, McLean, Virginia 22102, its telephone number is (703) 848-8600 and its website is located at http://www.microstrategy.com. MicroStrategy(R) is a registered trademark of MicroStrategy.

RISK FACTORS

You should carefully consider the risks described below before making an investment decision. The risks and uncertainties described below are not the only ones facing our company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations.

If any of the following risks actually occur, our business, financial condition or results of operations could be materially adversely affected. In such case, the trading price of our class A common stock could decline and you may lose all or part of your investment.

We have experienced losses in the past and expect future losses

We have incurred significant operating losses in each of the last five years. We incurred net losses of $80.9 million, $261.3 million, and $33.7 million for the years ended December 31, 2001, 2000 and 1999, respectively. As of March 31, 2002, our accumulated deficit was $377.1 million. We expect our gross revenue to decline from the year ended December 31, 2001 to the year ending December 31, 2002. In connection with our April and September 2001 corporate restructurings, we recorded restructuring and impairment charges of $39.5 million for the year ended December 31, 2001 and $1.2 million for the three months ended March 31, 2002.

We did not generate net income for the year ended December 31, 2001 and do not expect to do so for the six month period ending June 30, 2002. Even if we are able to generate net income, we may not be able sustain or increase profitability on a quarterly or annual basis in the future. If revenue declines more significantly than we anticipate, or if operating expenses exceed our expectations or cannot be adjusted accordingly, our business, results of operations and financial condition will be materially and adversely affected.

Our quarterly operating results, revenues and expenses may fluctuate significantly, which could have an adverse effect on the market price of our stock

For a number of reasons, including those described below, our operating results, revenues and expenses may vary significantly from quarter to quarter. These fluctuations could have an adverse effect on the market price of our class A common stock.

Fluctuations in Quarterly Operating Results. Our quarterly operating results may fluctuate as a result of:

- the size, timing and execution of significant orders and shipments;
- the mix of products and services of customer orders, which can affect whether we recognize revenue upon the signing and delivery of our software products or whether revenue must be recognized as work progresses or over the entire contract period;
- the timing of new product announcements;
- changes in our pricing policies or those of our competitors;
- market acceptance of business intelligence software generally and of new and enhanced versions of our products in particular;
- the length of our sales cycles;
- changes in our operating expenses;
- personnel changes;
- our success in adding to our indirect distribution channels;
- utilization of our consulting personnel, which can be affected by delays or deferrals of customer implementation of our software products and consulting, education and support services;

- changes in foreign currency exchange rates; and
- seasonal factors, such as our traditionally lower pace of new sales in the summer.

Limited Ability to Adjust Expenses. We base our operating expense budgets on expected revenue trends. Many of our expenses, such as office and equipment leases, are relatively fixed. We may be unable to adjust spending quickly enough to offset any unexpected revenue shortfall. Accordingly, any shortfall in revenue may cause significant variation in operating results in any quarter.

Based on the above factors, we believe that quarter-to-quarter comparisons of our operating results are not a good indication of our future performance. It is possible that in one or more future quarters, our operating results may be below the expectations of public market analysts and investors. In that event, the trading price of our class A common stock may fall.

We may lose sales, or sales may be delayed, due to the long sales and implementation cycles for our products, which would reduce our revenues

To date, our customers have typically invested substantial time, money and other resources and involved many people in the decision to license our software products and purchase our consulting and other services. As a result, we may wait nine months or more after the first contact with a customer for that customer to place an order while they seek internal approval for the purchase of our products and/or services. During this long sales cycle, events may occur that affect the size or timing of the order or even cause it to be canceled. For example, our competitors may introduce new products, or the

customer's own budget and purchasing priorities may change.

Even after an order is placed, the time it takes to deploy our products and complete consulting engagements varies widely from one customer to the next. Implementing our product can sometimes last several months, depending on the customer's needs and may begin only with a pilot program. It may be difficult to deploy our products if the customer has complicated deployment requirements, which typically involve integrating databases, hardware and software from different vendors. If a customer hires a third party to deploy our products, we cannot be sure that our products will be deployed successfully.

Our recognition of deferred revenue and advance payments is subject to future performance obligations and may not be representative of revenues for succeeding periods

Our deferred revenue and advance payments were approximately $27.0 million as of March 31, 2002. The timing and ultimate recognition of our deferred revenue and advance payments depend on our performance of various service obligations. Because of the possibility of customer changes in development schedules, delays in implementation and development efforts and the need to satisfactorily perform product support services, deferred revenue and advance payments at any particular date may not be representative of actual revenue for any succeeding period.

We may need additional financing which could be difficult to obtain

We may require additional external financing through credit facilities, sale of additional debt or equity securities in MicroStrategy or by obtaining other financing facilities to support our operations. Obtaining additional financing will be subject to a number of factors, including:

. market conditions;

. our operating performance; and

. investor sentiment.

These factors may make the timing, amount, terms and conditions of additional financing unattractive to us. If we are unable to raise capital needed to fund our operations, our business, operating results and financial condition may be materially and adversely affected.

We face securities litigation that could have a material adverse effect on our business, financial condition and results of operations

We and certain of our directors and executive officers are named as defendants in a private securities class action lawsuit and a shareholder derivative lawsuit relating to the restatement of our 1999, 1998 and 1997 financial results. Although we have entered into agreements to settle such lawsuits and the settlements have received court approval, both settlements are subject to various closing conditions. If the agreed upon settlements are not consummated, it is possible that we may be required to pay substantial damages

or settlement costs which could have a material adverse effect on our financial condition or results of operation.

The issuance of class A common stock as part of the proposed settlement of the securities class action and derivative litigation and the conversion of notes issued as part of the litigation settlement could result in a substantial number of additional shares of class A common stock being issued

The agreements we entered into to settle the private securities class action lawsuit and the derivative suit relating to the restatement of our 1999, 1998 and 1997 financial results require us to issue to members of the class 2,777,778 shares of class A common stock. As part of the settlement agreements, certain officers tendered 1,683,504 shares of class A common stock to the Company for no consideration, and we have cancelled these shares. Accordingly, upon completion of the distribution, we will have effected a net issuance of 1,094,274 shares of class A common stock. In addition, the settlement agreements require the issuance of five-year unsecured subordinated promissory notes having an aggregate principal amount of $80.5 million. We would have the option at any time prior to the expiration of the five-year term of the notes to convert the notes into a number of shares of class A common stock equal to the principal amount of the notes being converted divided by 80% of the dollar-volume weighted average trading price of the class A common stock over a ten-day period preceding our delivery of a notice of conversion, which could result in a substantial number of shares of class A common stock being issued. For example, if the conversion price of the notes were based on the dollar-volume weighted average trading price of the class A common stock during the 10 trading days ending May 1, 2002, we would be obligated to issue 47,949,166 shares of class A common stock if we elected to convert the notes. In addition, if we elect to convert the notes at prices that would result in the issuance of shares with a market value in excess of the value of the notes reflected on our balance sheet, we would incur a non-cash charge to earnings at the time of conversion equal to the amount of such excess, and this charge could be substantial. The issuance of a substantial number of shares of class A common stock as part of the litigation settlement and future conversions of the notes issued in the litigation settlement may result in substantial dilution to the interests of holders of class A common stock and may result in downward pressure on the price of our class A common stock.

The conversion of the shares of our preferred stock could result in substantial numbers of additional shares of class A common stock being issued if our market price declines during periods in which the conversion price of the preferred stock may adjust

Our series B preferred stock, series C preferred stock and series D preferred stock are convertible into shares of our class A common stock at conversion prices currently equal to $12.50, $17.50 and $5.00 per share, respectively. The outstanding shares of series B preferred stock, series C preferred stock and series D preferred stock would currently convert into 7,142,200 shares of class A common stock, plus a number of shares reflecting accrued but unpaid dividends as of the conversion date. However, if the holders of the series B preferred stock and series C preferred stock do not convert their shares into shares of class A common stock prior to their maturity three years from the date of issuance, and if we do not redeem their outstanding shares of series B preferred stock and series C preferred stock at maturity, the conversion price for such shares will be reset to a price equal to 95% of the dollar-volume weighted average price of our class A common stock for the 30 trading

days prior to the maturity date. If the market price at maturity of our class A common stock is less than the applicable conversion price, the number of shares of class A common stock that we could be required to issue upon conversion of the series B preferred stock and series C preferred stock would increase. For instance, if the dollar-volume weighted average price of our class A common stock for the 30 trading days prior to the maturity date of our series B preferred stock and series C preferred stock were $1.90, the closing sale price of our class A common stock as of May 1, 2002, and the holders of the series B preferred stock and series C preferred stock did not elect to convert any of their shares prior to the maturity date and we did not redeem such shares on the maturity date, we would be required to issue a total of 33,767,313 shares of our class A common stock upon conversion of such shares at maturity plus a number of shares reflecting accrued but unpaid dividends.

We currently have 650 shares of our series A preferred stock outstanding. As of May 1, 2002, shares of series A preferred stock are convertible into 2,108,247 shares of class A common stock based on the current conversion price equal to $3.08 per share. We have elected to mandatorily convert the series A preferred stock on the maturity date of June 19, 2002 into class A common stock based on a conversion price equal to 95% of the average of the dollar-volume weighted average price of the class A common stock during the 30 consecutive trading days immediately preceding the maturity date. If the dollar-volume weighted average price of our class A common stock for the 30 trading days prior to the June 19, 2002 maturity date were $1.90, the closing sale price of our class A common stock as of May 1, 2002, we would be required to issue a total of 3,601,108 shares of our class A common stock upon conversion of the series A preferred stock at maturity plus a number of shares reflecting accrued but unpaid dividends.

To the extent the shares of our preferred stock are converted or dividends on these shares are paid in shares of class A common stock rather than cash, a significant number of shares of class A common stock may be sold into the market, which could decrease the price of our class A common stock and encourage short sales. Short sales could place further downward pressure on the price of our class A common stock. In that case, we could be required to issue an increasingly greater number of shares of our class A common stock upon future conversions of the series A preferred stock, series B preferred stock and series C preferred stock as a result of the annual and other adjustments described above, sales of which could further depress the price of our class A common stock.

The conversion of and the payment of dividends in shares of class A common stock in lieu of cash on the preferred stock may result in substantial dilution to the interests of other holders of our class A common stock. No holder may convert its preferred stock if upon such conversion the holder together with its affiliates would have acquired a number of shares of class A common stock during the 60-day period ending on the date of conversion which, when added to the number of shares of class A common stock held at the beginning of such 60-day period, would exceed 9.99% of our then outstanding class A common stock, excluding for purposes of such determination shares of class A common stock issuable upon conversion of shares of preferred stock which have not been converted. Nevertheless, a holder may still sell a substantial number of shares

in the market. By periodically selling shares into the market, an individual holder could eventually sell more than 9.99% of our outstanding class A common stock while never holding more than 9.99% at any specific time.

The conversion and other features of our preferred stock will have the effect of reducing earnings per share if we were to generate net income in any future period.

We may be required to pay substantial penalties to the holders of the preferred shares if specific events occur

In accordance with the terms of the agreements relating to the issuance of our redeemable convertible preferred stock, we are required to pay substantial penalties to a holder of preferred stock under specified circumstances, including, among others:

- nonpayment of dividends on the series A preferred stock, series B preferred stock and series C preferred stock in a timely manner;

- failure to deliver shares of our class A common stock upon conversion of the preferred shares after a proper request;
- nonpayment of the redemption price at maturity of any remaining series A preferred stock, series B preferred stock and series C preferred stock; or
- the unavailability of the registration statement relating to the shares of class A common stock issuable upon conversion of and in lieu of cash dividends on the preferred stock to cover the resale of such shares for more than brief intervals.

These penalties are generally paid in the form of interest payments, subject to any restrictions imposed by applicable law.

We have substantial real estate lease commitments for unoccupied space and if we are unable to sublet this space on acceptable terms our operating results and financial condition could be adversely affected

We are party to real estate leases relating to approximately 103,000 square feet that are unoccupied. We have established a restructuring reserve of $10.7 million related to the costs of disposition of this space as of March 31, 2002. In establishing this reserve, we have assumed that we will be able to sublet the available space and receive approximately $10.9 million of sublease income relating to this space. We may not be able to sublet this space on the assumed terms. If we are unable to do so, we would incur additional restructuring costs relating to these leases and would expend more cash than currently expected, which could have an adverse effect on our operating results and financial condition.

We face intense competition, which may lead to lower prices for our products, reduced gross margins, loss of market share and reduced revenue

The markets for business intelligence software, analytical applications, and narrowcast messaging technologies are intensely competitive and subject to rapidly changing technology. In addition, many of our competitors in these

markets are offering, or may soon offer, products and services that may compete with MicroStrategy products.

MicroStrategy's most direct competitors provide:

. business intelligence software;

. OLAP tools;

. query and reporting tools;

. web-based static reporting tools; and

. information delivery and proactive reporting.

Each of these markets is discussed more fully below.

Business Intelligence Software. Makers of business intelligence software provide business intelligence capabilities designed for integration, customization and application development. Leading analyst firms classify companies such as Microsoft, Oracle, Hyperion Solutions, SAP AG, Computer Associates and SAS to be leading providers of business intelligence software.

OLAP Tools. Companies that build software to perform online analytical processing (OLAP) provide offerings competitive with the core MicroStrategy 7i platform. Whether web-based or client-server, these tools give end users the ability to query underlying data sources without having to hand code structured query language queries. Most OLAP tools allow users to build their own calculations and specify report layouts and

other options. Additionally, OLAP tools provide users the ability to navigate throughout the underlying data in an easy, graphical mode, often referred to as drilling. Providers of OLAP tools include Cognos, Hyperion Solutions, Brio Software, IBM, Crystal Decisions and Microsoft.

Query and Reporting Tools. Query and reporting tools allow large numbers of end users to gain access to pre-defined reports for simple analysis. Often the end users are able to specify some sort of run-time criteria that customizes the result set for that particular person. Some limited drilling is also provided. Companies which produce query and reporting tools include Business Objects, Cognos, Oracle, Crystal Decisions, nQuire, Information Builders and Brio Software.

Web-based Static Reporting Tools. Companies that offer software to deliver pre-built reports for end user viewing and consumption can also compete with MicroStrategy. These applications often lack the sophistication, robustness and scalability of MicroStrategy's platform, but can be attractive for small, departmental applications. Vendors in this category include Actuate, Business Objects, Crystal Decisions, Microsoft and SAS.

Information Delivery and Proactive Reporting. Companies that focus on the

proactive delivery of information, via e-mail, website, or other medium can compete with MicroStrategy's offerings. Typically, these tools serve to push out compiled reports on a scheduled basis to sets of users based on job type. MicroStrategy software has integrated this technology into the MicroStrategy 7i platform. Vendors of such technology include Actuate and Business Objects.

Many of our competitors have longer operating histories, significantly greater financial, technical, marketing or other resources, and greater name recognition than we do. In addition, many of our competitors have strong relationships with current and potential customers and extensive knowledge of the business intelligence industry. As a result, they may be able to respond more quickly to new or emerging technologies and changes in customer requirements or devote greater resources to the development, promotion and sale of their products than we can. Increased competition may lead to price cuts, reduced gross margins and loss of market share. We cannot be sure that we will be able to compete successfully against current and future competitors or that the competitive pressures we face will not have a material adverse effect on our business, operating results and financial condition.

Current and future competitors may also make strategic acquisitions or establish cooperative relationships among themselves or with others. By doing so, they may increase their ability to meet the needs of our potential customers. Our current or prospective indirect channel partners may establish cooperative relationships with our current or future competitors. These relationships may limit our ability to sell our products through specific distribution channels. Accordingly, new competitors or alliances among current and future competitors may emerge and rapidly gain significant market share. These developments could harm our ability to obtain maintenance revenues for new and existing product licenses on favorable terms.

If we are unable to recruit or retain skilled personnel, or if we lose the services of any of our key management personnel, our business, operating results and financial condition would be materially adversely affected

Our future success depends on our continuing ability to attract, train, assimilate and retain highly skilled personnel. Competition for these employees is intense. We may not be able to retain our current key employees or attract, train, assimilate or retain other highly skilled personnel in the future. In the second and third quarters of 2001, we implemented corporate restructuring plans which included a reduction in our worldwide workforce of approximately one-third. These reductions in force could adversely impact our employee morale and our ability to attract and retain employees. Our future success also depends in large part on the continued service of key management personnel, particularly Michael J. Saylor, our Chairman and Chief Executive Officer, and Sanju K. Bansal, our Vice Chairman, Executive Vice President and Chief Operating Officer. If we lose the services of one or both of these individuals or other key personnel, or if we are unable to attract, train, assimilate and retain

the highly skilled personnel we need, our business, operating results and financial condition could be materially adversely affected.

Our inability to develop and release product enhancements and new products to respond to rapid technological change in a timely and cost-effective manner would have a material adverse effect on our business, operating results and financial condition

The market for our products is characterized by rapid technological change, frequent new product introductions and enhancements, changing customer demands and evolving industry standards. The introduction of products embodying new technologies can quickly make existing products obsolete and unmarketable. We believe that our future success depends largely on three factors:

- our ability to continue to support a number of popular operating systems and databases;
- our ability to maintain and improve our current product line; and
- our ability to rapidly develop new products that achieve market acceptance, maintain technological competitiveness and meet an expanding range of customer requirements.

Business intelligence applications are inherently complex, and it can take a long time to develop and test major new products and product enhancements. In addition, customers may delay their purchasing decisions because they anticipate that new or enhanced versions of our products will soon become available. We cannot be sure that we will succeed in developing and marketing, on a timely and cost-effective basis, product enhancements or new products that respond to technological change, introductions of new competitive products or customer requirements, nor can we be sure that our new products and product enhancements will achieve market acceptance.

The emergence of new industry standards may adversely affect our ability to market our existing products

The emergence of new industry standards in related fields may adversely affect the demand for our existing products. This could happen, for example, if new web standards and technologies emerged that were incompatible with customer deployments of our products. Although the core database component of our business intelligence solutions is compatible with nearly all enterprise server hardware and operating system combinations, such as OS/390, AS/400, Unix and Windows, our application server component runs only on the Windows NT and Windows 2000 operating systems. Therefore, our ability to increase sales currently depends on the continued acceptance of the Windows NT and Windows 2000 operating systems.

If the market for business intelligence software fails to grow as we expect, or if businesses fail to adopt our products, our business, operating results and financial condition would be materially adversely affected

Nearly all of our revenues to date have come from sales of business intelligence software and related technical support, consulting and education services. We expect these sales to account for a large portion of our revenues for the foreseeable future. Although demand for business intelligence software has grown in recent years, the market for business intelligence software applications is still emerging. Resistance from consumer and privacy groups to increased commercial collection and use of data on spending patterns and other personal behavior may impair the further growth of this market, as may other developments. We cannot be sure that this market will continue to grow or, even if it does grow, that businesses will adopt our solutions. We have spent, and intend to keep spending, considerable resources to educate potential customers about business intelligence software in general and our solutions in particular. However, we cannot be sure that these expenditures will help our

products achieve any additional market acceptance. If the market fails to grow or grows more slowly than we currently expect, our business, operating results and financial condition would be materially adversely affected.

Because of the rights of our two classes of common stock, and because we are controlled by our existing holders of class B common stock, these stockholders could transfer control of MicroStrategy to a third party without anyone else's approval or prevent a third party from acquiring MicroStrategy

We have two classes of common stock: class A common stock and class B common stock. Holders of our class A common stock generally have the same rights as holders of our class B common stock, except that holders of class A common stock have one vote per share while holders of class B common stock have ten votes per share. As of May 1, 2002, holders of our class B common stock owned or controlled 46,431,368 shares of class B common stock, or 90.8% of the total voting power. Michael J. Saylor, our Chairman and Chief Executive Officer, controlled 441,420 shares of class A common stock and 37,090,235 shares of class B common stock, or 72.6% of total voting power, as of May 1, 2002. Accordingly, Mr. Saylor is able to control MicroStrategy through his ability to determine the outcome of elections of our directors, amend our certificate of incorporation and bylaws and take other actions requiring the vote or consent of stockholders, including mergers, going-private transactions and other extraordinary transactions and their terms.

Our certificate of incorporation allows holders of class B common stock, almost all of whom are current employees or former employees of our company or related parties, to transfer shares of class B common stock, subject to the approval of stockholders possessing a majority of the outstanding class B common stock. Mr. Saylor or a group of stockholders possessing a majority of the outstanding class B common stock could, without seeking anyone else's approval, transfer voting control of MicroStrategy to a third party. Such a transfer of control could have a material adverse effect on our business, operating results and financial condition. Mr. Saylor will also be able to prevent a change of control of MicroStrategy, regardless of whether holders of class A common stock might otherwise receive a premium for their shares over the then current market price.

We rely on our strategic channel partners and if we are unable to develop or maintain successful relationships with them, our business, operating results and financial condition will suffer

In addition to our direct sales force, we rely on strategic channel partners, such as value-added resellers, system integrators and original equipment manufacturers to license and support our products in the United States and internationally. In particular, for the three months ended March 31, 2002 and the years ended December 31, 2001, 2000 and 1999, channel partners accounted for, directly or indirectly, approximately 35.2%, 35.4%, 45.0% and 39.2% of our total product license revenues, respectively. Our channel partners generally offer customers the products of several different companies, including some products that compete with ours. Although we believe that direct sales will continue to account for a majority of product license revenues, we intend to increase the level of indirect sales activities through our strategic channel partners. However, we may not be successful in our efforts to continue to expand indirect sales in this manner. We may not be able to attract strategic partners who will market our products effectively and who

will be qualified to provide timely and cost-effective customer support and service. Our ability to achieve revenue growth in the future will depend in part on our success in developing and maintaining successful relationships with those strategic partners. If we are unable to develop or maintain our relationships with these strategic partners, our business, operating results and financial condition will suffer.

We have only limited protection for our proprietary rights in our software, which makes it difficult to prevent third parties from infringing upon our rights

We rely primarily on a combination of copyright, patent, trademark and trade secret laws, customer licensing agreements, employee and third-party nondisclosure agreements and other methods to protect our proprietary rights. However, these laws and contractual provisions provide only limited protection. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain and use our products or technology. Policing such unauthorized use is difficult, and we cannot be certain that we can prevent it, particularly in countries where the laws may not protect our proprietary rights as fully as in the United States.

Our products may be susceptible to claims by other companies that our products infringe upon their proprietary rights, which could adversely affect our business, operating results and financial condition

As the number of software products in our target markets increases and the functionality of these products further overlaps, we may become increasingly subject to claims by a third party that our technology infringes such party's proprietary rights. Regardless of their merit, any such claims could be time consuming and expensive to defend, may divert management's attention and resources, could cause product shipment delays and could require us to enter into costly royalty or licensing agreements. If successful, a claim of infringement against us and our inability to license the infringed or similar technology could have a material adverse effect on our business, operating results and financial condition.

On October 2, 2001, we filed a lawsuit in the Virginia Circuit Court for Fairfax County against two field employees of Business Objects, S.A. ("BO"). Our lawsuit alleged that these employees, who previously worked for us, breached their fiduciary and contractual obligations to us by, among other things, misappropriating our trade secrets and confidential information and soliciting our employees and customers. Our complaint sought injunctive relief and damages of at least $3 million. On October 17, 2001, BO filed suit against us in the United States District Court for the Northern District of California, claiming that our software infringes a patent issued to BO relating to relational database access. The suit seeks injunctive relief and unspecified monetary damages. A trial date has not yet been set in the Northern District of California action. We intend to vigorously defend the case.

On October 31, 2001, we filed suit against BO in the United States District Court for the Eastern District of Virginia, claiming that BO's software infringes two patents held by us relating to asynchronous control of report generation using a web browser and a system and method of adapting automatic output of OLAP reports to disparate user output devices. On March 13, 2002, we

voluntarily dismissed without prejudice our lawsuit pending in the Virginia Circuit Court for Fairfax County against the two field employees of BO. On April 2, 2002, we amended our complaint against BO to add claims for violations of the federal Computer Fraud and Abuse Act, misappropriation of trade secrets, and tortious interference with contractual relations. On May 13, 2002, we submitted an agreed order to further amend our complaint against BO to add claims for violations of the Virginia Conspiracy Act. We are seeking monetary damages and injunctive relief. Trial is scheduled to commence on October 8, 2002.

Managing our international operations is complex and our failure to do so successfully or in a cost-effective manner would have a material adverse effect on our business, operating results and financial condition

International sales accounted for 34.5%, 34.1%, 25.9% and 24.0% of our total revenues for the three months ended March 31, 2002 and for the years ended December 31, 2001, 2000 and 1999, respectively. Our international operations require significant management attention and financial resources.

There are certain risks inherent in our international business activities including:

- changes in foreign currency exchange rates;
- unexpected changes in regulatory requirements;
- tariffs and other trade barriers;
- costs of localizing products for foreign countries;
- lack of acceptance of localized products in foreign countries;
- longer accounts receivable payment cycles;
- difficulties in managing international operations;

- tax issues, including restrictions on repatriating earnings;
- weaker intellectual property protection in other countries;
- economic weakness or currency related crises that may arise in different countries or geographic regions; and
- the burden of complying with a wide variety of foreign laws.

These factors may have a material adverse effect on our future international sales and, consequently, on our business, operating results and financial condition.

The nature of our products makes them particularly vulnerable to undetected errors, or bugs, which could cause problems with how the products perform and which could in turn reduce demand for our products, reduce our revenue and lead to product liability claims against us

Software products as complex as ours may contain errors or defects. Although we test our products extensively, we have in the past discovered software errors in new products after their introduction. Despite testing by us and by our current and potential customers, errors may be found in new products or releases after commercial shipments begin. This could result in lost revenue or delays in market acceptance, which could have a material adverse effect upon our business, operating results and financial condition.

Our license agreements with customers typically contain provisions designed to limit our exposure to product liability claims. It is possible, however, that these provisions may not be effective under the laws of certain domestic or international jurisdictions. Although there have been no product liability claims against us to date, our license and support of products may involve the risk of these claims. A successful product liability claim against us could have a material adverse effect on our business, operating results and financial condition.

The price of our stock may be extremely volatile

The market price for our class A common stock has historically been volatile and could fluctuate significantly for any of the following reasons:

- quarter-to-quarter variations in our operating results;
- developments or disputes concerning proprietary rights;
- technological innovations or new products;
- governmental regulatory action;
- general conditions in the software industry;
- increased price competition;
- changes in revenue or earnings estimates by analysts;
- any change in the actual or expected amount of dilution attributable to issuances of additional shares of class A common stock upon conversion of our preferred stock or as a result of the litigation settlement; or
- other events or factors.

Many of the above factors are beyond our control.

The stock market has recently experienced extreme price and volume fluctuations. These fluctuations have particularly affected the market price of many software companies, often without regard to their operating performance.

USE OF PROCEEDS

If all of the warrants were exercised for cash, we would receive aggregate gross cash proceeds from the sale of 1,900,000 shares of Class A Common Stock of approximately $76,000,000. However, the warrants may be exercised by the surrender of notes issued by us to the class members pursuant to the settlement agreement as payment of the exercise price, valued for this purpose at 133% of the principal amount and all accrued and unpaid interest on the notes so surrendered. Therefore, the amount of any cash proceeds that we may receive

upon the exercise of the warrants is uncertain.

We intend to use the proceeds received upon any exercise of the warrants for working capital and other general corporate proposals.

We will bear all costs, fees and expenses incurred in effecting the registration of the shares covered by this prospectus, including, without limitation, all registration and filing fees, Nasdaq listing fees, fees and expenses of our counsel, fees and expenses of our accountants, and blue sky fees and expenses.

PLAN OF DISTRIBUTION

We are registering the shares of class A common stock issuable upon exercise of warrants to be issued to class members pursuant to a settlement agreement among us, some of our officers and directors and plaintiffs' counsel, approved by the United States District Court for the Eastern District of Virginia on April 2, 2001, relating to a consolidated class action lawsuit filed against us, some of our officers and directors and our independent accountants. We will issue the shares directly to the holders of the warrants, upon exercise of such warrants, from time to time after the date of this prospectus. The warrants expire five years from the date of issue.

We will pay all expenses of the registration of the shares of class A common stock pursuant to the settlement agreement, estimated to be $100,000 in total, including, without limitation, SEC filing fees and expenses of compliance with state securities or "blue sky" laws.

LEGAL MATTERS

The validity of the shares of class A common stock offered by this prospectus has been passed upon by Hale and Dorr LLP, Boston, Massachusetts.

EXPERTS

The financial statements incorporated in this registration statement by reference to the Annual Report on Form 10-K for the year ended December 31, 2001 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 14. Other Expenses of Issuance and Distribution.

The following table sets forth the various expenses to be incurred in connection with the sale and distribution of the securities being registered hereby, all of which will be borne by MicroStrategy Incorporated. All amounts shown are estimates except the Securities and Exchange Commission registration fee.

Filing Fee--Securities and Exchange Commission	$ 19,000
Legal fees and expenses	$ 50,000
Accounting fees and expenses	$ 20,000

Miscellaneous expenses.....	$ 11,000
Total Expenses.....	$100,000

Item 15. Indemnification of Directors and Officers.

Section 102 of the Delaware General Corporation Law allows a corporation to eliminate the personal liability of directors of a corporation to the corporation or its stockholders for monetary damages for a breach of fiduciary duty as a director, except where the director breached his duty of loyalty, failed to act in good faith, engaged in intentional misconduct or knowingly violated a law, authorized the payment of a dividend or approved a stock repurchase in violation of Delaware corporate law or obtained an improper personal benefit. MicroStrategy has included such a provision in its Certificate of Incorporation.

Section 145 of the Delaware General Corporation Law provides that a corporation has the power to indemnify a director, officer, employee or agent of the corporation and certain other persons serving at the request of the corporation in related capacities against amounts paid and expenses incurred in connection with an action or proceeding to which he is or is threatened to be made a party by reason of such position, if such person shall have acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, in any criminal proceeding, if such person had no reasonable cause to believe his conduct was unlawful; provided that, in the case of actions brought by or in the right of the corporation, no indemnification shall be made with respect to any matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the adjudicating court determines that such indemnification is proper under the circumstances.

MicroStrategy's certificate of incorporation provides that an officer or director of MicroStrategy will not be personally liable to MicroStrategy or its stockholders for monetary damages for any breach of his fiduciary duty as an officer or director, except in certain cases where liability is mandated by the Delaware General Corporation Law. The provision has no effect on any non-monetary remedies that may be available to MicroStrategy or its stockholders, nor does it relieve MicroStrategy or its officers or directors from compliance with federal or state securities laws. MicroStrategy's certificate of incorporation also generally provides that MicroStrategy shall indemnify, to the fullest extent permitted by law, any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit, investigation, administrative hearing or any other proceeding by reason of the fact that he is or was a director or officer of MicroStrategy, or is or was serving at the request of MicroStrategy as a director, officer, employee or agent of another entity, against expenses incurred by him in connection with such proceeding. An officer or director shall not be entitled to indemnification by MicroStrategy if the officer or director did not act in good faith and in a manner reasonably believed to be in, or not opposed to, the best interests of the MicroStrategy, or with respect to any criminal action or proceeding, the officer or director had reasonable cause to believe his conduct was unlawful.

MicroStrategy has purchased directors' and officers' liability insurance which would indemnify its directors and officers against damages arising out of certain kinds of claims which might be made against them based on their

negligent acts or omissions while acting in their capacity as such.

Item 16. Exhibits

Exhibit Number	Description
3.1+	Form of Warrant.
5.1+	Opinion of Hale and Dorr LLP.
23.1	Consent of PricewaterhouseCoopers LLP.
23.2+	Consent of Hale and Dorr LLP (included in Exhibit 5.1 filed herewith).
24.1+	Power of Attorney (see the signature page to this Registration Statement).

\+ previously filed

Item 17. Undertakings.

The undersigned Registrant hereby undertakes:

(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 of 1933, as amended (the "Securities Act");

(ii) To reflect in the prospectus any facts or events arising after the effective date of this 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 this Registration Statement. Notwithstanding the foregoing, any increase or decrease in the 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 Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set forth 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 this Registration Statement or any material change to such information in this Registration Statement;

provided, however, that paragraphs (1)(i) and (1)(ii) do not apply if the information required to be included is a post-effective amendment by those paragraphs is contained in periodic reports filed by the Company pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that are incorporated by reference in this Registration Statement.

(2) That, for the purposes of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at the

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.

The Registrant hereby undertakes that, for purposes of determining any liability under the Securities Act, each filing of the Registrant's annual report pursuant to Section 13(a) or 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 the 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 directors, officers and controlling persons of the Registrant pursuant to the indemnification provisions described herein, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission 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 the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant 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, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of McLean, Commonwealth of Virginia, on May 20, 2002.

MICROSTRATEGY INCORPORATED

By: /s/ MICHAEL J. SAYLOR

Michael J. Saylor
Chairman of the Board of Directors
and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the

capacities and on the dates indicated.

Signature	Title	Date
/s/ MICHAEL J. SAYLOR Michael J. Saylor	Chairman of the Board of Directors and Chief Executive Officer (Principal Executive Officer)	May 20, 2002
/s/ ERIC F. BROWN Eric F. Brown	President and Chief Financial Officer (Principal Financial and Accounting Officer)	May 20, 2002
* Sanju K. Bansal	Director	May 20, 2002
* F. David Fowler	Director	May 20, 2002
Jonathan J. Ledecky	Director	May 20, 2002
Jay H. Nussbaum	Director	May 20, 2002
* Stuart B. Ross	Director	May 20, 2002
* John W. Sidgmore	Director	May 20, 2002
* Ralph S. Terkowitz	Director	May 20, 2002

*By: /s/ ERIC F. BROWN
Eric F. Brown
Attorney-in-fact

EXHIBIT INDEX

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 23.1   Consent of PricewaterhouseCoopers LLP.

 23.2+  Consent of Hale and Dorr LLP (included in Exhibit 5.1 filed herewith).

 24.1+  Power of Attorney (see the signature page to this Registration Statement).
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\+ previously filed

New Roman">the cost of our internal marketing activities.

Additional financing may not be available on acceptable terms, if at all. If adequate funds are not available, we will be required to delay, scale back or eliminate one or more of our drug development programs or obtain funds through arrangements with collaborative partners or others that may require us to relinquish rights to certain of our technologies or products that we would not otherwise relinquish.

We are not currently profitable and may never become profitable.

We have a history of losses and expect to incur substantial losses and negative operating cash flow for the foreseeable future, and we may never achieve or maintain profitability. For each of the fiscal years ended December 31, 2004, 2003 and 2002 and from August 6, 2001 (inception) through December 31, 2001, we realized net losses of $5,896,031, $5,960,907, $1,037,320 and $56,796, respectively. Even if we succeed in developing and commercializing one or both of our current product candidates, we expect to incur substantial losses for the foreseeable future and may never become profitable. We also expect to continue to incur significant operating and capital expenditures and anticipate that our expenses will increase substantially in the foreseeable future as we:

- continue to undertake pre-clinical development and clinical trials for our product candidates;
- seek regulatory approvals for our product candidates;
- implement additional internal systems and infrastructure;
- lease additional or alternative office facilities; and
- hire additional personnel.

We also expect to experience negative cash flow for the foreseeable future as we fund our operating losses and capital expenditures. As a result, we will need to generate significant revenues in order to achieve and maintain profitability. We may not be able to generate these revenues or achieve profitability in the future. Our failure to achieve or maintain profitability could negatively impact the value of our common stock.

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We have a limited operating history upon which to base an investment decision.

We are a development-stage company and have not yet demonstrated any ability to perform the functions necessary for the successful commercialization of any product candidates. The successful commercialization of our product candidates will require us to perform a variety of functions, including:

- continuing to undertake pre-clinical development and commencing clinical trials;
- participating in regulatory approval processes;
- formulating and manufacturing products; and
- conducting sales and marketing activities.

Since inception as Manhattan Research Development, Inc., our operations have been limited to organizing and staffing, and acquiring, developing and securing our proprietary technology and undertaking pre-clinical trials of principal product candidates. These operations provide a limited basis for you to assess our ability to commercialize our product candidates and the advisability of investing in our securities.

We may not obtain the necessary U.S. or worldwide regulatory approvals to commercialize our product candidates.

We will need FDA approval to commercialize our product candidates in the U.S. and approvals from the FDA equivalent regulatory authorities in foreign jurisdictions to commercialize our product candidates in those jurisdictions. In order to obtain FDA approval of any of our product candidates, we must first submit to the FDA an Investigational New Drug Application, or an “IND,” which will set forth our plans for clinical testing of our product candidates. In January 2005, the FDA accepted INDs for both our Oleoyl-estrone and Propofol LS product candidates. We have not yet filed an IND for PTH(1-34). In February 2005, we began dosing patients in our first Phase I trial in Basel, Switzerland to evaluate the safety and tolerability of defined doses of orally administered oleoyl-estrone in obese adults, in accordance with FDA guidelines. Pending completion of formulation work, we expect to conduct a Phase I clinical study for propofol lingual spray as early as 2005 assuming formulation work is completed satisfactorily. Because propofol has already been approved by the FDA for intravenous use, the FDA has informed us that we may utilize a rapid development strategy that will enable us to go directly to a Pivotal Phase III trial following completion of our planned Phase I trials. Accordingly, we currently anticipate that development of propofol lingual spray may be completed in 2006. See "Business - Lingual Spray Propofol." We are unable to estimate the size and timing of all the Phase II and Phase III programs for oleoyl-estrone at this time and, accordingly, cannot estimate the time when development of that product candidate will be completed.

When the clinical testing for our product candidates is complete, we will submit to the FDA a New Drug Application, or “NDA,” demonstrating that the product candidate is safe for humans and effective for its intended use. This demonstration requires significant research and animal tests, which are referred to as pre-clinical studies, as well as human tests, which are referred to as clinical trials. Satisfaction of the FDA’s regulatory requirements typically takes many years, depends upon the type, complexity and novelty of the product candidate and requires substantial resources for research, development and testing. We cannot predict whether our research and clinical approaches will result in drugs that the FDA considers safe for humans and effective for indicated uses. The FDA has substantial discretion in the drug approval process and may require us to conduct additional pre-clinical and clinical testing or to perform post-marketing studies. The approval process may also be delayed by changes in government regulation, future legislation or administrative action or changes in FDA policy that occur prior to or during our regulatory review. Delays in obtaining regulatory approvals may:

- delay commercialization of, and our ability to derive product revenues from, our product candidates;
- impose costly procedures on us; and
- diminish any competitive advantages that we may otherwise enjoy.

Even if we comply with all FDA requests, the FDA may ultimately reject one or more of our NDAs. We cannot be sure that we will ever obtain regulatory clearance for our product candidates. Failure to obtain FDA approval of our product candidates will severely undermine our business by reducing our number of salable products and, therefore, corresponding product revenues.

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In foreign jurisdictions, we must receive approval from the appropriate regulatory authorities before we can commercialize our drugs. Foreign regulatory approval processes generally include all of the risks associated with the FDA approval procedures described above. We have not yet made any determination as to which foreign jurisdictions we may seek approval and have not undertaken any steps to obtain approvals in any foreign jurisdiction.

Clinical trials are very expensive, time-consuming and difficult to design and implement.

Human clinical trials are very expensive and difficult to design and implement, in part because they are subject to rigorous regulatory requirements. The clinical trial process is also time consuming. We estimate that clinical trials of our product candidates will take at least several years to complete. Furthermore, failure can occur at any stage of the trials, and we could encounter problems that cause us to abandon or repeat clinical trials. The commencement and completion of clinical trials may be delayed by several factors, including:

- unforeseen safety issues;
- determination of dosing issues;
- lack of effectiveness during clinical trials;
- slower than expected rates of patient recruitment;
- inability to monitor patients adequately during or after treatment; and
- inability or unwillingness of medical investigators to follow our clinical protocols.

In addition, we or the FDA may suspend our clinical trials at any time if it appears that we are exposing participants to unacceptable health risks or if the FDA finds deficiencies in our IND submissions or the conduct of these trials.

The results of our clinical trials may not support our product candidate claims.

Even if our clinical trials are completed as planned, we cannot be certain that their results will support our product candidate claims. Success in pre-clinical testing and early clinical trials does not ensure that later clinical trials will be successful, and we cannot be sure that the results of later clinical trials will replicate the results of prior clinical trials and pre-clinical testing. The clinical trial process may fail to demonstrate that our product candidates are safe for humans and effective for indicated uses. This failure would cause us to abandon a product candidate and may delay development of other product candidates. Any delay in, or termination of, our clinical trials will delay the filing of our NDAs with the FDA and, ultimately, our ability to commercialize our product candidates and generate product revenues. In addition, we anticipate that our clinical trials will involve only a small patient population. We expect that our clinical trials will only involve a small sample size. Accordingly, the results of such trials may not be indicative of future results over a larger patient population.

Physicians and patients may not accept and use our drugs.

Even if the FDA approves our product candidates, physicians and patients may not accept and use them. Acceptance and use of our products will depend upon a number of factors including:

- perceptions by members of the health care community, including physicians, about the safety and
- effectiveness of our drugs;
- cost-effectiveness of our product relative to competing products;
- availability of reimbursement for our products from government or other healthcare payers; and
- effectiveness of marketing and distribution efforts by us and our licensees and distributors, if any.

Because we expect sales of our current product candidates, if approved, to generate substantially all of our product revenues for the foreseeable future, the failure of any of these drugs to find market acceptance would harm our

business and could require us to seek additional financing.

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Our drug-development program will depend upon third-party researchers and other collaborators who are outside our control.

We currently are collaborating with NovaDel Pharma, from which we license our rights to lingual spray propofol, in the development of that product candidate in the pre-clinical and early clinical trial stages. Under our agreement with NovaDel, it has agreed to perform certain development on our behalf and at our expense, including formulation stability testing, formulation analytic method development and testing and manufacture of clinical trial material for the pre-clinical and early clinical development of propofol lingual spray. Beyond those limited activities, we need to engage independent investigators and other third party collaborators to conduct pre-clinical and clinical trials for lingual spray propofol. We are not currently collaborating with any third party with respect to the development of oleoyl-estrone, but we intend to engage third party independent investigators and collaborators, which may include universities and medical institutions, to conduct our pre-clinical and clinical trials for that product candidate, as well. Accordingly, the successful development of our product candidates will depend on the performance of these third parties. These collaborators will not be our employees, however, and we cannot control the amount or timing of resources that they will devote to our programs. Our collaborators may not assign as great a priority to our programs or pursue them as diligently as we would if we were undertaking such programs ourselves. If outside collaborators fail to devote sufficient time and resources to our drug-development programs, or if their performance is substandard, the approval of our FDA applications, if any, and our introduction of new drugs, if any, will be delayed. These collaborators may also have relationships with other commercial entities, some of whom may compete with us. If our collaborators assist our competitors at our expense, our competitive position would be harmed.

We will rely exclusively on third parties to formulate and manufacture our product candidates.

We have no experience in drug formulation or manufacturing and do not intend to establish our own manufacturing facilities. We lack the resources and expertise to formulate or manufacture our own product candidates. We currently have no contract for the manufacture of our product candidate. We intend to contract with one or more manufacturers to manufacture, supply, store and distribute drug supplies for our clinical trials. If any of our product candidates receive FDA approval, we will rely on one or more third-party contractors to manufacture our drugs. Our anticipated future reliance on a limited number of third-party manufacturers, exposes us to the following risks:

- We may be unable to identify manufacturers on acceptable terms or at all because the number of potential manufacturers is limited and the FDA must approve any replacement contractor. This approval would require new testing and compliance inspections. In addition, a new manufacturer would have to be educated in, or develop substantially equivalent processes for, production of our products after receipt of FDA approval, if any.
- Our third-party manufacturers might be unable to formulate and manufacture our drugs in the volume and of the quality required to meet our clinical needs and commercial needs, if any.
- Our future contract manufacturers may not perform as agreed or may not remain in the contract manufacturing business for the time required to supply our clinical trials or to successfully produce, store and distribute our products.
- Drug manufacturers are subject to ongoing periodic unannounced inspection by the FDA, the DEA, and corresponding state agencies to ensure strict compliance with good manufacturing practice and other government regulations and corresponding foreign standards. We do not have control over third-party manufacturers' compliance with these regulations and standards.
- If any third-party manufacturer makes improvements in the manufacturing process for our products, we may not own, or may have to share, the intellectual property rights to the innovation.

We may be unable to identify manufacturers on acceptable terms or at all because the number of potential manufacturers is limited and the FDA must approve any replacement contractor. This approval would require new testing and compliance inspections. In addition, a new manufacturer would have to be educated in, or develop

substantially equivalent processes for, production of our products after receipt of FDA approval, if any.

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Our third-party manufacturers might be unable to formulate and manufacture our drugs in the volume and of the quality required to meet our clinical needs and commercial needs, if any.

Our future contract manufacturers may not perform as agreed or may not remain in the contract manufacturing business for the time required to supply our clinical trials or to successfully produce, store and distribute our products. Drug manufacturers are subject to ongoing periodic unannounced inspection by the FDA, the DEA, and corresponding state agencies to ensure strict compliance with good manufacturing practice and other government regulations and corresponding foreign standards. We do not have control over third-party manufacturers' compliance with these regulations and standards. If any third-party manufacturer makes improvements in the manufacturing process for our products, we may not own, or may have to share, the intellectual property rights to the innovation.

Each of these risks could delay our clinical trials, the approval, if any of our product candidates by the FDA or the commercialization of our product candidates or result in higher costs or deprive us of potential product revenues.

We have no experience selling, marketing or distributing products and no internal capability to do so.

We currently have no sales, marketing or distribution capabilities. We do not anticipate having the resources in the foreseeable future to allocate to the sales and marketing of its proposed products. Our future success depends, in part, on our ability to enter into and maintain such collaborative relationships, the collaborator's strategic interest in the products under development and such collaborator's ability to successfully market and sell any such products. We intend to pursue collaborative arrangements regarding the sales and marketing of our products, however, there can be no assurance that we will be able to establish or maintain such collaborative arrangements, or if able to do so, that they will have effective sales forces. To the extent that we decide not to, or are unable to, enter into collaborative arrangements with respect to the sales and marketing of its proposed products, significant capital expenditures, management resources and time will be required to establish and develop an in-house marketing and sales force with technical expertise. There can also be no assurance that we will be able to establish or maintain relationships with third party collaborators or develop in-house sales and distribution capabilities. To the extent that we depend on third parties for marketing and distribution, any revenues we receive will depend upon the efforts of such third parties, and there can be no assurance that such efforts will be successful. In addition, there can also be no assurance that we will be able to market and sell our product in the United States or overseas.

If we cannot compete successfully for market share against other drug companies, we may not achieve sufficient product revenues and our business will suffer.

The market for our product candidates is characterized by intense competition and rapid technological advances. If our product candidates receive FDA approval, they will compete with a number of existing and future drugs and therapies developed, manufactured and marketed by others. Existing or future competing products may provide greater therapeutic convenience or clinical or other benefits for a specific indication than our products, or may offer comparable performance at a lower cost. If our products fail to capture and maintain market share, we may not achieve sufficient product revenues and our business will suffer.

We will compete against fully integrated pharmaceutical companies and smaller companies that are collaborating with larger pharmaceutical companies, academic institutions, government agencies and other public and private research organizations. Many of these competitors have product candidates that will compete with ours already approved or in development. In addition, many of these competitors, either alone or together with their collaborative partners, operate larger research and development programs and have substantially greater financial resources than we do, as well as significantly greater experience in:

· developing drugs;

- undertaking pre-clinical testing and human clinical trials;
- obtaining FDA and other regulatory approvals of drugs;
- formulating and manufacturing drugs; and
- launching, marketing and selling drugs.

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Developments by competitors may render our products or technologies obsolete or non-competitive.

Companies that currently sell both generic and proprietary anti-obesity compounds formulations include, among others, Abbot Laboratories, Inc. and Amgen Inc. Alternative technologies are being developed to treat obesity and overweight disease, several of which are in advanced clinical trials. In addition, companies pursuing different but related fields represent substantial competition. Many of these organizations competing with us have substantially greater capital resources, larger research and development staffs and facilities, longer drug development history in obtaining regulatory approvals and greater manufacturing and marketing capabilities than we do. These organizations also compete with us to attract qualified personnel, parties for acquisitions, joint ventures or other collaborations.

If we fail to adequately protect or enforce our intellectual property rights or secure rights to patents of others, the value of our intellectual property rights may diminish.

Our success, competitive position and future revenues will depend in part on our ability and the abilities of our licensors to obtain and maintain patent protection for our products, methods, processes and other technologies, to preserve our trade secrets, to prevent third parties from infringing on our proprietary rights and to operate without infringing the proprietary rights of third parties.

We currently do not directly own the rights to any patents or patent applications. We license the exclusive rights to two issued patents relating to oleoyl-estrone, which expire in 2016, and three patent applications. We also license the exclusive rights to three issued patents relating to lingual spray propofol, which expire from 2016 to 2017. In addition, our license for propofol lingual spray covers one pending patent application. See “Business - Intellectual Property and License Agreements.” There are no other pending patent applications relating to either of our product candidates, although we anticipate the need to file additional patent applications both in the U.S. and in other countries, as appropriate.

However, with regard to the patents covered by our license agreements and any future patents issued to which we will have rights, we cannot predict:

- the degree and range of protection any patents will afford us against competitors, including whether third parties will find ways to invalidate or otherwise circumvent our patents;
- if and when patents will issue;
- whether or not others will obtain patents claiming aspects similar to those covered by our patents and patent applications; or
- whether we will need to initiate litigation or administrative proceedings which may be costly whether we win or lose.

Our success also depends upon the skills, knowledge and experience of our scientific and technical personnel, our consultants and advisors as well as our licensors and contractors. To help protect our proprietary know-how and our inventions for which patents may be unobtainable or difficult to obtain, we rely on trade secret protection and confidentiality agreements. To this end, we require all of our employees, consultants, advisors and contractors to enter into agreements which prohibit the disclosure of confidential information and, where applicable, require disclosure and assignment to us of the ideas, developments, discoveries and inventions important to our business. These agreements may not provide adequate protection for our trade secrets, know-how or other proprietary information in the event of any unauthorized use or disclosure or the lawful development by others of such information. For example, despite covenants in our license agreements with Oleoylestrone Developments and NovaDel Pharma, from which we license oleoyl-estrone and lingual spray propofol, respectively, that generally prohibit those companies from disclosing information relating to our licensed technology, the respective license agreements allow for each company to publish data and other information relating to our licensed technology. If any of our trade secrets, know-how or

other proprietary information is disclosed, the value of our trade secrets, know-how and other proprietary rights would be significantly impaired and our business and competitive position would suffer.

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If we infringe the rights of third parties we could be prevented from selling products, forced to pay damages, and defend against litigation.

Our business is substantially dependent on the intellectual property on which our product candidates are based. To date, we have not received any threats or claims that we may be infringing on another's patents or other intellectual property rights. If our products, methods, processes and other technologies infringe the proprietary rights of other parties, we could incur substantial costs and we may have to:

- obtain licenses, which may not be available on commercially reasonable terms, if at all;
- redesign our products or processes to avoid infringement;
- stop using the subject matter claimed in the patents held by others;
- pay damages; or
- defend litigation or administrative proceedings which may be costly whether we win or lose, and which could result in a substantial diversion of our valuable management resources.

Our ability to generate product revenues will be diminished if our drugs sell for inadequate prices or patients are unable to obtain adequate levels of reimbursement.

Our ability to commercialize our drugs, alone or with collaborators, will depend in part on the extent to which reimbursement will be available from:

- government and health administration authorities;
- private health maintenance organizations and health insurers; and
- other healthcare payers.

Significant uncertainty exists as to the reimbursement status of newly approved healthcare products. Healthcare payers, including Medicare, are challenging the prices charged for medical products and services. Government and other healthcare payers increasingly attempt to contain healthcare costs by limiting both coverage and the level of reimbursement for drugs. Even if our product candidates are approved by the FDA, insurance coverage may not be available, and reimbursement levels may be inadequate, to cover our drugs. If government and other healthcare payers do not provide adequate coverage and reimbursement levels for any of our products, once approved, market acceptance of our products could be reduced.

We may not successfully manage our growth.

Our success will depend upon the expansion of our operations and the effective management of our growth, which will place a significant strain on our management and on our administrative, operational and financial resources. To manage this growth, we must expand our facilities, augment our operational, financial and management systems and hire and train additional qualified personnel. If we are unable to manage our growth effectively, our business may suffer.

If we are unable to hire additional qualified personnel, our ability to grow our business may be harmed.

We will need to hire additional qualified personnel with expertise in pre-clinical testing, clinical research and testing, government regulation, formulation and manufacturing and sales and marketing. We compete for qualified individuals with numerous biopharmaceutical companies, universities and other research institutions. Competition for such individuals is intense, and we cannot be certain that our search for such personnel will be successful. Attracting and retaining qualified personnel will be critical to our success.

We may incur substantial liabilities and may be required to limit commercialization of our products in response to product liability lawsuits.

The testing and marketing of medical products entail an inherent risk of product liability. If we cannot successfully defend ourselves against product liability claims, we may incur substantial liabilities or be required to limit commercialization of our products. We currently carry clinical trial insurance in an amount up to $2,000,000, which may be inadequate to protect against potential product liability claims or may inhibit the commercialization of pharmaceutical products we develop, alone or with corporate collaborators. Although we intend to maintain clinical trial insurance during any clinical trials, this may be inadequate to protect us against any potential claims. Even if our agreements with any future corporate collaborators entitle us to indemnification against losses, such indemnification may not be available or adequate should any claim arise.

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We are controlled by current officers, directors and principal stockholders.

Our directors, executive officers and principal stockholders beneficially own approximately 38 percent of our outstanding voting stock and, including shares underlying outstanding options and warrants, this group beneficially owns approximately 40 percent of our common stock. Accordingly, these persons and their respective affiliates have the ability to exert substantial influence over the election of our Board of Directors and the outcome of issues submitted to our stockholders.

Risks Related to Our Securities

Trading of our common stock is limited.

Trading of our common stock is conducted on the National Association of Securities Dealers' Over-the-Counter Bulletin Board, or "OTC Bulletin Board." This has adversely effected the liquidity of our securities, not only in terms of the number of securities that can be bought and sold at a given price, but also through delays in the timing of transactions and reduction in security analysts' and the media's coverage of us. This may result in lower prices for our common stock than might otherwise be obtained and could also result in a larger spread between the bid and asked prices for our common stock.

Because it is a "penny stock," it will be more difficult for you to sell shares of our common stock.

In addition, our common stock is a "penny stock." Broker-dealers who sell penny stocks must provide purchasers of these stocks with a standardized risk-disclosure document prepared by the SEC. This document provides information about penny stocks and the nature and level of risks involved in investing in the penny-stock market. A broker must also give a purchaser, orally or in writing, bid and offer quotations and information regarding broker and salesperson compensation, make a written determination that the penny stock is a suitable investment for the purchaser, and obtain the purchaser's written agreement to the purchase. The penny stock rules may make it difficult for you to sell your shares of our stock. Because of the rules, there is less trading in penny stocks. Also, many brokers choose not to participate in penny-stock transactions. Accordingly, you may not always be able to resell shares of our common stock publicly at times and prices that you feel are appropriate.

A significant number of shares of our common stock are or will become available for sale and their sale could depress the price of our common stock.

A substantial number of shares of our common stock are being offered by this prospectus. In addition, we issued an aggregate of 11,917,680 shares of common stock in connection with our August 2005 private placement and are required to register the resale of those shares under the Securities Act. We may also issue additional shares in connection with our business and may grant additional stock options to our employees, officers, directors and consultants or warrants to third parties. Sales of a substantial number of shares of our common stock in the public market after this offering could adversely affect the market price for our common stock and make it more difficult for you to sell our shares at times and prices that you feel are appropriate.

Our stock price is, and we expect it to remain, volatile, which could limit investors' ability to sell stock at a profit.

During the last two years, the price of our common stock has ranged from a low of $0.25 per share to a high of $2.50, as adjusted for our 1-for-5 reverse stock split in September 2003. The volatile price of our stock makes it difficult for investors to predict the value of their investment, to sell shares at a profit at any given time, or to plan purchases and sales in advance. A variety of factors may affect the market price of our common stock. These include, but are not limited to:

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- publicity regarding actual or potential clinical results relating to products under development by our competitors or us;
- delay or failure in initiating, completing or analyzing pre-clinical or clinical trials or the unsatisfactory design or results of these trials;
- achievement or rejection of regulatory approvals by our competitors or us;
- announcements of technological innovations or new commercial products by our competitors or us;
- developments concerning proprietary rights, including patents;
- developments concerning our collaborations;
- regulatory developments in the United States and foreign countries;
- economic or other crises and other external factors;
- period-to-period fluctuations in our revenues and other results of operations;
- changes in financial estimates by securities analysts; and
- sales of our common stock.

We will not be able to control many of these factors, and we believe that period-to-period comparisons of our financial results will not necessarily be indicative of our future performance.

In addition, the stock market in general, and the market for biotechnology companies in particular, has experienced extreme price and volume fluctuations that may have been unrelated or disproportionate to the operating performance of individual companies. These broad market and industry factors may seriously harm the market price of our common stock, regardless of our operating performance.

We have never paid dividends.

We have never paid dividends on our capital stock and do not anticipate paying any dividends for the foreseeable future. You should not rely on an investment in our stock if you require dividend income. Further, you will only realize income on an investment in our stock in the event you sell or otherwise dispose of your shares at a price higher than the price you paid for your shares. Such a gain would result only from an increase in the market price of our common stock, which is uncertain and unpredictable.

NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this prospectus that are forward-looking in nature are based on the current beliefs of our management as well as assumptions made by and information currently available to management, including statements related to the markets for our products, general trends in our operations or financial results, plans, expectations, estimates and beliefs. In addition, when used in this prospectus, the words “may,”“could,”“should,”“anticipate,”“believe,”“estimate,”“expect,”“intend,”“plan,”“predict” and similar expressions and the they relate to us or our management, may identify forward-looking statements. These statements reflect our judgment as of the date of this prospectus with respect to future events, the outcome of which is subject to risks, which may have a significant impact on our business, operating results or financial condition. You are cautioned that these forward-looking statements are inherently uncertain. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results or outcomes may vary materially from those described herein. We undertake no obligation to update forward-looking statements. The risks identified under the heading “Risk Factors” in this prospectus, among others, may impact forward-looking statements contained in this prospectus.

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

We have compiled the following discussion of out results of operations and financial condition from our Quarterly Report on Form 10-QSB for the quarter ended June 30, 2005 and from our Annual Report on Form 10-KSB for the year ended December 31, 2004. We have not attempted to update this discussion, except as specifically noted. You should read the following discussions in conjunction with our consolidated financial statements and related notes included in this prospectus.

Overview

Our company resulted from the February 21, 2003 reverse merger between Atlantic Technology Ventures, Inc., which was incorporated on May 18, 1993, and privately-held Manhattan Research Development, Inc., incorporated on August 6, 2001. We are incorporated in the State of Delaware. In connection with the merger, the former stockholders of Manhattan Research received a number of shares of Atlantic's common stock so that following the merger they collectively owned 80 percent of the outstanding shares. Upon completion of the merger, Atlantic changed its name to Manhattan Pharmaceuticals, Inc. and thereafter adopted the business of Manhattan Research Development.

We are a development stage biopharmaceutical company that holds an exclusive world-wide, royalty-free license to certain intellectual property related to oleoyl-estrone, which is owned by Oleoyl-Estrone Developments, SL ("OED") of Barcelona, Spain. Oleoyl-estrone is an orally administered small molecule that has been shown to cause significant weight loss in pre-clinical animal studies regardless of dietary modifications. We also hold the worldwide, exclusive rights to proprietary lingual spray technology to deliver the drug propofol for pre-procedural sedation prior to diagnostic, therapeutic or endoscopic procedures.

Although we are primarily focused on developing these technologies, we continue to seek to acquire proprietary rights to other biomedical and pharmaceutical technologies, by licensing or acquiring an ownership interest, funding their research and development and bringing the technologies to market. On April 1, 2005 we acquired Tarpan Therapeutics, Inc. ("Tarpan"), a privately-held, New York-based biopharmaceutical company developing dermatological therapeutics, in an all stock transaction. Former Tarpan shareholders own approximately 20% of the shares of Manhattan on a fully-diluted basis. Through the acquisition we have acquired Tarpan's primary product candidate, PTH (1-34), a peptide believed to be a regulator of epidermal cell growth and differentiation, which is being developed for the treatment of psoriasis.

Several of Tarpan's former stockholders were also directors or significant stockholders of our company at the time of the acquisition. For example, Joshua Kazam, Timothy McInerney, David Tanen and Dr. Michael Weiser, all of whom were then directors of our company, collectively held approximately 13.4 percent of Tarpan's outstanding common stock. In addition, Dr. Lindsay Rosenwald and various trusts established for the benefit of Dr. Rosenwald and members of his immediate family collectively beneficially owned approximately 46 percent of Tarpan's common stock and beneficially owned approximately 26 percent our common stock at the time of the acquisition (Dr. Rosenwald disclaims beneficial ownership of shares held by such trusts, except to the extent of any pecuniary interest). . Because of these relationships, our board established a committee of disinterested directors to consider the Tarpan transaction.

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You should read the following discussion of our results of operations and financial condition in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this prospectus. This discussion includes "forward-looking" statements that reflect our current views with respect to future events and financial performance. We use words such as we "expect," "anticipate," "believe," and "intend" and similar expressions to identify forward-looking statements. Investors should be aware that actual results may differ materially from our expressed expectations because of risks and uncertainties inherent in future events, particularly those risks identified under the heading "Risk Factors" in this prospectus, and should not unduly rely on these forward looking statements. All share and per share information in this discussion has been adjusted for the 1-for-5 combination of our common stock effected on September 25, 2003.

Results Of Operations

Six-Month Period Ended June 30, 2005 vs 2004

During the six months ended June 30, 2005 and 2004, we had no revenue. We do not expect to have significant revenues relating to our product candidates in development prior to June 30, 2006.

For the six months ended June 30, 2005, research and development expense was $1,921,275 as compared to $1,228,234 for the six months ended June 30, 2004. The increase of $693,041 is due primarily to an acceleration of pre-clinical development of our Oleoyl-estrone drug candidate.

For the six months ended June 30, 2005, general and administrative expense was $1,046,403 as compared to $880,993 for the six months ended June 30, 2004. The increase of $165,410 is due primarily to increases in payroll and investor relations expenses of approximately $97,000 and $52,000 respectively. In addition we had increases in expenses related to rent, directors' fees, telephone and all other expenses of $32,000, $23,000, $17,000 and $16,000, respectively. These increases are partially offset by reductions in consulting and meetings of approximately $46,000 and $26,000, respectively.

For the six months ended June 30, 2005, interest and other income was $68,346 as compared to $81,091 for the six months ended June 30, 2004. The decrease of $12,745 is due primarily to a reduction in cash balances and short-term investments.

Net loss for the six months ended June 30, 2005, was $14,787,139 as compared to $1,956,954 for the six months ended June 30, 2004. This increase in net loss is attributable primarily to the in-process research and development charge of $11,887,807 related to the acquisition of Tarpan. Additionally, there were increases in research and development expenses of $693,041 and general and administrative expenses of $165,410 as well as a reduction in interest and other income of $12,745. Finally in 2004 we had a realized gain on sale of marketable equity securities of $71,182, which we did not have in the current year.

Preferred stock dividends of $251,401 and $392,805 reduced earnings per share for the six months ended June 30, 2005 and 2004 by $0.01 and $0.01, respectively.

2004 vs 2003

During each of the years ended December 31, 2004 and 2003, we had no revenue. We do not expect to have revenues relating to our technologies prior to December 31, 2005.

For the year ended December 31, 2004, research and development expense was $4,152,994 as compared to $1,724,043 for the year ended December 31, 2003. The increase of $2,428,951 is due primarily to an acceleration of

pre-clinical development of our Oleoyl-estrone drug to the pre-clinical and clinical development of our Propofol Lingual Spray.

For the year ended December 31, 2004, general and administrative expense was $1,989,829 as compared to $1,786,080 for the year ended December 31, 2003. The increase of $203,749 is due primarily to investor relations expenses of approximately $160,000 and consulting expenses of approximately $67,000. In addition, we had increases in expenses associated with travel of approximately $85,000 and meetings and conferences of approximately $54,000 as well as rent and other expenses of approximately $19,000 and $55,000, respectively. These increases are partially offset by a net reduction in legal and accounting fees of approximately $91,000. Finally, in 2003 we had amortization of intangible assets of approximately $145,000 which we did not have in the current year.

For the year ended December 31, 2004, interest and other income was $246,792 as compared to $11,324 for the year ended December 31, 2003. The increase of $235,468 is a result of an increase in cash balances and a gain on sale of short-term investments.

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Net loss for the year ended December 31, 2004, was $5,896,031 as compared to $5,960,907 for the year ended December 31, 2003. This decrease in net loss is attributable primarily to losses in 2003 on the disposition of intangible assets as a result of our sale of our remaining rights to CT-3 to Indevus Pharmaceuticals, Inc. of $1,213,878 as well as an impairment of intangible assets of $1,248,230 as a result of a decision by Bausch & Lomb not to pursue the Avantix cataract removal technology. This decrease in net loss is partially offset by an increase in research and development expenses of $2,428,951 and an increase in general and administrative expenses of $203,749. These expense increases are partially offset by an increase in interest and other income of $235,468.

Preferred stock dividends of $585,799 increased loss per common share for the year ended December 31, 2004 by $0.02. There were no preferred stock dividend requirements in 2003.

Liquidity and Capital Resources

From inception to June 30, 2005, we incurred a deficit during the development stage of $28,993,575 primarily as a result of losses, and we expect to continue to incur additional losses and negative cash flows from operating activities through at least June 30, 2006 and for the foreseeable future. The acquisition of Tarpan will increase these losses. These losses have been incurred through a combination of research and development activities related to the various technologies under our control and expenses supporting those activities.

We have financed our operations since inception primarily through equity financing and our licensing and sale of residual royalty rights of CT-3 to Indevus. During the six months ended June 30, 2005, we had a net decrease in cash and cash equivalents of $15,792. This decrease resulted from net cash used in operating activities of $2,757,519, net cash provided by investing activities of $2,979,732 and net cash used in financing activities of $238,005. Total liquid resources including short term investments as of June 30, 2005 were $2,395,717 compared to $5,419,872 at December 31, 2004. In addition, during the six months ended June 30, 2005, we accrued a preferred stock dividend of $251,401.

Our current liabilities as of June 30, 2005 were $1,451,035 compared to $1,195,705 at December 31, 2004, an increase of $255,330. The increase was primarily due to an increase in expenditures associated with the commencement of our Phase I clinical trial for our Oleoyl-estrone product candidate and a payable to related parties as a result of the Tarpan acquisition. As of June 30, 2005, we had working capital of $961,694 compared to $4,264,293 at December 31, 2004.

Our available working capital and capital requirements will depend upon numerous factors, including progress of our research and development programs, our progress in and the cost of ongoing and planned pre-clinical and clinical testing, the timing and cost of obtaining regulatory approvals, the cost of filing, prosecuting, defending, and enforcing patent claims and other intellectual property rights, competing technological and market developments, changes in our existing collaborative and licensing relationships, the resources that we devote to developing manufacturing and commercializing capabilities, the status of our competitors, our ability to establish collaborative arrangements with other organizations and our need to purchase additional capital equipment.

Our continued operations will depend on whether we are able to raise additional funds through various potential sources, such as equity and debt financing, other collaborative agreements, strategic alliances, and our ability to realize the full potential of our technology in development. Such additional funds may not become available on acceptable terms and there can be no assurance that any additional funding that we do obtain will be sufficient to meet our needs in the long term. Through June 30, 2005, a significant portion of our financing has been through private placements of common stock and warrants. Unless our operations generate significant revenues and cash flows from operating activities, we will continue to fund operations from cash on hand and through the similar sources of capital previously described. We can give no assurances that any additional capital that we are able to obtain will be sufficient to meet our needs. Management believes that we will continue to incur net losses and negative cash flows

from operating activities for the foreseeable future.

We recently completed a private placement offering of units consisting of shares of our common stock and warrants to purchase additional shares of common stock. The private placement was completed in two separate closings held on August 26, 2005 and August 30, 2005. In the August 26 closing, we sold a total of 10,808,971 shares of common stock and five-year warrants to purchase 2,161,767 shares for total gross proceeds of approximately $12 million. The warrants issued at the August 26 closing are exercisable at a price of $1.44 per share. On August 30, 2005, we closed on the sale of an additional 1,108,709 shares of common stock and warrants to purchase 221,741 common shares, which resulted in gross proceeds of approximately $1.28 million. The warrants issued in connection with the August 30 closing are exercisable at a price of $1.49 per share. Accordingly, the total gross proceeds resulting from the private placement was $13.27 million, before deducting selling commissions and expenses.

We engaged Paramount BioCapital, Inc. as placement agent and paid total cash commissions of $836,360, of which $121,625 was paid to certain selected dealers engaged by Paramount in connection with the private placement and issued five-year warrants to purchase an aggregate of 538,191 shares of common stock exercisable at a price of $1.44 per share, of which Paramount received warrants to purchase 459,932 common shares. In connection with the August 30 closing, we paid cash commissions to Paramount of $88,550 and issued an additional five-year warrant to purchase 55,000 common shares at a price of $1.49 per share. After deduction of these selling commissions and expenses, we realized aggregate net proceeds from our August 2005 private placement of approximately $12.2 million.

As a result of this offering, we expect that our current cash position is sufficient to fund our operations, including the development of our three product candidates, through late 2006.

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Research And Development Projects

Oleoyl-estrone. In January 2005, the United States Food and Drug Administration (FDA) accepted our filed Investigational New Drug Application (IND) for the human clinical testing of oleoyl estrone. This IND allowance was granted on the preclinical chemistry, manufacturing, and safety data submitted to the FDA by the Company.

In February 2005, we began dosing patients in our first Phase I trial in Basel, Switzerland to evaluate the safety and tolerability of defined doses of orally administered oleoyl-estrone in obese adults, in accordance with FDA guidelines after obtaining formal approval from the Swiss medical regulatory authority, Swissmedic. The objective of this human Phase I dose-escalation study was to determine the pharmacokinetic profile of oleoyl-estrone, as well as its safety and tolerability in obese adult volunteers of both genders. The study was completed in two parts, Phase Ia and Phase Ib. In May 2005, we concluded Phase Ia, in which 36 obese volunteers received a single dose of either OE or a placebo, in a dose escalating manner. The Phase Ib trial was a 7-day repeat-dose, dose escalation trial that evaluated 24 obese volunteers in four cohorts, randomized 2 to 1, active to placebo. Both Phase Ia and Phase Ib have been completed. Results from both studies will also be used, in conjunction with extensive preclinical work, to establish the protocol and obtain approval from the FDA to begin Phase II clinical trials. The Phase Ia trial was conducted under the IND accepted by the FDA in January 2005. Under our license agreement with Oleoyl-Estrone Developments, we made a $250,000 milestone payment upon the treatment of the first patient in the Phase I trial.

To date, we have incurred $5,735,870 of project costs related to our development of oleoyl-estrone, of which $1,750,376 and $462,305 was incurred in the first six months of 2005 and 2004, respectively. Currently, we anticipate that we will need to expend approximately an additional $1,500,000 to $2,500,000 in development costs in fiscal 2005. Since oleoyl-estrone is regarded by the FDA as a new entity, it is not realistic to predict the size and the design of the study at this time.

We do not have sufficient capital to fund our anticipated 2005 R&D expenditures relating to oleoyl-estrone in their entirety. We will need to raise additional capital from debt financings or by selling shares of our capital stock in order to complete the anticipated five or six year development program for the product. If we are unable to raise such additional capital, we may have to sublicense our rights to oleoyl-estrone to a third party as a means of continuing development, or though less likely, we may be required to abandon further development efforts altogether, either of which would have a material adverse effect on the prospects of our business.

In addition to raising additional capital, whether we are successful in developing oleoyl-estrone is dependent on numerous other factors, including unforeseen safety issues, lack of effectiveness, significant unforeseen delays in the clinical trial and regulatory approval process, both of which could be extremely costly, and inability to monitor patients adequately before and after treatments. Additional risks and uncertainties are also described in this prospectus under the discussion entitled "Risk Factor." The existence of any of these factors could increase our development costs or make successful completion of development impractical, which would have a material adverse affect on the prospects of our business.

Lingual Spray Propofol. We are currently working with NovaDel to develop, manufacture and commercialize a propofol lingual spray. In July 2004, we released the results of the first human trial for our proprietary lingual spray formulation of propofol. In January 2005, the FDA accepted our IND for the initiation of the human clinical trials in the United States required for FDA approval of Propofol Lingual Spray (Propofol LS). We continue to pursue FDA approval of Propofol LS under 505b2 regulatory pathway. Section 505b2 of the U.S. Food, Drug & Cosmetic Act allows the FDA to approve a drug on the basis of existing data in the scientific literature or data used by the FDA in the approval of other drugs. Accordingly, the FDA has indicated to us that we will be able to utilize Section 505b2 to proceed directly to a pivotal Phase III trial for lingual spray propofol following completion of Phase I trials. We are actively planning the next steps of the clinical development process for Propofol LS, meeting with scientific advisors

and Novadel regarding formulation, reviewing existing data, developing trial design, and evaluating plans to re-enter the clinic.

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To date, we have incurred $2,787,839 of project costs related to our development of propofol lingual spray, of which $170,899 and $797,198 was incurred during the first six months of 2005 and 2004, respectively. Currently, we anticipate that we will need to expend approximately an additional $1,000,000 to $1,500,000 in development costs in fiscal 2005 and at least an aggregate of approximately $3,000,000 to $5,000,000 until we receive FDA approval for propofol, should we opt to continue development until then, including anticipated 2005 costs. As with our development of oleoyl-estrone, we do not have sufficient capital to fund our development activities of propofol lingual spray in their entirety during 2005. Since our business does not generate any cash flow, however, we will need to raise additional capital to continue development of the product beyond 2005. We expect to raise such additional capital through debt financings or by selling shares of our capital stock. To the extent additional capital is not available when we need it, we may be forced to sublicense our rights to propofol lingual spray or abandon our development efforts altogether, either of which would have a material adverse effect on the prospects of our business.

PTH (1-34). As of April 1, 2005 and as a result of the expenses we absorbed from Tarpan Therapeutics, Inc. following completion of our acquisition of that Company, we have incurred $307,555 of projects costs related to our development of PTH (1-34), of which $300,000 was incurred in the first six months of 2004. Currently, we anticipate that we will need to expend approximately an additional $1,000,000 to $1,500,000 in development costs in fiscal 2005. We are working toward a meeting with the FDA to run our development plan for PTH (1-34). In light of the information available from the development of FORTEO® (which contains recombinant human parathyroid hormone (1-34), [rhPTH(1-34)]) and in the absence of the meeting with the FDA, we are not able to realistically predict the size and the design of the study at this time. As with the development of our other product candidates, we do not have sufficient capital to fund our development activities of PTH (1-34) in their entirety during 2005. FORTEO® is registered trademark of Eli Lilly and Company.

Off-Balance Sheet Arrangements

We have not entered into any off-balance sheet arrangements.

Critical Accounting Policies

In December 2001, the SEC requested that all registrants discuss their most “critical accounting policies” in management’s discussion and analysis of financial condition and results of operations. The SEC indicated that a “critical accounting policy” is one which is both important to the portrayal of the company’s financial condition and results and requires management’s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

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 certain 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 expenses during the reporting period. Actual results could differ from those estimates.

Research and development expenses

Research and development expenses are expensed as incurred.

Stock-based Compensation

Options, warrants and stock awards issued to non-employees and consultants are recorded at their fair value as determined in accordance with Statement of Financial Accounting Standards No. 123, “Accounting for Stock-Based Compensation,” and EITF No. 96-18, “Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services” and recognized as expense over the related vesting period.

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Recently Issued Accounting Standards

In December 2004, the FASB issued SFAS No. 123(R) (revised 2004), “Share-Based Payment”, which amends SFAS Statement No. 123 and will be effective for small business issuers for interim or annual periods beginning after December 15, 2005. The new standard will require us to expense employee stock options and other share-based payments over the vesting period. The new standard may be adopted in one of three ways - the modified prospective transition method, a variation of the modified prospective transition method or the modified retrospective transition method. We are currently evaluating how we will adopt the standard and evaluating the effect that the adoption of SFAS 123(R) will have on our financial position and results of operations.

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BUSINESS

Overview

We are engaged in the business of developing and commercializing biomedical and pharmaceutical technologies. We aim to acquire proprietary rights to these technologies by licensing or otherwise acquiring an ownership interest, funding their research and development and eventually bringing the technologies to market. We do not have any drugs or other products available for sale, but we are currently researching and developing three biomedical technologies:

- Oleoyl-estrone, an orally administered hormone attached to a fatty-acid that has been shown to cause significant weight loss in preclinical animal studies regardless of dietary modifications;

- Lingual spray propofol, a proprietary lingual spray technology to deliver propofol for pre-procedural sedation prior to diagnostic, therapeutic or endoscopic procedures; and

- PTH(1-34), a peptide believed to be a regulator of epidermal cell growth and differentiation currently under development as a topical treatment for psoriasis and additional dermatological indications.

Although we are primarily focused on developing these technologies, we continue to seek to acquire proprietary rights to other biomedical and pharmaceutical technologies, by licensing or acquiring an ownership interest, funding their research and development and bringing the technologies to market.

We were incorporated originally under the name “Atlantic Pharmaceuticals, Inc.” and in March 2000, we changed our name to “Atlantic Technology Ventures, Inc.” On February 21, 2003, we completed a “reverse” acquisition of privately-held Manhattan Research Development, Inc. (formerly known as Manhattan Pharmaceuticals, Inc.), a Delaware corporation. To effect this transaction, Manhattan Pharmaceuticals Acquisition Corp., a wholly-owned subsidiary of Atlantic Technology Ventures, merged with and into Manhattan Research Development, with Manhattan Research Development surviving as a wholly owned subsidiary of Atlantic Technology Ventures. In accordance with the terms of the merger, the outstanding shares of common stock of Manhattan Research Development automatically converted into an aggregate of approximately 80 percent of the outstanding common stock of Atlantic Technology Ventures (after giving effect to the transaction). While in connection with the merger, Atlantic Technology Ventures changed its name to “Manhattan Pharmaceuticals, Inc.”, for accounting purposes, Manhattan Research Development was treated as the acquiring company. Accordingly, when we refer to our business or financial information for periods prior to the merger, we are referring to the business and financial information of Manhattan Research Development, unless the context indicates otherwise.

Oleoyl-estrone

We acquired the rights to develop and commercialize oleoyl-estrone, a hormone modified by an attachment to a fatty acid, pursuant to a February 2002 license agreement with Oleoylestrone Development, SL., a Spanish corporation. Oleoyl-estrone is an orally administered small molecule that has been shown to cause significant weight loss in preclinical animal studies regardless of dietary modifications. We believe that oleoyl-estrone causes weight loss in two ways. First, the scientific community believes that weight loss is regulated by a part of the hypothalamus, located in the brain, called the ponderostat. It is believed that the ponderostat regulates the body’s weight in a manner similar to the way in which a thermostat regulates a room’s temperature. Preclinical studies suggest that oleoyl-estrone resets the ponderostat, telling the body that a lower weight is normal. We believe that this signal then decreases appetite, which leads to weight loss that may be maintained even after oleoyl-estrone treatment is discontinued. Second, fat cells that have been treated with oleoyl-estrone appear to shrink in size, indicating a local effect of oleoyl-estrone acting directly on cells. The apparent dual effect of oleoyl-estrone leads us to believe that the drug has the potential to

cause weight loss in a variety of obese and overweight patients.

Oleoyl-estrone was initially developed by researchers at the University of Barcelona ("UB") in Spain. Through a decade of research, scientists of the Nitrogen-Obesity Research Group at UB noted that hormones that effect metabolism play a significant role in body weight regulation. At the same time, the obesity research community suggested that weight is regulated by the ponderostat, a central mechanism in the hypothalamus of the brain believed to set the point of ideal weight. Researchers at UB believe that a hormone controls the ponderostat, raising or lowering body weight by changing the central set point for the entire body.

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After examining the available work related to estrogens, changes in body weight and body fat percentage (such as during pregnancy), researchers at UB noted that the estrogen-like hormone, estrone, was elevated in the blood of both obese men and women. Initially thought to be a simple estrogen, UB researchers noticed that although estrone levels were elevated, very few obese men manifest the effects of elevated estrogen levels. Further testing revealed that oleoyl-estrone was the main form of estrone that existed in obese patients. The researchers suggested that when cells become filled with fat they produce oleoyl-estrone, signaling the brain to lose weight. They further suggested that fat cells in obese people do not produce sufficiently high levels of oleoyl-estrone to signal the ponderostat to suppress appetite and cause weight loss. Based on this concept, investigators at UB believed that they could induce weight loss by increasing levels of oleoyl-estrone in obese individuals. When oleoyl-estrone was given to rats, the rats lost weight in a dose-dependent manner, supporting the idea that oleoyl-estrone is a primary weight loss signal produced by fat cells. At the doses employed, no side effects were observed in the rats and, in female rats, uterine size remained unchanged, indicating that oleoyl-estrone did not act as an estrogen.

In January 2005, the FDA accepted our filed IND for the human clinical testing of oleoyl-estrone. In February 2005, we began dosing patients in our first Phase I trial in Basel, Switzerland to evaluate the safety and tolerability of defined doses of orally administered oleoyl-estrone in obese adults, in accordance with FDA guidelines after obtaining formal approval from the Swiss medical regulatory authority, Swissmedic. The objective of this human Phase I dose-escalation study was to determine the pharmacokinetic profile of oleoyl-estrone, as well as its safety and tolerability in obese adult volunteers of both genders. The study was completed in two parts, Phase Ia and Phase Ib. In May 2005, we concluded Phase Ia, in which 36 obese volunteers received a single dose of either OE or a placebo, in a dose escalating manner. The Phase Ib trial was a 7-day repeat-dose, dose escalation trial that evaluated 24 obese volunteers in four cohorts, randomized 2 to 1, active to placebo. Both Phase Ia and Phase Ib have been completed. Results from both studies will also be used, in conjunction with extensive preclinical work, to establish the protocol and obtain approval from the FDA to begin Phase II clinical trials. The Phase Ia trial was being conducted under the IND accepted by the FDA in January 2005. Under our license agreement with Oleoyl-Estrone Developments, we made a $250,000 milestone payment upon the treatment of the first patient in the Phase I trial.

Lingual Spray Propofol

On April 4, 2003, we entered into a License and Development Agreement (the “Propofol License”) with NovaDel Pharma Inc. (“NovaDel”) for the worldwide, exclusive rights to NovaDel’s proprietary lingual spray technology to deliver propofol for pre-procedural sedation prior to diagnostic, therapeutic or endoscopic procedures.

Propofol is currently delivered in an oily emulsion for intravenous infusion for induction and maintenance of general anesthesia or “monitored anesthesia care” in operating rooms, or deep sedation in intensive care units. Propofol has previously not been available for dosing via a convenient route of administration for office-based and other ambulatory uses. Accordingly, we have filed a patent application for this new method of use. Other patent applications are being prepared related to our non-oily, novel formulation.

We believe that delivering propofol via this proprietary delivery system provides many advantages over currently formulated sedatives. In addition to the convenience and ease of administration, we believe the lingual spray route will eliminate delayed onset and poor coordination of timing associated with administering oral sedatives, and allow for rapid clinical responses typical of intravenous delivery (i.e., less than 5 minutes). Lingual spray propofol is intended to allow patients to tolerate unpleasant procedures, by relieving anxiety and producing a pleasant, short-term amnesia. Particularly in children and adults unable to cooperate, mild sedation expedites the conduct of numerous ambulatory procedures that are not particularly painful, but which require the patient to remain still for the best technical result.

Novadel’s delivery systems (both patented and patent-pending) are lingual sprays, enabling drug absorption through the oral mucosa and more rapid absorption into the bloodstream than presently available oral delivery systems.

NovaDel refers to its delivery system as Immediate-Immediate Release (I2R™) because its delivery system is designed to provide therapeutic benefits within minutes of administration. We are working with NovaDel to develop, manufacture and commercialize the licensed product, having jointly announced commencement of a development program for lingual spray propofol in June 2003.

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In July 2004, we released the results of the first human trial for our proprietary lingual spray formulation of propofol. The study, which took place in the United Kingdom, was a single-center, randomized, double-blind, placebo-controlled dose-escalating study of propofol lingual spray in twelve healthy adult volunteers. The primary objectives were to compare the safety and tolerability of three dose levels of the propofol spray to a single intravenous bolus low dose of propofol, as well as to determine the respective pharmacokinetic profiles and relative bioavailability of the three escalating doses.

No serious adverse events, nor dose-dependent changes in vital signs, occurred in any group. The mean time to maximum blood concentration of propofol following spray was approximately 30 min across all doses. Propofol was detectable in blood as early as 4 minutes following spray administration. The mean maximum blood concentrations plateaued at the highest of the three doses tested, and the mean bioavailability of the current spray formulation was up to 18% of that of the intravenous formulation.

In January 2005, the FDA accepted our IND for the initiation of the human clinical trials in the United States required for FDA approval of Propofol Lingual Spray. We continue to pursue FDA approval of Propofol LS under 505b2 regulatory pathway. Section 505b2 of the U.S. Food, Drug & Cosmetic Act allows the FDA to approve a drug on the basis of existing data in the scientific literature or data used by the FDA in the approval of other drugs. Accordingly, the FDA has indicated to us that we will be able to utilize Section 505b2 to proceed directly to a pivotal Phase III trial for lingual spray propofol following completion of Phase I trials. We are actively planning the next steps of the clinical development process for Propofol LS, meeting with scientific advisors and Novadel regarding formulation, reviewing existing data, developing trial design, and evaluating plans to re-enter the clinic. See also “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources - Research and Development Projects - Lingual Spray Propofol.

Although we have the sole right and obligation to develop and commercialize lingual spray propofol on a worldwide basis, NovaDel has undertaken to perform certain development activities on our behalf. NovaDel’s responsibilities include formulation development, formulation stability testing, formulation analytic method development and testing and manufacture of clinical trial material for the pre-clinical and early clinical development. We will oversee pre-clinical testing, as necessary, and have responsibility for overall product development and product management. In addition, we will design and oversee clinical trials and be responsible for regulatory filings and meetings. The license agreement provides that these development activities are to be performed under the supervision of a development committee, which is comprised of an equal number of appointees of us and NovaDel. Within 30 days of the end of each calendar quarter in which any agreed-upon development activities are to be performed, each of us and NovaDel are to provide a written progress report to the development committee, which should describe the activities that have been performed and evaluate the work performed in relation to the goals of the development plan and budget. Currently, a proprietary formulation has been prepared and is undergoing one, two, three and six month stability tests, as well as specification analysis. The NovaDel license agreement also provides that NovaDel will manufacture and supply us with lingual spray propofol for use in clinical development and for commercial purposes pursuant to a manufacturing agreement to be entered into between us and NovaDel.

PTH(1-34)

On April 1, 2005, through our acquisition of Tarpan Therapeutics, Inc., we acquired the rights to a third biomedical technology currently under development. PTH(1-34) is a peptide believed to be a regulator of epidermal cell growth and differentiation currently under development as a topical treatment for psoriasis and additional dermatological indications.

In August 2003, researchers, led by Michael Holick, MD, PhD, Professor of Medicine, Physiology, and Biophysics at Boston University Medical Center, reported positive results from a US Phase I and II clinical trial evaluating the

safety and efficacy of PTH (1-34) as a topical treatment for psoriasis. This double-blinded, controlled trial in 15 patients comparing PTH (1-34) formulated in the Novasome® Technology versus the Novasome® vehicle alone showed PTH (1-34) to be a potentially safe and effective treatment for plaque psoriasis. Following 8 weeks of treatment, the application of PTH (1-34) resulted in complete clearing of the treated lesion in 60% of patients and partial clearing in 85% of patients. Additionally, there was a statistically significant improvement in the global severity score. Ten patients continued into an open label extension study in which the Psoriasis Area and Severity Index (PASI) was measured; PASI improvement across all 10 patients achieved statistically significant improvement compared to baseline. No patients experienced any significant adverse events.

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Due to the high response rate seen in psoriasis patients in the initial trial PTH (1-34) may have an important clinical advantage over current topical psoriasis treatments. We intend to initiate additional clinical activities with PTH (1-34) in late 2005 or early 2006. Through the transaction with Tarpan, Manhattan obtains rights to issued and pending patents for all topical uses of PTH (1-34) as well as access to the Novasome® technology and patents for these applications. Novasome® is a registered trademark of IGI, Inc., Buena Park, NJ.

Market and Competition

According to estimates, the market for prescription anti-obesity drugs is approximately $10 billion, or equal to that of diabetes. It is estimated that 61 percent of Americans are overweight and that 26 percent are obese. According to the National Institute of Health's estimate, direct costs for the treatment of obesity in 1988 were in excess of $45 billion and accounted for nearly 8 percent of the total national cost of health care in the United States. By 1999, direct costs for the treatment of obesity had reached $102.2 billion dollars. Meridia® and Xenical®, two currently approved anti-obesity medications, together accounted for approximately $800 million in sales in 2001. We believe that the disease currently lacks a treatment that is safe and effective for most patient groups, and that oleoyl-estrone has the potential to meet the needs of this market.

Competition in the pharmaceutical industry, and the anti-obesity drug market in particular, is intensely competitive. In addition to Abbott Laboratories, Inc. and Roche Holdings AG, the makers of Meridia® and Xenical,® respectively, some of the largest drug companies in the world have anti-obesity drugs currently in development, including GlaxoSmithKline PLC, Johnson & Johnson, Inc., Bristol-Myers Squibb Company, Regeneron Pharmaceutical, Inc., Phytopharm, PLC, Amgen, Inc. These companies are all substantially larger and more established than we are and have significantly greater financial and other resources than we do.

To date, Midazolam (now a generic), which is delivered both intravenously and orally, has dominated the pre-procedural sedation market, posting sales of $536 million in 1999. However, serious adverse events are reported in midazolam's package insert, including respiratory depression, airway obstruction, oxygen desaturation, apnea and even respiratory arrest. In contrast, at the doses being developed by us, we believe that Propofol Lingual Spray may offer a safer, noninvasively administered alternative to midazolam. Propofol's rapid onset profile will allow clinicians to more accurately time its peak effects during procedures, as well as to determine the precise concentration needed for desired levels of sedation.

The efficacy and safety profile of PTH (1-34) will potentially make it an attractive alternative to existing topical treatments, photo therapies and systemic treatments such as methotrexate and biologics for the treatment of psoriasis. We intend to achieve market share as a monotherapy at the expense of existing and established products to be used in combination with currently available therapies. Some of PTH (1-34)'s competitors would include, but are not limited to over-the-counter, or "OTC," and prescription topical treatments, Dovonex, phototherapies, laser treatment, methotrexate, cyclosporine, Johnson & Johnson (Remicade), Amgen (Enbrel), BiogenIdec (Amevive) and Genentech (Raptiva).

Topical treatments include numerous OTC ointments that help to reduce inflammation, soothe skin and enhance the efficacy of other therapies. Additionally, steroids are prescribed as an adjunct therapy for pain and anti-inflammation. One of the most frequently prescribed topical treatments is Calcipotriene (Dovonex), which is an active vitamin D3 analogue. Approximately 60% of patients show some response to Dovonex in the first few months of treatment, however, 60% of these become resistant to treatment in 6-12 months. Dovonex achieved $700 million in sales in its first two years after launch but sales have now declined to $130 million due to high incidence of resistance.

There are two main types of phototherapy, Ultra-violet A, or "UVA" and Ultra-violet B, or "UVB." UVA penetrates deeper into the skin but requires the use of photo-sensitizing agent and carries a higher risk of skin cancer. UVB, on

the other hand, is 1,000 times more powerful than UVA in producing sunburn. UV treatments are often combined with other treatments such as topicals and methotrexate. Phototherapy treatments have been shown to clear the disease and induce remission but they require frequent doctor visits, making treatment expensive and inconvenient.

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Systemic treatments are generally reserved for severe patients due to their harsh side effect profiles. The most effective systemic treatments are methotrexate and cyclosponine. Methotrexate is a classical antifolate commonly used for the treatment of widespread plaque psoriasis the psoriatic arthritis and other autoimmune diseases. The low cost and effectiveness of methotrexate is counter balanced by the significant risk of liver and kidney toxicity and inability to be used by pregnant women. Cyclosporine inhibits Nuclear Factor of Activated T-Cells (NFAT), which requires the transcription of cytokines and the immune response. It is only indicated in patients who have failed prior systemic therapies and carries the risk of impaired renal function and severe immunosuppression. Unlike methotrexate, cyclosporine is relatively expensive and costs over $6,000 per year.

Biologics are likely to play a large role in the treatment of patients with moderate to severe psoriasis but due to their high cost, use will likely be limited to patients that have failed all other treatments or have experienced intolerable side effects or toxicity with other therapies. Therefore the market will likely be limited to the patient population that can no longer be treated with methotrexate or cyclosporine. Amgen's TNF-a inhibitor, Enbrel, recently received marketing approval for psoriasis and is expected to have strong sales due to physician familiarity and efficacy data. However, Enbrel has been shown to cause serious infections and sepsis. Genentech and Serono's Raptiva received FDA approval in 2003 for the treatment of chronic moderate to severe plaque psoriasis in adults. Raptive is a humanized nonoclonal antibody that binds to CD11a, which leads to the inhibition of T-cell activation and migration to sites of inflammation. Clinical trials showed Raptive to have a fast onset of action and to be relatively effective, however, the companies are required to conduct post market safety and efficacy studies. There are other biologics that are either approved or in clinical studies for psoriasis, including BiogenIdec's Amevive and Johnson & Johnson's Remicade. Use of many of these will be limited by their side effect profiles, cost and method of delivery.

Intellectual Property and License Agreements

Our goal is to obtain, maintain and enforce patent protection for our products, formulations, processes, methods and other proprietary technologies, preserve our trade secrets, and operate without infringing on the proprietary rights of other parties, both in the United States and in other countries. Our policy is to actively seek to obtain, where appropriate, the broadest intellectual property protection possible for our product candidates, proprietary information and proprietary technology through a combination of contractual arrangements and patents, both in the U.S. and elsewhere in the world.

We also depend upon the skills, knowledge and experience of our scientific and technical personnel, as well as that of our advisors, consultants and other contractors, none of which is patentable. To help protect our proprietary know-how which is not patentable, and for inventions for which patents may be difficult to enforce, we rely on trade secret protection and confidentiality agreements to protect our interests. To this end, we require all employees, consultants, advisors and other contractors to enter into confidentiality agreements which prohibit the disclosure of confidential information and, where applicable, require disclosure and assignment to us of the ideas, developments, discoveries and inventions important to our business.

Oleoyl-estrone License Agreement. We currently have worldwide, exclusive license rights to the U.S. and foreign patents and patent applications regarding oleoyl-estrone and its use for the treatment of human disease:

1. US Patent No. 5,798,348 entitled "Fatty-acid monesters of estrogens for the treatment of obesity and/or overweight." M. Alemany, Inventor. Application filed, October 30, 1996. Patent issued August 25, 1998. This patent expires on October 30, 2016.

2. European Patent No. 771.817 entitled "Oleate monoesters of estrogens for the treatment of obesity and/or overweight." M. Alemany, Inventor. Application filed, October 28, 1996. Patent issued March 26, 2003. This patent expires on October 28, 2016.

3. Spanish Patent Application No. ES 200100785 entitled “Fatty-acid monoesters of estrogens acting as anti-diabetic and hypolipidemia agents.” M. Alemany Lamana, Francisco Javier Remesar Betiloch, and Jose Antonio Fernandez Lopez, Inventors. Application filed March 28, 2001, European Patent Application No. EP1380300A1, filed March 25, 2002, and Canadian Patent Application No. 2441890, filed March 25, 2002.

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The U.S. and European patents have numerous, detailed, and specific claims for both the composition of oleoyl-estrone, and its method of use for weight loss. Our rights to these patents are subject to the terms of a February 2002 license agreement between us and Oleoylestrone Developments. The license agreement provides us with an exclusive, worldwide right to the intellectual property covered by the license agreement, including the right to grant sublicenses. Our success in developing oleoyl-estrone depends on our ability to maintain and enforce the patents relating to oleoyl-estrone.

In consideration for the license, we paid an initial license fee of $175,000. The license agreement provides for further cash payments of $9,250,000 in the aggregate, payable as follows: $250,000 payable upon treatment of the first patient in a Phase I clinical trial under an IND sponsored by us; $250,000 upon treatment of the first patient in a Phase II clinical trial; $750,000 upon the first successful completion of a Phase II clinical trial; $2,000,000 upon the first successful completion of a Phase III clinical trial; and $6,000,000 upon the first final approval of a New Drug Application ("NDA") for oleoyl-estrone by the FDA. The license agreement does not require us to make any royalty payments.

Subject to earlier termination as described below, the term of the license expires on the last to expire patent right licensed under the agreement, which is currently October 2016. Oleoylestrone Developments has the right to terminate the license agreement sooner, subject to certain requirements to provide us advance notice, in the event we become bankrupt or similar proceedings are initiated, fail to make the required milestone payments required under the agreement or otherwise materially breach the license agreement. We have the right to terminate the license agreement for any reason upon written notice.

Propofol LS License Agreement. Pursuant to the NovaDel license agreement, we have an exclusive, worldwide license to NovaDel's proprietary lingual spray technology to deliver propofol for pre-procedural sedation prior to diagnostic, therapeutic or endoscopic procedures. Our rights under the NovaDel License include license rights to the following patents held by NovaDel:

1. U.S. Patent No. 5,955,098, entitled "Buccal Non Polar Spray or Capsule." H.A. Dugger, III, Inventor. Application filed April 12, 1996. Patent issued September 21, 1999. This patent expires April 12, 2016.

2. U.S. Patent No. 6,110,486, entitled "Buccal Polar Spray or Capsule." H.A. Dugger, III, Inventor. Application filed November 25, 1998. Patent issued August 29, 2000. This patent expires April 12, 2016.

3. European Patent No. 0904055 entitled "Buccal, Non-Polar Spray or Capsule." H.A. Dugger, III, Inventor. Application filed, February 21, 1997. Patent issued April 16, 2003. This patent expires February 21, 2017.

4. U.S. Patent Application No. 10/834815 entitled "Buccal, Polar and Non-Polar Sprays Containing Propofol." H.A. Dugger and M.A. El-Shafy, Inventors. Application filed April 27, 2004.

These issued patents have numerous, detailed, and specific claims relating to the formulation for lingual spray applications and their method of use. We have the right to use the technology in connection with one application - delivering propofol. Our success in developing lingual spray propofol depends substantially on the maintenance and enforcement of NovaDel's patents covering its proprietary spray technology. In consideration for our rights under the NovaDel license agreement, we paid NovaDel an initial license fee of $500,000 and an additional $500,000 upon the completion of our $10 million private placement of Series A Convertible Preferred Stock in November 2003. In addition, the license agreement requires us to make certain milestone payments as follows: $1,000,000 payable following the date that the first IND for lingual spray propofol is accepted for review by the FDA; $1,000,000 following the date that the first European Marketing Application is accepted for review by any European Union country; $2,000,000 following the date when the first filed NDA for lingual spray propofol is approved by the FDA;

$2,000,000 following the date when the first filed European Marketing Application for lingual spray propofol is approved by a European Union country; $1,000,000 following the date on which an application for commercial approval of lingual spray propofol is approved by the appropriate regulatory authority in each of Australia, Canada, Japan and South Africa; and $50,000 following the date on which an application for commercial approval for lingual spray propofol is approved in any other country (other than the U.S. or a member of the European Union). In addition, we are obligated to pay NovaDel an annual royalty based on a fixed rate of net sales of licensed products, or if greater, the annual royalty is based on our net profits from the sale of licensed products at a rate that is twice the net sales rate.

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Subject to certain requirements to provide us with notice and an opportunity to cure, NovaDel may terminate the license agreement in the event we (1) become subject to a bankruptcy or similar proceeding that is not dismissed within 60 days, (2) default in our obligation to make a required payment under the license agreement, or (3) otherwise materially breach the license agreement. The license agreement also provided that NovaDel could terminate the license agreement in the event we did not raise $5 million in financing on or before March 31, 2004; however, we satisfied that condition in November 2003 in connection with the $10 million private placement of our Series A Convertible Preferred Stock. We may terminate the license agreement for any reason upon 90 days' notice to NovaDel.

PTH (1-34) License Agreement. We currently have worldwide, exclusive license rights for all topical uses of PTH(1-34) for the treatment of hyperproliferative skin disorders including psoriasis.

1. PTH (1-34): In April 2004, Tarpan entered into an exclusive worldwide royalty bearing License Agreement with IGI, Inc., for the rights to the intellectual property and know-how relating to all topical uses of PTH (1-34). The topical application of PTH (1-34) for the treatment of hyperproliferative skin disorders (including psoriasis) is protected by US patents 5,527,772, 5,840,690, and 6,066,618 and European Patent Specification PCT/US88/03639.

2. Novasome Delivery Technology: In April 2004, Tarpan entered into a non-exclusive, non-royalty bearing, world-wide License Agreement with IGI Inc., for the rights to use the Novosome delivery technology for the development, commercialization and sale of PTH (1-34). IGI will supply product utilizing the Novasome Technology at IGI's cost.

Manufacturing

We do not have any manufacturing capabilities. We have been in contact with several contract "Good Manufacturing Process" (GMP) manufacturers for the supply of oleoyl-estrone, lingual spray propofol, and PTH(1-34) that will be necessary to conduct Phase I and Phase II human clinical trials. A method has been identified for synthesizing oleoyl-estrone, and can be done through simple reactions that produce the substance at above 99 percent purity. We believe that the production of oleoyl-estrone will involve one contract manufacturer for clinical trials. In addition, we will be outsourcing the manufacture of lingual spray propofol and PTH(1-34) as well.

Government Regulation

The research, development, testing, manufacture, labeling, promotion, advertising, distribution, and marketing, among other things, of our products are extensively regulated by governmental authorities in the United States and other countries. In the United States, the FDA regulates drugs under the Federal Food, Drug, and Cosmetic Act, or the "FDCA," and its implementing regulations. Failure to comply with the applicable U.S. requirements may subject us to administrative or judicial sanctions, such as FDA refusal to approve pending NDAs, warning letters, product recalls, product seizures, total or partial suspension of production or distribution, injunctions, and/or criminal prosecution.

Drug Approval Process. None of our drugs may be marketed in the U.S. until the drug has received FDA approval. The steps required before a drug may be marketed in the U.S. include:

- preclinical laboratory tests, animal studies, and formulation studies,
- submission to the FDA of an IND for human clinical testing, which must become effective before human clinical trials may begin,

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- adequate and well-controlled human clinical trials to establish the safety and efficacy of the drug for each indication,
- submission to the FDA of an NDA,
- satisfactory completion of an FDA inspection of the manufacturing facility or facilities at which the drug is produced to assess compliance with current good manufacturing practices, or "cGMPs," and
- FDA review and approval of the NDA.

Preclinical tests include laboratory evaluation of product chemistry, toxicity, and formulation, as well as animal studies. The conduct of the preclinical tests and formulation of the compounds for testing must comply with federal regulations and requirements. The results of the preclinical tests, together with manufacturing information and analytical data, are submitted to the FDA as part of an IND, which must become effective before human clinical trials may begin. An IND will automatically become effective 30 days after receipt by the FDA, unless before that time the FDA raises concerns or questions about issues such as the conduct of the trials as outlined in the IND. In such a case, the IND sponsor and the FDA must resolve any outstanding FDA concerns or questions before clinical trials can proceed. We cannot be sure that submission of an IND will result in the FDA allowing clinical trials to begin.

Clinical trials involve the administration of the investigational drug to human subjects under the supervision of qualified investigators. Clinical trials are conducted under protocols detailing the objectives of the study, the parameters to be used in monitoring safety, and the effectiveness criteria to be evaluated. Each protocol must be submitted to the FDA as part of the IND.

Clinical trials typically are conducted in three sequential phases, but the phases may overlap. The study protocol and informed consent information for study subjects in clinical trials must also be approved by an Institutional Review Board for each institution where the trials will be conducted. Study subjects must sign an informed consent form before participating in a clinical trial. Phase I usually involves the initial introduction of the investigational drug into people to evaluate its short-term safety, dosage tolerance, metabolism, pharmacokinetics and pharmacologic actions, and, if possible, to gain an early indication of its effectiveness. Phase II usually involves trials in a limited patient population to (i) evaluate dosage tolerance and appropriate dosage; (ii) identify possible adverse effects and safety risks; and (iii) evaluate preliminarily the efficacy of the drug for specific indications. Phase III trials usually further evaluate clinical efficacy and test further for safety by using the drug in its final form in an expanded patient population. There can be no assurance that phase I, phase II, or phase III testing will be completed successfully within any specified period of time, if at all. Furthermore, the Company or the FDA may suspend clinical trials at any time on various grounds, including a finding that the subjects or patients are being exposed to an unacceptable health risk.

The FDCA permits FDA and the IND sponsor to agree in writing on the design and size of clinical studies intended to form the primary basis of an effectiveness claim in an NDA application. This process is known as Special Protocol Assessment, or SPA. These agreements may not be changed after the clinical studies begin, except in limited circumstances.

Assuming successful completion of the required clinical testing, the results of the preclinical studies and of the clinical studies, together with other detailed information, including information on the manufacture and composition of the drug, are submitted to the FDA in the form of an NDA requesting approval to market the product for one or more indications. The testing and approval process requires substantial time, effort, and financial resources. The agencies review the application and may deem it to be inadequate to support the registration and we cannot be sure that any approval will be granted on a timely basis, if at all. The FDA may also refer the application to the appropriate advisory committee, typically a panel of clinicians, for review, evaluation and a recommendation as to whether the application

should be approved. The FDA is not bound by the recommendations of the advisory committee.

The FDA has various programs, including fast track, priority review, and accelerated approval, that are intended to expedite or simplify the process for reviewing drugs, and/or provide for approval on the basis surrogate endpoints. Generally, drugs that may be eligible for one or more of these programs are those for serious or life-threatening conditions, those with the potential to address unmet medical needs, and those that provide meaningful benefit over existing treatments. We cannot be sure that any of our drugs will qualify for any of these programs, or that, if a drug does qualify, that the review time will be reduced.

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Section 505b2 of the FDCA allows the FDA to approve a follow-on drug on the basis of data in the scientific literature or data used by FDA in the approval of other drugs. This procedure potentially makes it easier for generic drug manufacturers to obtain rapid approval of new forms of drugs based on proprietary data of the original drug manufacturer.

Before approving an NDA, the FDA usually will inspect the facility or the facilities at which the drug is manufactured, and will not approve the product unless cGMP compliance is satisfactory. If the FDA evaluates the NDA and the manufacturing facilities as acceptable, the FDA may issue an approval letter, or in some cases, an approvable letter followed by an approval letter. Both letters usually contain a number of conditions that must be met in order to secure final approval of the NDA. When and if those conditions have been met to the FDA's satisfaction, the FDA will issue an approval letter. The approval letter authorizes commercial marketing of the drug for specific indications. As a condition of NDA approval, the FDA may require post marketing testing and surveillance to monitor the drug's safety or efficacy, or impose other conditions.

After approval, certain changes to the approved product, such as adding new indications, making certain manufacturing changes, or making certain additional labeling claims, are subject to further FDA review and approval. Before we can market our product candidates for additional indications, we must obtain additional approvals from FDA. Obtaining approval for a new indication generally requires that additional clinical studies be conducted. We cannot be sure that any additional approval for new indications for any product candidate will be approved on a timely basis, or at all.

Post-Approval Requirements. Often times, even after a drug has been approved by the FDA for sale, the FDA may require that certain post-approval requirements be satisfied, including the conduct of additional clinical studies. If such post-approval conditions are not satisfied, the FDA may withdraw its approval of the drug. In addition, holders of an approved NDA are required to: (i) report certain adverse reactions to the FDA, (ii) comply with certain requirements concerning advertising and promotional labeling for their products, and (iii) continue to have quality control and manufacturing procedures conform to cGMP after approval. The FDA periodically inspects the sponsor's records related to safety reporting and/or manufacturing facilities; this latter effort includes assessment of compliance with cGMP. Accordingly, manufacturers must continue to expend time, money, and effort in the area of production and quality control to maintain cGMP compliance. We intend to use third party manufacturers to produce our products in clinical and commercial quantities, and future FDA inspections may identify compliance issues at the facilities of our contract manufacturers that may disrupt production or distribution, or require substantial resources to correct. In addition, discovery of problems with a product after approval may result in restrictions on a product, manufacturer, or holder of an approved NDA, including withdrawal of the product from the market.

Orphan Drug. The FDA may grant orphan drug designation to drugs intended to treat a "rare disease or condition," which generally is a disease or condition that affects fewer than 200,000 individuals in the United States. Orphan drug designation must be requested before submitting an NDA. If the FDA grants orphan drug designation, which it may not, the identity of the therapeutic agent and its potential orphan use are publicly disclosed by the FDA. Orphan drug designation does not convey an advantage in, or shorten the duration of, the review and approval process. If a product which has an orphan drug designation subsequently receives the first FDA approval for the indication for which it has such designation, the product is entitled to orphan exclusivity, meaning that the FDA may not approve any other applications to market the same drug for the same indication, except in certain very limited circumstances, for a period of seven years. Orphan drug designation does not prevent competitors from developing or marketing different drugs for that indication.

Non-United States Regulation. Before our products can be marketed outside of the United States, they are subject to regulatory approval similar to that required in the United States, although the requirements governing the conduct of clinical trials, including additional clinical trials that may be required, product licensing, pricing and reimbursement

vary widely from country to country. No action can be taken to market any product in a country until an appropriate application has been approved by the regulatory authorities in that country. The current approval process varies from country to country, and the time spent in gaining approval varies from that required for FDA approval. In certain countries, the sales price of a product must also be approved. The pricing review period often begins after market approval is granted. Even if a product is approved by a regulatory authority, satisfactory prices may not be approved for such product.

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In Europe, marketing authorizations may be submitted at a centralized, a decentralized or national level. The centralized procedure is mandatory for the approval of biotechnology products and provides for the grant of a single marketing authorization that is valid in all EU members states. As of January 1995, a mutual recognition procedure is available at the request of the applicant for all medicinal products that are not subject to the centralized procedure. There can be no assurance that the chosen regulatory strategy will secure regulatory approvals on a timely basis or at all.

Employees

We currently have 7 employees, including 3 persons devoted to research and development and 4 persons in administration and finance, including our senior management.

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MANAGEMENT

Directors and Executive Officers

Name	Age	Position
Douglas Abel	44	President and Chief Executive Officer and Director
Nicholas J. Rossettos	40	Chief Financial Officer, Chief Operating Officer and Secretary
Neil Herskowitz	48	Director
Malcolm Hoenlein	61	Director
Timothy McInerney	44	Director
Joan Pons	55	Director
Richard I. Steinhart	48	Director
Michael Weiser, M.D., Ph.D.	42	Director

Douglas Abel has been our President and Chief Executive Officer since April 2005, when we completed our acquisition of Tarpan Therapeutics, where Mr. Abel had been President and CEO since November 2004. Prior to joining Tarpan, Mr. Abel served as Vice President of the Dermatology Business Unit at Biogen Idec where he worked from August 2000 to November 2004. While at Biogen, he led the creation of the U.S. dermatology commercial operation, building the team from two to more than 100 employees to support the launch of AMEVIVE®. Before that, Mr. Abel was at Allergan Pharmaceuticals from December 1987 to August of 2000, with his most recent position being Director of BOTOX® Marketing. Mr. Abel received his A.B. in chemistry from Lafayette College and an M.B.A. from Temple University.

Nicholas J. Rossettos has been our Chief Financial Officer and Treasurer since April 2000 and our Chief Operating Officer since February 2003. From February 1999 until joining our company, Mr. Rossettos was Manager of Finance for Centerwatch, a pharmaceutical trade publisher headquartered in Boston, Massachusetts, that is a wholly owned subsidiary of Thomson Corporation of Toronto, Canada. Prior to that, from 1994, he was Director of Finance and Administration for EnviroBusiness, Inc., an environmental and technical management-consulting firm headquartered in Cambridge, Massachusetts. Mr. Rossettos is a certified public accountant and holds an M.S. in Accounting and M.B.A. from Northeastern University.

Neil Herskowitz was appointed to our board of directors in July 2004. Since 1998, Mr. Herskowitz has been a Managing Member of ReGen Partners LLC, an New York investment fund, and is also President of its affiliate, Riverside Claims LLC. Mr. Herskowitz currently serves on the board of directors of Starting Point Services for Children a not-for-profit corporation, and on the board of directors of Vacation Village, a 220-unit development in Sullivan County, New York. Mr. Herskowitz holds a B.B.A. in Finance from Bernard M. Baruch College.

Malcolm Hoenlein was appointed to our board of directors in July 2004. Since January 2001, he has also served as a director of Keryx Biopharmaceuticals, Inc. (Nasdaq: KERX). Mr. Hoenlein currently serves as the Executive Vice Chairman of the Conference of Presidents of Major American Jewish Organizations, a position he has held since 1986. He also serves as a director of Bank Leumi. Mr. Hoenlein received his B.A. from Temple University and his M.A. from the University of Pennsylvania.

Timothy McInerney has been a director of our company since July 2004. Since 1992, Mr. McInerney has been a Managing Director of Paramount BioCapital, Inc. where he oversees the overall distribution of Paramount's private equity product. Prior to 1992, Mr. McInerney was a research analyst focusing on the biotechnology industry at

Ladenburg, Thalman & Co. Prior to that, Mr. McInerney held equity sales positions at Bear, Stearns & Co. and Shearson Lehman Brothers, Inc. Mr. McInerney also has worked in sales and marketing for Bristol-Myers Squibb. He received his B.S. in pharmacy from St. John's University at New York. He also completed a post-graduate residency at the New York University Medical Center in drug information systems.

Joan Pons has been a director of our company since February 21, 2003, the date of our merger with Manhattan Research Development. Prior to the merger, he served as a director of Manhattan Research Development from 2002. Since 2002, Mr. Pons has served chief executive officer of Oleoyl-Estrone Developments S.L., a spin-off of the University of Barcelona. Pursuant to a January 2002 license agreement, we hold an exclusive worldwide license to several patents and patent applications relating to oleoyl-estrone, which are owned by Oleoyl-Estrone Developments. From 1999 until joining Oleoyl-Estrone Developments, Mr. Pons has served as Director of Franchising of Pans & Company, a fast-food company. From 1972 until 1999, Mr. Pons was employed in various finance and sales capacities by Gallina Blanca Purina S.A., a joint venture between St. Louis, Missouri based Ralston Purina Co. and Spanish based Agrolimen S.A., most recently serving as its National Sales & Marketing Director.

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Richard I. Steinhart has been a director of our company since July 2004. Since May 1992, Mr. Steinhart has been principal of Forest Street Capital, a boutique investment banking, venture capital, and management consulting firm. Prior to Forest Street Capital, from May 1991 to May 1992, he was the Vice President and Chief Financial Officer of Emisphere Technologies, Inc., a publicly held biopharmaceutical company that is working to develop and commercialize a proprietary oral drug delivery system. Prior to joining Emisphere Technologies, Mr. Steinhart spent seven years at CW Group, Inc., a venture capital firm focused on medical and healthcare investments, where he was a General Partner and Chief Financial Officer. Mr. Steinhart has previously served as a director of a number of privately-held companies, including ARRIS Pharmaceuticals, Inc., a biotechnology company involved with rational drug design; Membrex, Inc., a laboratory equipment manu-facturing company; and, Photest, Inc., a diagnostics company. He began his career working as a certified public accountant and continues to be a New York State Certified Public Accountant. Mr. Steinhart holds a Bachelors of Business Administration and Masters of Business Administration from Pace University.

Michael Weiser, M.D., Ph.D., has been a director of our company since the completion of our merger transaction with Manhattan Research Development, Inc. in February 2003. He served as a director of Manhattan Research Development since December 2001 and as its Chief Medical Officer from its inception until August 2001. Dr. Weiser is currently also the Director of Research of Paramount BioCapital Asset Management. Dr. Weiser is also a member of Orion Biomedical GP, LLC, and serves on the board of directors of several privately held companies. Dr. Weiser also serves as a director of Chiral Quest, Inc. (OTCBB: CQST) since February 2003. Dr. Weiser received an M.D. from New York University School of Medicine and a Ph.D. in Molecular Neurobiology from Cornell University Medical College. Dr. Weiser completed a Postdoctoral Fellowship in the Department of Physiology and Neuroscience at New York University School of Medicine and performed his post-graduate medical training in the Department of Obstetrics and Gynecology and Primary Care at New York University Medical Center.

There are no family relationships among our executive officers or directors.

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Compensation of Executive Officers

The following table sets forth, for the last three fiscal years, the compensation earned for services rendered in all capacities by our chief executive officer and the other highest-paid executive officers serving as such at the end of 2004 whose compensation for that fiscal year was in excess of $100,000. The individuals named in the table will be hereinafter referred to as the "Named Officers." No other executive officer of Manhattan received compensation in excess of $100,000 during fiscal year 2004.

Summary Compensation Table

		Annual Compensation			Long-Term Compensation Awards	
Name and Principal Position	**Year**	**Salary($)**	**Bonus($)**	**Other Annual Compensation ($)**	**Securities Underlying Options/SARs(#)**	**All Other Compensation ($)**
Leonard Firestone (1)				(3)		
Chief Executive	2004	325,000	73,750	12,300	600,000	—
Officer and	2003	250,000	200,000	—	584,060	—
President	2002	—	—	—	—	—
Nicholas J.	2004	150,000	22,500	7,500(3)	150,000	—
Rossettos	2003	142,788	25,000	22,397(2)	292,030	—
Chief Operating	2002	107,645	25,000	10,000(3)	55,000	—
Officer, Chief Financial Officer, Treasurer & Secretary						

(1) Dr. Firestone became chief executive officer of Manhattan Research Development, Inc. in January 2003 and, following the merger with Atlantic Technology Ventures, Inc. on February 21, 2003, he was appointed chief executive officer of the Registrant. The above table reflects Dr. Firestone's combined compensation received from Manhattan Research Development and our company during fiscal 2003. Dr. Firestone's employment with the Company ended in January 2005.

(2) Represents salary deferred from the prior fiscal year and prior to February 24, 2003.

(3) Represents matching contributions by us pursuant to our company's 401(k) and SAR-SEP retirement plans.

Options and Stock Appreciation Rights

The following table contains information concerning the grant of stock options under our stock option plans and otherwise to the executive officers identified below during the 2004 fiscal year. No stock appreciation rights were granted during the 2004 fiscal year.

Option Grants in Last Fiscal Year (Individual Grants)

Name	**Number of Securities**	**Percent of Total Options/SARs**	**Exercise or Base Price ($/Share)(1)**	**Expiration Date**

	Underlying Options Granted (#)	Granted to Employees in Fiscal Year		
Dr. Firestone	600,000	36	1.65	1/28/2014
Mr. Rossettos	150,000(2)	9	1.65	1/28/2014

(1) Exercise price is based on the closing sale price of our common stock on the last trading day preceding the grant date.

(2) Two-thirds of the option vested as of January 2005; the remaining one-third vests in January 2006.

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Option Exercise and Holdings

The following table provides information with respect to the executive officers named below concerning the exercisability of options during the 2004 fiscal year and unexercisable options held as of the end of the 2004 fiscal year. No stock appreciation rights were exercised during the 2004 fiscal year, and no stock appreciation rights were outstanding at the end of that fiscal year.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

Name	Shares Acquired on Exercise	Value Realized [1]	No. of Securities Underlying Unexercised Options/SARs at FY-End (#)		Value of Unexercised In-the-Money Options/SARs at FY-End (Market price of shares at FY-End less exercise price) ($)[2]	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Dr. Firestone (3)	—	—	584,060	600,000	379,639	—
Mr. Rossettos	—	—	258,515	258,515	96,160	94,910

(1) Equal to the fair market value of the purchased shares at the time of the option exercise over the exercise price paid for those shares.

(2) Based on the fair market value of our common stock on December 30, 2004, the last trading day of fiscal 2004, of $1.05 per share, the closing sale price per share on that date on the OTC Bulletin Board.

(3) Although the presentation in the above table reflects options exercisable as of the end of fiscal 2004, 600,000 shares subject to an option held by Dr. Firestone became exercisable on January 1, 2005.

Long Term Incentive Plan Awards

No long term incentive plan awards were made to any of our executive officers during the last fiscal year.

Compensation of Directors

Non-employee directors are eligible to participate in an automatic stock option grant program pursuant to the 2003 stock option plan. Non-employee directors are granted an option for 50,000 shares of common stock upon their initial election or appointment to the board and an option for 25,000 shares of common stock annually thereafter. For members of a sub-committee, the annual grant is 30,000 shares and for a Chairman of the Board, the annual grant is 35,000 shares. During 2004 our board members did not receive any cash compensation for their services as directors, although directors are reimbursed for reasonable expenses incurred in connection with attending meetings of the board and of committees of the board.

Employment Agreements

Douglas Abel

We entered into an Employment Agreement with Douglas Abel dated April 1, 2005 whereby Mr. Abel will serve as our President and Chief Executive Officer for a period of three years in exchange for (i) an annual base salary of

$300,000, subject to a retroactive increase in the amount of $25,000 in the event we complete a financing transaction of at least $5,000,000, (ii) a signing bonus in the amount of $200,000 payable in two installments of $100,000 in May and November 2005, respectively, (iii) a discretionary performance-based bonus in an amount equal to up to 50% of Mr. Abel's base salary, and (iv) an option to purchase 2,923,900 shares of our common stock at $1.50 per share with three-year annual vesting, purchasable for a 10-year term. As a result of the private placement that we completed in August 2005 (see "Summary of Offering - Recent Developments"), Mr. Abel's salary has been increased to $325,000 retroactive to April 1, 2005. The employment agreement contains customary provisions relating to confidentiality, work-product assignment, non-competition and non-solicitation. In the event Mr. Abel's employment is terminated during the term of the agreement, we are required to pay a severance payment ranging from between 6 and 12 month of base salary, depending upon the circumstances of such termination

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Nicholas J. Rossettos

Mr. Rossettos' employment with us is pursuant to a January 2005 employment agreement. This agreement has a two-year term ending on January 3, 2007, which may be extended for additional one (1) year periods thereafter. Under the agreement, Mr. Rossettos is entitled to an annual salary of $175,000 in addition to health, disability insurance and other benefits. Pursuant to his employment agreement, on January 3, 2005, Mr. Rossettos was granted an option to purchase an aggregate of 50,000 shares of common stock at a price of $1.00 per share. The option vests in two equal installments on each of January 3, 2006 and January 3, 2007. Mr. Rossettos and his dependents are eligible to receive paid medical and long term disability insurance and such other health benefits as we make available to other senior officers and directors. Mr. Rossettos reports to the Board of Directors of the Company with primary direction being given by the Chief Executive Officer and President.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding beneficial ownership of the our common stock as of September 20, 2005, by (i) each person known by us to be the beneficial owner of more than 5 percent of the outstanding Common Stock, (ii) each director, (iii) each executive officer, and (iv) all executive officers and directors as a group. The number of shares beneficially owned is determined under rules promulgated by the SEC, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under those rules, beneficial ownership includes any shares as to which the individual has sole or shared voting power or investment power and also any shares which the individual has the right to acquire within 60 days of the date hereof, through the exercise or conversion of any stock option, convertible security, warrant or other right. Inclusion of shares in the table does not, however, constitute an admission that the named stockholder is a direct or indirect beneficial owner of those shares. Unless otherwise indicated, each person or entity named in the table has sole voting power and investment power (or shares that power with that person's spouse) with respect to all shares of capital stock listed as owned by that person or entity. Unless otherwise indicated, the address of each of the following persons is 810 Seventh Avenue, 4th Floor, New York, New York 10019.

Name	Shares Beneficially Owned	Percent of Class
Douglas Abel (1)	984,634	1.6
Nicholas J. Rossettos(2)	457,030	*
Michael Weiser(3)	2,371,993	4.0
Joan Pons Gimbert(4)	4,015,371	6.8
Neil Herskowitz (5)	108,675	*
Malcolm Hoenlien (6)	57,003	*
Timothy McInerney (7)	745,784	1.3
Richard I. Steinhart (6)	57,003	*
All directors and officers as a group (8)	8,797,493	14.3
Oleoylestrone Developments, SL(9) Josep Samitier 1-5, Barcelona Science Park 08028 Barcelona Spain	3,957,037	6.7
Lester E. Lipschutz(10) 1650 Arch Street - 22nd Floor Philadelphia, PA 19103	8,918,839	21.9
Lindsay A. Rosenwald(11) 787 Seventh Avenue, 48th Floor New York, NY 10019	3,444,506	5.7

* Less than 1.0%

(1) Includes 974,634 shares issuable upon exercise of a portion of an option which vests November 1, 2005, but does not include the remaining 1,949,266 shares issuable upon the exercise of such option, which remaining shares vest in two equal installments of 974,633 shares on each of November 1, 2006 and November 1, 2007.

(2) Includes 457,030 shares issuable upon the exercise of options that are currently exercisable or will be exercisable within 60 days.

(3) Includes 60,000 shares issuable upon the exercise of an option, and 103,655 shares issuance upon exercise of a warrant.

(4) Includes 3,957,037 shares held by Oleoylestrone Developments, SL, of which Mr. Pons is chief executive officer, and 58,334 shares issuable upon the exercise of options.

(5) Includes 30,337 shares issuable upon exercise of options and 7,500 shares held by Riverside Contracting, LLC, a limited liability company of which Mr. Herskowitz is a member holding 50%.

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(6) Represents shares issuable upon exercise of options.

(7) Includes 41,667 shares issuable upon exercise of options; and 58,642 shares issuable upon exercise of warrants.

(8) Includes 1,027,838 shares issuable upon exercise of currently exercisable options, or options that will be exercisable within 60 days, and upon exercise of warrants.

(9) Mr. Pons Gimbert is the chief executive officer of Oleoylestrone Developments, SL.

(10) Includes 8,918,839 shares of Common Stock held by separate trusts for the benefit of Dr. Rosenwald or his family with respect to which Mr. Lipschutz is either trustee or investment manager and in either case has investment and voting power. Dr. Rosenwald disclaims beneficial ownership of these shares, except to the extent of his pecuniary interest therein, if any.

(11) Includes 80 shares owned by Dr. Rosenwald's spouse, 33 shares owned by his children, 76 shares held by corporations affiliated by Dr. Rosenwald, and 516,885 shares issuable upon the exercise of warrants. Does not include 8,918,354 shares held by Lester Lipschutz, as trustee of certain trusts established for the benefit of Dr. Rosenwald, as to which Dr. Rosenwald disclaims beneficial ownership, except to the extent of his pecuniary interest therein, if any.

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CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Oleoylestrone Developments, SL

Pursuant to the terms of a license agreement dated February 15, 2002 by and between Manhattan Research Development, Inc., our wholly owned subsidiary, and Oleoylestrone Developments, SL ("OED"), we have an exclusive, worldwide license to U.S. and foreign patents and patent applications relating to certain technologies. Although we are not obligated to pay royalties to OED, the license agreement requires us to make certain performance-based milestone payments. See "Item 1 - Intellectual Property." OED currently owns approximately 16 percent of our outstanding common stock. Additionally, Mr. Pons, a member of our board of directors, is chief executive officer of OED.

NovaDel Pharma Inc.

As discussed above, pursuant to the terms of a license agreement dated April 4, 2003 by and between us and NovaDel Pharma Inc., we have the rights to develop NovaDel's proprietary lingual spray technology to deliver propofol for pre-procedural sedation. The license agreement with NovaDel requires us to make certain license and milestone payments, as well as pay royalties. See "Item 1. Business - Lingual Spray Propofol." During 2003, we paid aggregate license fees of $500,000 to NovaDel under the license agreement, but during 2004 did not make any payments to NovaDel under the agreement. Lindsay A. Rosenwald, who beneficially owns more than 5 percent of our common stock, also beneficially owns in excess of 20 percent of the common stock of NovaDel and may therefore be deemed to be an affiliate of that company.

Paramount BioCapital, Inc.

Two members of our board of directors, Timothy McInerney and Michael Weiser, are also employees of Paramount BioCapital, Inc. or one of its affiliates. In addition, two former members our board of directors, Joshua Kazam and David Tanen were employed by Paramount BioCapital through August 2004 and were directors of our company until September 2005. The sole shareholder and chairman of Paramount BioCapital, Inc. is Lindsay A. Rosenwald, M.D. Dr. Rosenwald beneficially owns more than 5 percent of our common stock. In November 2003, we paid to Paramount BioCapital approximately $460,000 as commissions earned in consideration for placement agent services rendered in connection with the private placement of our Series A Convertible Preferred Stock, which amount represented 7 percent of the shares sold by Paramount BioCapital in the offering. In connection with the November 2003 private placement, we did not engage Paramount BioCapital directly, but rather Paramount BioCapital was engaged as a sub-agent of Maxim Group, the broker-dealer we engaged for the offering. In addition, in January 2004, we paid approximately $260,000 as commissions earned in consideration for placement agent services rendered by Paramount BioCapital in connection with a private placement of our common stock, which amount represented 7 percent of the shares sold by Paramount BioCapital in the private placement. The engagement of Paramount BioCapital in connection with the January 2004 private placement was approved by all of our disinterested directors. In connection with both private placements and as a result of their employment with Paramount BioCapital, Mr. Kazam, Mr. McInerney and Dr. Weiser were allocated 5-year placement agent warrants to purchase 60,174, 58,642 and 103,655 shares of our common stock, respectively, at a price of $1.10 per share.

Paramount also served as our placement agent in connection with our August 2005 private placement. See "Summary of Offering - Recent Developments - 2005 Private Placement."

Acquisition of Tarpan Therapeutics, Inc.

On April 1, 2005, we completed the acquisition of Tarpan Therapeutics, Inc., a private-held biotechnology company that owns the rights to develop PTH (1-34), in a merger transaction. Several of Tarpan's former stockholders are

directors or significant stockholders of the Company. Dr. Rosenwald and various trusts established for the benefit of Dr. Rosenwald and members of his immediate family collectively beneficially owned approximately 46 percent of Tarpan's common stock and beneficially own approximately 26 percent our common stock. In addition, Joshua Kazam, David Tanen, Dr. Michael Weiser and Timothy McInerney, all of whom were members of the Company's board of directors at the time of such acquisition (Messrs. Kazam and Tanen have since resigned), collectively owned approximately 13.4 percent of Tarpan's outstanding common stock. Dr. Weiser and Mr. McInerney are also employed by Paramount BioCapital, Inc., an entity owned and controlled by Dr. Rosenwald. As a result of such relationships between the Company and Tarpan, the Company's board of directors established a special committee to consider and approve the Agreement. The special committee consisted of three independent directors, none of whom had any prior relationship with Tarpan.

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We believe that all the transactions described above were made on terms no less favorable to us than could have been obtained from unaffiliated third parties.

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market for Common Stock

Our common stock trades on the OTC Bulletin Board under the symbol "MHTT.OB." The following table lists the high and low price for our common stock (as adjusted for our 1-for-5 stock combination effected on September 25, 2003) as quoted on the OTC Bulletin Board during each quarter within the last two fiscal years, plus the first and second quarters of fiscal 2005:

	Price Range	
Quarter Ended	**High**	**Low**
June 30, 2005	$ 1.64	$ 1.20
March 31, 2005	1.55	1.42
December 31, 2004	1.05	0.91
September 30, 2004	0.90	0.87
June 30, 2004	2.48	1.27
March 31, 2004	2.00	1.35
December 31, 2003	2.00	1.20
September 30, 2003	2.50	1.10
June 30, 2003	1.65	0.60
March 31, 2003	0.85	0.25

The quotations from the OTC Bulletin Board reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions.

Record Holders

The number of holders of record of our common stock as of September 9, 2005 was approximately 282.

Dividends

We have not paid or declared any dividends on our common stock and we do not anticipate paying dividends on our common stock for the foreseeable future.

USE OF PROCEEDS

We will not receive any proceeds from the resale of any of the shares offered by this prospectus by the selling stockholders.

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SELLING STOCKHOLDERS

This prospectus covers the resale by the selling stockholders identified below of 25,627,684 shares of our common stock, including shares issuable upon the exercise of warrants. This offering includes the 11,917,680 common shares and 2,978,957 common shares issuable upon the exercise of the warrants issued in our August 2005 private placement, of which 595,449 common shares are issuable upon the exercise of warrants issued to placement agents that provided services to us in the private placement. The warrants received by the investors in the private placement are exercisable until April 2010 at an exercise price of $1.44 per share. These warrants are also redeemable by us, upon 30 days' prior notice, when the average closing sale price of our common stock, as reported on the OTC Bulletin Board or such other market or exchange on which our common stock is then listed or quoted, equals or exceeds 200 percent of the exercise price for a period of 30 consecutive days. Upon redemption, we are obligated to pay to each warrant holder $0.001 per share underlying each outstanding warrant.

This prospectus also covers 10,731,047 shares of our common stock issued y us in connection with our acquisition of Tarpan Therapeutics, Inc. in April 2005. Holders of approximately 7,238,000 of these shares have agreed that they will not sell or otherwise dispose of their shares for a period of at least 90 days following the effective date of the registration statement that contains this prospectus. See "Plan of Distribution - Shares Eligible for Future Sale."

The following table sets forth the number of shares of our common stock beneficially owned by the selling stockholders as of September 20, 2005, and after giving effect to this offering.

Selling Stockholder	Shares Beneficially Owned Before Offering	Number of Outstanding Shares Offered by Selling Stockholder	Number of Shares Offered by Selling Stockholder upon Exercise of Certain Warrants	Percentage Beneficial Ownership After Offering
Shares Issued in August 2005 Private Placement				
Philip Abdalla and Joyce V. Abdalla JTWROS	27,026	22,522	4,504	--
Neel B. Ackerman and Matha N. Ackerman JTWROS	216,216	180,180	36,036	--
Andrew W. Albstein	54,054	45,045	9,009	--
Alyad Foundation (a)	166,308	90,090	18,018	*
Alfred J. Anzalone Family Limited Partnership	27,026	22,522	4,504	--
Atlas Master Fund, Ltd.(b)	2,899,261	900,900	180,180	3.1
Marvin Belsky	54,054	45,045	9,009	--
David Benadum	47,026	22,522	4,504	--
Delaware Charter F/B/O Mark Steven Berg IRA	300,000	250,000	50,000	--
Nicole Berg	300,000	250,000	50,000	--
Paul Bermanski and Barbara Bermanski	27,026	22,522	4,504	--
Alan Bresler and Hanna Bresler	13,513	11,261	2,252	--

Brino Investment Ltd.(c)	49,107	22,522	4,504	*	
Frank Calcutta	266,216	180,180	36,036		*
Chase Finacing, Inc.(d)	54,054	45,045	9,009	--	
Concordia Institutional Multistrategy Ltd. (e)	243,242	157,657	31,531	--	
Concordia Partners LP(e)	243,242	743,243	148,648	--	
Cranshire Capital, L.P.(f)	270,270	225,225	45,045	--	
Edmund A. Debler	26,621	18,018	3,603	*	
Charles F. G. DeCell	27,026	22,522	4,504	--	
Praful Desai	54,054	45,045	9,009	--	
Carolyn P. Dietrich	27,026	22,522	4,504	--	
Gregory J. Dovolis	152,080	90,090	18,018	*	
John O. Dunkin	86,997	45,045	9,009	*	
Isaac R. Dweck	113,700	90,090	18,018	*	
Helen Eisen	27,026	22,522	4,504	--	
Joseph C. Eisen	27,026	22,522	4,504	--	

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Selling Stockholder	Shares Beneficially Owned Before Offering	Number of Outstanding Shares Offered by Selling Stockholder	Number of Shares Offered by Selling Stockholder upon Exercise of Certain Warrants	Percentage Beneficial Ownership After Offering
Nathan Eisen	54,054	45,045	9,009	--
Jeff Eisenberg	27,026	22,522	4,504	--
Roger Erickson	74,054	45,045	9,009	*
Eugenia VI Venture Holdings, Ltd.(g)	1,556,752	900,900	180,180	*
Fusion Capital Fund II, LLC(h)	151,313	90,090	18,018	*
Susan Gartenberg	13,513	11,261	2,252	--
Gitel Family Limited Partnership (i)	257,770	90,090	18,018	*
Dean Glasser	15,651	13,043	2,608	--
John Goodman	37,026	22,522	4,504	*
Grapemeadow NV(j)	1,111,339	450,450	90,090	*
Arthur Greco	32,432	27,027	5,405	--
Robert Guercio	84,054	45,045	9,009	*
Baruch Z. Halberstam	27,026	22,522	4,504	--
Jack Ham	52,026	22,522	4,504	*
Harewood Nominees Ltd A/C 4721300(k)	248,648	45,045	9,009	--
Harewood Nominees Ltd A/C 4689000(k)	248,648	162,162	32,432	*
Ben Heller	216,216	180,180	36,036	--
Steven R. Hurlburt	27,026	22,522	4,504	--
David Jaroslawicz	216,216	180,180	36,036	--
Jack M. Johnson	27,026	22,522	4,504	--
Patrick M. Kane	45,478	31,531	6,306	*
Abraham Katsman	27,026	22,522	4,504	--
Jay Kestenbaum	27,026	22,522	4,504	--
Daniel J. Kevles and BettyAnn Kevles JTWROS	27,026	22,522	4,504	--
Kier Family LP(l)	108,108	90,090	18,018	--
Jack Klebanow	32,432	27,027	5,405	--
Klaus Kretschmer	54,054	45,045	9,009	--
Daniel Krieger	27,026	22,522	4,504	--
Delaware Charter Guarantee & Trust Company F/B/O John Kuehn SEP IRA	47,026	22,522	4,504	*
John Kuehn	47,026	22,522	4,504	*
Gregory and Donna Lenchner	27,026	22,522	4,504	--
Lewis Opportunity Fund LP(m)	54,054	45,045	9,009	--
The Hyman A. Lezell Revocable Intervivos Trust, Hyman A. Lezell Trustee U/A/D 12/30/91	146,595	67,567	13,513	*
John Liatos	10,440	8,700	1,740	--

Phil Lifschitz	108,108	90,090	18,018	--
Linden Growth Partners(n)	54,054	45,045	9,009	--
S. Alan Lisenby	247,103	180,180	36,036	*
Michael Luftman	27,026	22,522	4,504	--
Robert Masters	54,054	45,045	9,009	--
Murray J. McCabe	54,054	45,045	9,009	--
Barry P. McIntosh, M.D.	27,026	22,522	4,504	--
Cooper A. McIntosh, M.D.	88,344	45,045	9,009	*
Matador Investments Pte Ltd.(o)	27,026	22,522	4,504	--
Mark Mazzer	27,026	22,522	4,504	--
Mega International Corporation(p)	58,746	22,522	4,504	*
MHR Capital Partners LP(q)	1,081,078	791,415	158,283	--
MHR Capital Partners (100) LP(q)	1,081,078	109,484	21,896	--
Mike Pat Mike Family Ltd. Partnership	16,215	13,513	2,702	--
Albert Milstein	73,026	22,522	4,504	*

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Selling Stockholder	Shares Beneficially Owned Before Offering	Number of Outstanding Shares Offered by Selling Stockholder	Number of Shares Offered by Selling Stockholder upon Exercise of Certain Warrants	Percentage Beneficial Ownership After Offering
Elizabeth R. Moore	32,432	27,027	5,405	--
Susan Newton and Harry Newton, JTWROS	196,453	90,090	18,018	*
Nite Capital, L.P.(x)	104,359	86,966	17,393	--
North American Equity Multi Strategy Fund A/C 10000788(k)	216,216	180,180	36,036	--
Anthony J. Ottavio	75,675	63,063	12,612	--
Barry M. Pearl	37,837	31,531	6,306	--
Perceptive Life Sciences Master Fund, Ltd.(w)	1,206,954	1,000,000	200,000	*
Laya Davidowitz Perlysky 2003 Grantor Retained Annuity Trust	112,254	45,045	9,009	*
Pleiades Investment Partners-R, LP(r)	540,538	132,432	26,486	*
Daniel Polatsch	27,026	22,522	4,504	--
Potomac Capital International Ltd.(r)	540,538	120,720	24,144	*
Potamac Capital Partners, LP(r)	540,538	197,297	39,459	*
David G. Pudelsky and Nancy H. Pudelsky JTWROS	54,054	45,045	9,009	--
Rachel Family Partnership(s)	197,162	135,135	27,027	*
Ramsay Investment Pte Ltd.(o)	5,404	4,504	900	--
Louis R. Reif	170,106	135,135	27,027	*
Frank Restivo	37,026	22,522	4,504	*
Philip J. Schiller	27,026	22,522	4,504	--
Andrew W. Schonzeit	43,243	36,036	7,207	--
Judah Schorr	27,026	22,522	4,504	--
Albert Sebag	54,054	45,045	9,009	--
Diana Shepler	37,837	31,531	6,306	--
The Shoup Revocable Trust U/A/D 4/29/03(t)	74,513	61,261	12,252	*
William S. and Elinor Silver JTWROS	54,054	45,045	9,009	*
The Silverman 1984 Trust D/T/D 5/02/84, Robert J. Silverman and Judith A. Silverman Trustees	27,026	22,522	4,504	--
Lucille Slocum	177,749	135,135	27,027	*
Carl S. Sorenson	27,026	22,522	4,504	--
C. Richard Stafford IRA	27,026	22,522	4,504	--
Stahler Investments, LLC(u)	203,554	45,045	9,009	*
Dennis F. Steadman	27,026	22,522	4,504	--
Katherine S. Steele	27,026	22,522	4,504	--
Stern Joint Venture, L.P.(v)	108,108	90,090	18,018	--

Joseph Strassman and Barbara Strassman, Tenants in Common	54,054	45,045	9,009	--
Gary Strauss	166,064	22,522	4,504	*
Anne Stringfield	27,026	22,522	4,504	--
Delaware Charter Guarantee & Trust Company, F/B/O Howard M. Tanning, MD IRA R/O	135,134	112,612	22,522	--
Reuben Taub	43,243	36,036	7,207	--
Carolyn N. Taylor	54,054	45,045	9,009	--
Tisu Investment Ltd.(j)	71,336	45,045	9,009	*
Joseph J. Vale	783,524	225,225	45,045	*
Michael Wallace	37,026	22,522	4,504	*
Waterspout Investments Pte. Ltd.(o)	10,810	9,009	1,801	--
Hillel Weinberger	324,324	270,270	54,054	--
Scott D. Whitaker	47,026	22,522	4,504	*
Olen C. Wilson	37,026	22,522	4,504	*

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Selling Stockholder	Shares Beneficially Owned Before Offering	Number of Outstanding Shares Offered by Selling Stockholder	Number of Shares Offered by Selling Stockholder upon Exercise of Certain Warrants	Percentage Beneficial Ownership After Offering
Tad Wilson	37,026	22,522	4,504	*
Paramount BioCapital, Inc.(z)	3,961,690	0	517,184	5.7
Sandgrain Securities, Inc.	1,407	0	1,407	--
Steve A. Sherman	4,223	0	4,223	--
Robert D. Millstone	8,446	0	8,446	--
Alan Ferraro	12,900	0	12,900	--
Steven Markowitz	9,000	0	9,000	--
Fabio Migliaccio	2,257	0	2,257	--
Denise Mormile-Miglino	2,000	0	2,000	--
Michael Mullen	29,032	0	29,032	--
Joseph Sorbara	9,000	0	9,000	--
Subtotal		**11,917,680**	**2,978,957**	
Shares Issued to Former Stockholders of Tarpan Therapeutics, Inc.				
Lester E. Lipschutz, as ttee for Lindsay A. Rosenwald 2000 Family Trusts dtd 12/15/2000	8,918,354	2,474,393	0	6.7
Michael Weiser(y)	2,371,993	851,777	0	2.6
Jason Stein	1,927,016	851,777	0	1.8
Jeffrey Serbin	528,639	477,800	0	*
Lester E. Lipschutz, as ttee for Lindsay A. Rosenwlad 2000 Irrevocable Indenture Trust dtd 5/24/2000	8,918,354	617,035	0	6.7
Lester E. Lipschutz, as ttee for the Lindsay A. Rosenwald Rhode Island Irrevocable Trust dtd 8/28/2001	8,918,354	617,035	0	6.7
Lester E. Lipschutz, ttee for The Lindsay A. Rosenwald Alaska Irrevocable Trust dtd 8/28/2001	8,918,354	617,035	0	6.7
Lester E. Lipschutz, Investment Trustee of The Lindsay A. Rosenwald Nevada Irrevocable Trust dtd 8/28/2001	8,918,354	617,035	0	6.7
Melvyn Weiss	53,654	53,654	0	--
David Bershad	13,414	13,414	0	--
Everest Capital	53,654	53,654	0	--
Future Global Holdings	2,683	2,683	0	--
GMM Capital	42,923	42,923	0	--
NTP Partners c/o William Natbony	13,414	13,414	0	--
Fidulex	7,512	7,512	0	--

Lilian Hahn	13,414	13,414	0	--
Peter and Donna Kash	21,461	21,461	0	--
Pearl Capital Partners LP	5,366	5,366	0	--
Aaron Speisman	6,707	6,707	0	--
Joseph Friedman Trust	5,366	5,366	0	--
Robert Falk	5,366	5,366	0	--
335 MAD, LLC	16,097	16,097	0	--
Yitzhak Nissan	5,366	5,366	0	--
Alan Clingman	5,366	5,366	0	--
Benjamin Feinswog Trust	16,097	16,097	0	--
Henry and Monica Millin	5,366	5,366	0	--
Robert Klein	5,366	5,366	0	--
The Holding Company	18,779	18,779	0	--
Kanter Family Foundation	8,048	8,048	0	--
Jonathan Serbin	321,932	321,932	0	--
Peter Kash	978,459	256,593	0	1.2
Joshua A. Kazam	553,026	248,826	0	*
J. Jay Lobell	279,611	254,192	0	*
David M. Tanen	674,917	233,937	0	*
Stephen C. Rocamboli	412,496	233,937	0	*
Jillian Hoffman	267,378	150,449	0	*
William Corcoran	116,567	107,310	0	*
Kyle Kuhn	103,756	103,756	0	--
David Butera	103,756	103,756	0	--
Peter Barber	103,756	103,756	0	--
Timothy McInerney(aa)	745,784	103,756	0	1.1
Benjamin Bernstein	136,639	77,800	0	*
Colby Kash	51,871	51,871	0	--
Jared Kash	51,871	51,871	0	--
Shantall Kash	51,871	51,871	0	--
Zena Kash	51,871	51,871	0	--
Kash Family Trust	51,871	51,871	0	--
John Knox	164,229	93,897	0	*
Jennifer McNealey	46,680	46,660	0	--
John Cipriano	46,680	46,680	0	--
Elena Guttenplan	97,519	46,680	0	*
Donna Lozito	36,311	36,311	0	--
Louis Smookler	34,809	34,809	0	--
Scott Katzmann	105,093	25,942	0	*

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Selling Stockholder	Shares Beneficially Owned Before Offering	Number of Outstanding Shares Offered by Selling Stockholder	Number of Shares Offered by Selling Stockholder upon Exercise of Certain Warrants	Percentage Beneficial Ownership After Offering
John Papadimitropoulos	40,818	25,942	0	*
Kate Solomito	25,942	25,942	0	--
Geanine Haddad	25,942	25,942	0	--
Basil Christakos	35,546	25,942	0	*
Eric Lee	25,942	25,942	0	--
Timothy Shands	25,942	25,942	0	--
Claudia Donat	51,362	25,942	0	*
Bernard Gross	25,942	25,942	0	--
John Best	23,340	23,340	0	--
Elbert Chu	23,340	23,340	0	--
Ravi Chervu	23,340	23,340	0	--
Allison Robbins	23,340	23,340	0	--
Jamie Cabibihan	4,641	4,641	0	--
Kelly McCarthy	2,682	2,682	0	--
Elizabeth Marrero	2,682	2,682	0	--
Marion Birch	2,682	2,682	0	--
Subtotal		**10,731,047**	**0**	
TOTAL		**22,648,727**	**2,978,957**	

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* Less than 1%

(a) Dov Perlysky has voting and investment control over the shares held by the selling stockholder.

(b) Dimitry Balyasny has voting and investment control over the shares held by the selling stockholder.

(c) Tis Prager and Bruno Widmer share voting and investment control over the shares held by the selling stockholder.

(d) Robert Herskowitz has voting and investment control over the shares held by the selling stockholder.

(e) Alexander Ribaroff, Alan Daniel Wood and Peter Martin share voting and investment control over the shares held by the selling stockholder.

(f) Mitchell P. Kopin has voting and investment control over the shares held by the selling stockholder.

(g) Evan Burtton shares voting and investment control over the shares held by the selling stockholder.

(h) Steven G. Martin and Joshua B. Schoenfeld share voting and investment control over the shares held by the selling stockholder.

(i)

Esther Stahler has voting and investment control over the shares held by the selling stockholder.

(j) Tis Prager has voting and/or investment control over the shares held by the selling stockholder.

(k) Robert Villiers has voting and investment control over the shares held by the selling stockholder.

(l) Isaac Kier has has voting and investment control over the shares held by the selling stockholder.

(m) William A. Lewis IV has voting and investment control over the shares held by the selling stockholder.

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(n) Paul J. Corrello has voting and investment control over the shares held by the selling stockholder.
(o) Janet Roos, Graziella Leone, Peter Brown and Suzanne Callister share voting and investment control over the shares held by the selling stockholder.
(p) Arturo Quintero has voting and/or investment control over the shares held by the selling stockholder.
(q) Mark Rachesky has voting and/or investment control over the shares held by the selling stockholder.
(r) Paul J. Solit has voting and/or investment control over the shares held by the selling stockholder.
(s) Ruki Renov has voting and/or investment control over the shares held by the selling stockholder.
(t) Stefan P. Shoup and Jane R. Shoup have voting and/or investment control over the shares held by the selling stockholder.
(u) Esther Stahler has voting and/or investment control over the shares held by the selling stockholder.
(v) Richard L. Stern has voting and/or investment control over the shares held by the selling stockholder.
(w) Joseph E. Edelman and Andrew C. Sankin have voting and/or investment control over the shares held by the selling stockholder.
(x) Keith Goodman has voting and/or investment control over the shares held by the selling stockholder.
(y) Michael Weiser is a director of our company.
(z) Lindsay A. Rosenwald has voting and/or investment control over the shares held by the selling stockholder.
(aa) Timothy McInerney is a director of our company.

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PLAN OF DISTRIBUTION

We are registering the shares offered by this prospectus on behalf of the selling stockholders. The selling stockholders, which as used herein includes donees, pledgees, transferees or other successors-in-interest selling shares of common stock or interests in shares of common stock received after the date of this prospectus from a selling stockholder as a gift, pledge, partnership distribution or other transfer, may, from time to time, sell, transfer or otherwise dispose of any or all of their shares of common stock or interests in shares of common stock on any stock exchange, market or trading facility on which the shares are traded or in private transactions. These dispositions may be at fixed prices, at prevailing market prices at the time of sale, at prices related to the prevailing market price, at varying prices determined at the time of sale, or at negotiated prices.

The selling stockholders may use any one or more of the following methods when disposing of shares or interests therein:

- ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;
- block trades in which the broker-dealer will attempt to sell the shares as agent, but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker-dealer as principal and resale by the broker-dealer for its account;
- an exchange distribution in accordance with the rules of the applicable exchange;
- privately negotiated transactions;
- short sales;
- through the writing or settlement of options or other hedging transactions, whether through an options exchange or otherwise;
- broker-dealers may agree with the selling stockholders to sell a specified number of such shares at a stipulated price per share;
- a combination of any such methods of sale; and
- any other method permitted pursuant to applicable law.

The selling stockholders may, from time to time, pledge or grant a security interest in some or all of the shares of common stock owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the shares of common stock, from time to time, under this prospectus, or under an amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act amending the list of selling stockholders to include the pledgee, transferee or other successors in interest as selling stockholders under this prospectus. The selling stockholders also may transfer the shares of common stock in other circumstances, in which case the transferees, pledgees or other successors in interest will be the selling beneficial owners for purposes of this prospectus.

In connection with the sale of our common stock or interests therein, the selling stockholders may enter into hedging transactions with broker-dealers or other financial institutions, which may in turn engage in short sales of the common stock in the course of hedging the positions they assume. The selling stockholders may also sell shares of our common

stock short and deliver these securities to close out their short positions, or loan or pledge the common stock to broker-dealers that in turn may sell these securities. The selling stockholders may also enter into option or other transactions with broker-dealers or other financial institutions or the creation of one or more derivative securities which require the delivery to such broker-dealer or other financial institution of shares offered by this prospectus, which shares such broker-dealer or other financial institution may resell pursuant to this prospectus (as supplemented or amended to reflect such transaction).

The aggregate proceeds to the selling stockholders from the sale of the common stock offered by them will be the purchase price of the common stock less discounts or commissions, if any. Each of the selling stockholders reserves the right to accept and, together with their agents from time to time, to reject, in whole or in part, any proposed purchase of common stock to be made directly or through agents. We will not receive any of the proceeds from this offering. Upon any exercise of the warrants by payment of cash, however, we will receive the exercise price of the warrants.

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The selling stockholders also may resell all or a portion of the shares in open market transactions in reliance upon Rule 144 under the Securities Act of 1933, provided that they meet the criteria and conform to the requirements of that rule.

The selling stockholders and any broker-dealers that act in connection with the sale of the shares offered hereby might be deemed to be "underwriters" within the meaning of Section 2(11) of the Securities Act, and any commissions received by such broker-dealers and any profit on the resale of the securities sold by them while acting as principals might be deemed to be underwriting discounts or commissions under the Securities Act.

To the extent required, the shares of our common stock to be sold, the names of the selling stockholders, the respective purchase prices and public offering prices, the names of any agents, dealer or underwriter, any applicable commissions or discounts with respect to a particular offer will be set forth in an accompanying prospectus supplement or, if appropriate, a post-effective amendment to the registration statement that includes this prospectus.

In order to comply with the securities laws of some states, if applicable, the common stock may be sold in these jurisdictions only through registered or licensed brokers or dealers. In addition, in some states the common stock may not be sold unless it has been registered or qualified for sale or an exemption from registration or qualification requirements is available and is complied with.

We have advised the selling stockholders that the anti-manipulation rules of Regulation M under the Exchange Act may apply to sales of shares in the market and to the activities of the selling stockholders and their affiliates. In addition, we will make copies of this prospectus (as it may be supplemented or amended from time to time) available to the selling stockholders for the purpose of satisfying the prospectus delivery requirements of the Securities Act. The selling stockholders may indemnify any broker-dealer that participates in transactions involving the sale of the shares against certain liabilities, including liabilities arising under the Securities Act.

We have agreed to indemnify the selling stockholders against liabilities, including liabilities under the Securities Act and state securities laws, relating to the registration of the shares offered by this prospectus.

We have agreed with the selling stockholders to keep the registration statement of which this prospectus constitutes a part effective until the earlier of (1) such time as all of the shares covered by this prospectus have been disposed of pursuant to and in accordance with the registration statement or (2) the date on which the shares may be sold pursuant to Rule 144(k) of the Securities Act.

Shares Eligible For Future Sale

Upon completion of this offering and assuming the issuance of all of the shares covered by this prospectus that are issuable upon the exercise or conversion of convertible securities, there will be 62,392,228 shares of our common stock issued and outstanding. The shares purchased in this offering will be freely tradable without registration or other restriction under the Securities Act, except for any shares purchased by an "affiliate" of our company (as defined in the Securities Act).

Notwithstanding the foregoing, Lester E. Lipschutz (as trustee for various trusts), J. Jay Lobell, Timothy McInerney (a director of our company), Stephen C. Rocamboli, Jason Stein and Michael Weiser (a director of our company), all of whom were former stockholders of Tarpan Therapeutics, Inc., entered into an agreement with us in connection with our acquisition of Tarpan pursuant to which such persons agreed not to sell or dispose of the shares they acquired in connection with our acquisition of Tarpan for a period of at least 90 days following the effective date of the registration statement that included this prospectus. This agreement relates to an aggregate of 7,237,972 shares of our common stock, or approximately 67 percent of the shares we issued in connection with the Tarpan acquisition.

Our currently outstanding shares that were issued in reliance upon the “private placement” exemptions provided by the Act are deemed “restricted securities” within the meaning of Rule 144. Restricted securities may not be sold unless they are registered under the Securities Act or are sold pursuant to an applicable exemption from registration, including an exemption under Rule 144 of the Securities Act. The 18,689,916 restricted shares of our common stock that were issued in connection with the February 2003 merger with Manhattan Research Development, Inc. are now eligible for resale, provided that all of the other requirements of Rule 144 can be satisfied.

In general, under Rule 144 as currently in effect, any person (or persons whose shares are aggregated) including persons deemed to be affiliates, whose restricted securities have been fully paid for and held for at least one year from the later of the date of issuance by us or acquisition from an affiliate, may sell such securities in broker’s transactions or directly to market makers, provided that the number of shares sold in any three month period may not exceed the greater of 1 percent of the then-outstanding shares of our common stock or the average weekly trading volume of our shares of common stock in the over-the-counter market during the four calendar weeks preceding the sale. Sales under Rule 144 are also subject to certain notice requirements and the availability of current public information about our company. After two years have elapsed from the later of the issuance of restricted securities by us or their acquisition from an affiliate, such securities may be sold without limitation by persons who are not affiliates under the rule.

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Following the date of this prospectus, we cannot predict the effect, if any, that sales of our common stock or the availability of our common stock for sale will have on the market price prevailing from time to time. Nevertheless, sales by existing stockholders of substantial amounts of our common stock could adversely affect prevailing market prices for our stock.

DESCRIPTION OF CAPITAL STOCK

General

Our certificate of incorporation, as amended to date, authorizes us to issue up to 150,000,000 shares of common stock and 10,000,000 shares of preferred stock. As of September 20, 2005, we had 59,413,271 shares of common stock and no shares of preferred stock issued and outstanding. The transfer agent and registrar for our common stock is Continental Stock Transfer and Trust Company, New York, New York.

Common Stock

Holders of our common stock are entitled to one vote for each share on all matters to be voted on by our stockholders. Holders of our common stock do not have any cumulative voting rights. Common stockholders are entitled to share ratably in any dividends that may be declared from time to time on the common stock by our board of directors from funds legally available for dividends. Holders of common stock do not have any preemptive right to purchase shares of common stock. There are no conversion rights or sinking fund provisions for our common stock.

DISCLOSURE OF COMMISSION POSITION ON INDEMNIFICATION FOR SECURITIES ACT LIABILITIES

Pursuant to our certificate of incorporation and bylaws, we may indemnify an officer or director who is made a party to any proceeding, because of his position as such, to the fullest extent authorized by Delaware General Corporation Law, as the same exists or may hereafter be amended. In certain cases, we may advance expenses incurred in defending any such proceeding.

To the extent that indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling our company pursuant to the foregoing provisions, we have been informed that, in the opinion of the Securities and Exchange Commission, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable. If a claim for indemnification against such liabilities (other than the payment by us of expenses incurred or paid by a director, officer or controlling person of our company in the successful defense of any action, suit or proceeding) is asserted by any of our directors, officers or controlling persons 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 that issue.

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ABOUT THIS PROSPECTUS

This prospectus is not an offer or solicitation in respect to these securities in any jurisdiction in which such offer or solicitation would be unlawful. This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission. The registration statement that contains this prospectus (including the exhibits to the registration statement) contains additional information about our company and the securities offered under this prospectus. That registration statement can be read at the SEC web site or at the SEC's offices mentioned under the heading "Where You Can Find More Information." We have not authorized anyone else to provide you with different information or additional information. You should not assume that the information in this prospectus, or any supplement or amendment to this prospectus, is accurate at any date other than the date indicated on the cover page of such documents.

WHERE YOU CAN FIND MORE INFORMATION

Federal securities law requires us to file information with the SEC concerning our business and operations. Accordingly, we file annual, quarterly, and special reports, proxy statements and other information with the SEC. You can inspect and copy this information at the Public Reference Facility maintained by the SEC at Judiciary Plaza, 450 5th Street, N.W., Room 1024, Washington, D.C. 20549. You can receive additional information about the operation of the SEC's Public Reference Facilities by calling the SEC at 1-800-SEC-0330. The SEC also maintains a web site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding companies that, like us, file information electronically with the SEC.

VALIDITY OF COMMON STOCK

Legal matters in connection with the validity of the shares offered by this prospectus will be passed upon by Maslon Edelman Borman & Brand, LLP, Minneapolis, Minnesota.

EXPERTS

The consolidated financial statements of Manhattan Pharmaceuticals, Inc. as of December 31, 2004 and 2003, and for the years then ended and the period from August 6, 2001 (date of inception) to December 31, 2004, included in this prospectus, have been included herein in reliance on the report, dated March 18, 2005, of J.H. Cohn LLP, independent registered public accounting firm, given on the authority of that firm as experts in accounting and auditing.

The financial statements of Tarpan Therapeutics, Inc. as of December 31, 2004 and 2003, and for the year ended December 31, 2004, the period from July 16, 2003 (inception) to December 31, 2003, and the period from July 16, 2003 (inception) to December 31, 2004, included in this prospectus, have been included herein in reliance on the report, dated April 1, 2005, of J.H. Cohn LLP, independent registered public accounting firm, given on the authority of that firm as experts in accounting and auditing.

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MANHATTAN PHARMACEUTICALS, INC. AND SUBSIDIARIES
(A Development Stage Company)
Condensed Consolidated Balance Sheets
(Unaudited)

Assets	June 30, 2005	December 31, 2004
Current assets:		
Cash and cash equivalents	$ 889,864	$ 905,656
Short-term investments, available for sale, at market	1,505,853	4,514,216
Prepaid expenses	17,012	40,126
Total current assets	2,412,729	5,459,998
Property and equipment, net	115,891	119,017
Other assets	70,506	70,506
Total assets	$ 2,599,126	$ 5,649,521
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 1,302,961	$ 1,143,603
Accrued expenses	148,074	52,102
Total current liabilities	1,451,035	1,195,705
Notes payable to related parties	324,392	—
Total liabilities	1,775,427	1,195,705
Commitments and Contingencies		
Stockholders' equity:		
Series A convertible preferred stock, $.001 par value.		
Authorized 1,500,000 shares; 731,964 and 854,373 shares issued and		
outstanding at June 30, 2005 and December 31, 2004, respectively		
(liquidation preference aggregating $7,369,640 and $8,973,730 at		
June 30, 2005 and December 31, 2004, respectively)	732	854
Common stock, $.001 par value. Authorized 150,000,000 shares;		
40,820,601 and 28,309,187 shares issued and outstanding		
at June 30, 2005 and December 31, 2004, respectively	40,821	28,309
Additional paid-in capital	29,789,111	18,083,208
Deficit accumulated during development stage	(28,993,575)	(13,955,035)
Dividends payable in Series A preferred shares	75,738	303,411
Accumulated other comprehensive income	—	13,237
Unearned consulting services	(89,128)	(20,168)
Total stockholders' equity	823,699	4,453,816
Total liabilities and stockholders' equity	$ 2,599,126	$ 5,649,521

See accompanying notes to unaudited condensed consolidated financial statements.

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MANHATTAN PHARMACEUTICALS, INC. AND SUBSIDIARIES
(A Development Stage Company)
Condensed Consolidated Statements of Operations
(Unaudited)

	Six Months ended June 30,		Cumulative period from August 6, 2001 (inception) to June 30,
	2005	**2004**	**2005**
Revenue	$—	$—	$—
Costs and expenses:			
Research and development	1,921,275	1,228,234	8,523,709
General and administrative	1,046,403	880,993	5,171,893
In-process research and development charge	11,887,807	—	11,887,807
Impairment of intangible assets	—	—	1,248,230
Loss on disposition of intangible assets	—	—	1,213,878
Total operating expenses	14,855,485	2,109,227	28,045,517
Operating loss	(14,855,485)	(2,109,227)	(28,045,517)
Other (income) expense:			
Interest and other income	(68,346)	(81,091)	(260,035)
Interest expense	—	—	23,893
Realized gain on sale of marketable equity securities	—	(71,182)	(71,182)
Total other income	(68,346)	(152,273)	(307,324)
Net loss	(14,787,139)	(1,956,954)	(27,738,193)
Preferred stock dividends (including imputed amounts)	(251,401)	(392,805)	(1,255,382)
Net loss applicable to common shares	$ (15,038,540)	$ (2,349,759)	$ (28,993,575)
Net loss per common share:			
Basic and diluted	$ (0.43)	$ (0.09)	
Weighted average shares of common stock outstanding:			
Basic and diluted	34,663,130	26,444,118	

See accompanying notes to unaudited condensed consolidated financial statements.

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MANHATTAN PHARMACEUTICALS, INC. AND SUBSIDIARIES
(A Development Stage Company)
Condensed Consolidated Statement of Stockholders' Equity (Deficiency)
(Unaudited)

	Series A convertible preferred stock Shares	Amount	Common stock Shares	Amount	Additional paid-in capital	Subscription receivable	Deficit accumulated during development stage	Dividends payable in Series A preferred shares	Accumulated other comprehensive income/(loss)	Unearne consulti costs
Stock issued at $0.0004 per share for subscription receivable	—	$ —	10,167,741	$ 10,168	$ (6,168)	$ (4,000)	$	— $	— $	— $
Net loss	—	—	—	—	—	—	(56,796)	—	—	
Balance at December 31, 2001	—	—	10,167,741	10,168	(6,168)	(4,000)	(56,796)	—	—	
Proceeds from subscription receivable	—	—	—	—	—	4,000	—	—	—	
Stock issued at $0.0004 per share for license rights	—	—	2,541,935	2,542	(1,542)	—	—	—	—	
Stock options issued for consulting services	—	—	—	—	60,589	—	—	—	—	(60,5
Amortization of unearned consulting services	—	—	—	—	—	—	—	—	—	22,7
Sales of common stock at $0.63 per share through private placement, net of expenses	—	—	3,043,332	3,043	1,701,275	—	—	—	—	
Net loss	—	—	—	—		—	(1,037,320)	—	—	

Balance at December 31, 2002	—	—	15,753,008	15,753	1,754,154	—	(1,094,116)	—	—	(37,8
Common stock issued at $0.63 per share, net of expenses	—	—	1,321,806	1,322	742,369	—	—	—	—	
Effect of reverse acquisition	—	—	6,287,582	6,287	2,329,954	—	—	—	—	
Amortization of unearned consulting costs	—	—	—	—	—	—	—	—	—	37,8
Unrealized loss on short-term investments	—	—	—	—	—	—	—	—	(7,760)	
Payment for fractional shares for stock combination	—	—	—	—	(300)	—	—	—	—	
Preferred stock issued at $10 per share, net of expenses	1,000,000	1,000	—	—	9,045,176	—	—	—	—	
Imputed preferred stock dividend					418,182	—	(418,182)	—		
Net loss	—	—	—	—	—	—	(5,960,907)	—	—	
Balance at December 31, 2003	1,000,000	1,000	23,362,396	23,362	14,289,535	—	(7,473,205)	—	(7,760)	
Exercise of stock options	—	—	27,600	27	30,073	—	—	—	—	
Common stock issued through private placement at $1.10 per share, net of expenses										

per share, net of expenses	—	—	3,368,952	3,369	3,358,349	—	—	—	—	
Conversion of preferred stock to common stock	(170,528)	(171)	1,550,239	1,551	(1,380)	—	—	—	—	
Preferred stock dividends paid by issuance of shares	24,901	25	—	—	281,073	—	—	(282,388)	—	
Preferred stock dividend accrued	—	—	—	—	—	—	(585,799)	585,799	—	
Warrants issued for consulting services	—	—	—	—	125,558	—	—	—	—	(120,9
Amortization of unearned consulting costs	—	—	—	—	—	—	—	—	—	100,8
Reversal of unrealized loss on short-term investments										
and unrealized gain on short-term investments	—	—	—	—	—	—	—	—	20,997	
Net loss	—	—	—	—	—	—	(5,896,031)	—	—	
Balance at December 31, 2004	854,373	854	28,309,187	28,309	18,083,208	—	(13,955,035)	303,411	13,237	(20,1
Exercise of stock options	—	—	32,400	33	32,367	—	—	—	—	
Exercise of warrants	—	—	255,342	255	68,236	—	—	—	—	
Conversion of preferred stock to common stock	(164,190)	(164)	1,492,620	1,493	(1,329)	—	—	—	—	
	41,781	42	—	—	477,736	—	—	(479,074)	—	

Preferred stock dividends paid by issuance of shares										
Preferred stock dividend accrued	—	—	—	—	—	—	(251,401)	251,401	—	
Options issued for consulting services	—	—	—	—	97,230	—	—	—	—	(97,2
Amortization of unearned consulting costs	—	—	—	—	—	—	—	—	—	28,2
Reversal of unrealized gain on short-term investments	—	—	—	—	—	—	—	—	(13,237)	
Costs associated with private placement	—	—	—	—	(10,590)	—	—	—	—	
Stock issued in connection with acquisition of Tarpan Therapeutics, Inc.	—	—	10,731,052	10,731	11,042,253	—	—	—	—	
Net loss	—	—	—	—	—	—	(14,787,139)	—	—	
Balance at June 30, 2005	731,964	$ 732	40,820,601	$ 40,821	$ 29,789,111	$ —	$ (28,993,575)	$ 75,738	$ —	$ (89,1

See accompanying notes to unaudited condensed consolidated financial statements.

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MANHATTAN PHARMACEUTICALS, INC. AND SUBSIDIARIES
(A Development Stage Company)
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Six months ended June 30, 2005	2004	Cumulative period from August 6, 2001 (inception) to June 30, 2005
Cash flows from operating activities:			
Net loss	$ (14,787,139)	$ (1,956,954)	$ (27,738,193)
Adjustments to reconcile net loss to net cash used in operating activities:			
Common stock issued for license rights	—	—	1,000
Amortization of unearned consulting costs	28,270	40,320	189,659
Warrants issued for consulting services	—	—	4,590
Amortization of intangible assets	—	—	145,162
Gain on sale of marketable equity securities	—	—	(71,182)
Depreciation	27,334	7,350	60,894
Non cash portion of in-process research and development charge	11,721,623	—	11,721,623
Loss on impairment of intangible assets	—	—	1,248,230
Loss on disposition of intangible assets	—	—	1,213,878
Changes in operating assets and liabilities, net of acquisitions:			
Decrease (increase) in prepaid expenses	23,114	(2,492)	41,233
Increase in other assets	—	—	(70,506)
Increase (decrease) in accounts payable	133,307	(135,088)	953,175
Increase (decrease) in accrued expenses	95,972	(206,518)	(392,247)
Net cash used in operating activities	(2,757,519)	(2,253,382)	(12,692,684)
Cash flows from investing activities:			
Purchase of property and equipment	(22,171)	(53,992)	(167,065)
Cash paid in connection with acquisitions	—	—	(32,808)
Purchase of short-term investments	—	—	(5,000,979)
Proceeds from sale of short-term investments	2,995,126	431,089	3,926,215
Proceeds from sale of license	—	—	200,001
Cash acquired in acquisition	6,777	—	6,777
Net cash provided by (used in) investing activities	2,979,732	377,097	(1,067,859)
Cash flows from financing activities:			
Proceeds from issuances of notes payable to stockholders	—	—	233,500
Repayments of notes payable to stockholders	(327,010)	—	(560,510)
Proceeds from issuance of note payable to bank	—	—	600,000
Repayment of note payable to bank	—	—	(600,000)
Proceeds from subscriptions receivable	—	—	4,000
Payment for fractional shares for stock combination	(1,296)	—	(2,286)
Proceeds from sale of common stock, net	—	3,431,165	5,809,126

Costs associated with private placement	(10,590)	(46,423)	(10,590)
Proceeds from sale of preferred stock, net	—	—	9,046,176
Proceeds from exercise of stock options	32,400	14,500	62,500
Proceeds from exercise of warrants	68,491	—	68,491
Net cash provided by (used in) financing activities	(238,005)	3,399,242	14,650,407
Net increase (decrease) in cash and cash equivalents	(15,792)	1,522,957	889,864
Cash and cash equivalents at beginning of period	905,656	7,413,803	—
Cash and cash equivalents at end of period	$ 889,864	$ 8,936,760	$ 889,864
Supplemental disclosure of cash flow information:			
Interest paid	$ —	$ —	$ 26,934
Supplemental disclosure of noncash investing and financing activities:			
Stock options/warrants issued for consulting services	$ 97,230	$ 120,968	$ 278,787
Preferred stock dividends accrued	251,401	392,805	837,200
Conversion of preferred stock to common stock	164	—	335
Preferred stock dividends paid by issuance of shares	477,778	—	759,176
Issuance of common stock for acquisitions	11,052,984	—	13,389,226
Marketable equity securities received in connection with sale of license	—	—	359,907
Subscription receivable from exercise of options	—	15,600	—
Net liabilities assumed in business combination	(675,416)	—	(675,416)

See accompanying notes to unaudited condensed consolidated financial statements.

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MANHATTAN PHARMACEUTICALS, INC. and SUBSIDIARIES
(A Development Stage Company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
June 30, 2005

(1) BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, the consolidated financial statements do not include all information and footnotes required by accounting principles generally accepted in the United States of America for complete annual financial statements. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting of only normal recurring adjustments, considered necessary for a fair presentation. Interim operating results are not necessarily indicative of results that may be expected for the year ending December 31, 2005 or for any subsequent period. These unaudited condensed consolidated financial statements should be read in conjunction with audited financial statements of Manhattan Pharmaceuticals, Inc. and its subsidiaries ("Manhattan" or the "Company") as of and for the year ended December 31, 2004, which are included elsewhere in this prospectus. The condensed consolidated balance sheet as of December 31, 2004 has been derived from the audited consolidated financial statements included elsewhere in this prospectus.

(2) LIQUIDITY

The Company reported a net loss of $14,787,139 and negative cash flows from operating activities of $2,757,519 for the six months ended June 30, 2005. The net loss from date of inception, August 6, 2001, to June 30, 2005 amounts to $27,738,193.

Management believes that the Company will continue to incur net losses and negative cash flows from operating activities through at least June 30, 2006. Based on the resources of the Company available at June 30, 2005, management believes that the Company will need additional equity or debt financing or will need to generate revenues during 2005 through licensing of its products or entering into strategic alliances to be able to sustain its operations through 2005 and that it will need additional financing thereafter until it can achieve profitability, if ever. These matters raise substantial doubt about the Company's ability to continue as a going concern.

The Company's continued operations will depend on its ability to raise additional funds through various potential sources such as equity and debt financing, collaborative agreements, strategic alliances and its ability to realize the full potential of its technology in development. Additional funds may not become available on acceptable terms, and there can be no assurance that any additional funding that the Company does obtain will be sufficient to meet the Company's needs in the long term. Through June 30, 2005, a significant portion of the Company's financing has been through private placements of common and preferred stock. Until and unless the Company's operations generate significant revenues and cash flows from operating activities, the Company will attempt to continue to fund operations from cash on hand and through the sources of capital previously described. See Note 6 below.

(3) COMPUTATION OF NET LOSS PER COMMON SHARE

Basic net loss per common share is calculated by dividing net loss applicable to common shares by the weighted-average number of common shares outstanding for the period. Diluted net loss per common share is the same as basic net loss per common share, since potentially dilutive securities from stock options, stock warrants and convertible preferred stock would have an antidilutive effect because the Company incurred a net loss during each

period presented. The amount of potentially dilutive securities excluded from the calculation was 16,349,537 and 15,970,578 as of June 30, 2005 and 2004, respectively.

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MANHATTAN PHARMACEUTICALS, INC. and SUBSIDIARIES
(A Development Stage Company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
June 30, 2005

(4) STOCK OPTIONS

On January 11, 2005, the Company granted directors and employees options to purchase an aggregate of 367,280 shares of common stock under the Company's 2003 Stock Option Plan at an exercise price of $1.00 per share. 168,030 shares subject to these options vest in three equal annual installments starting on the grant date and continuing each anniversary thereafter, provided the optionee continues in service. 50,000 shares subject to these options vest in two equal annual installments starting on January 3, 2006, provided the optionee continues in service, and 149,250 shares subject to these options vest in three equal annual installments starting one year from the grant date, provided the optionee continues in service. On April 1, 2005, the Company granted its chief executive officer an option to purchase an aggregate of 2,923,900 shares of common stock under the Company's 2003 Stock Option Plan at an exercise price of $1.50 per share. The option vests in three equal installments, on November 1, 2005, November 1, 2006 and November 1, 2007. On June 16, 2005, the Company granted a consultant options to purchase an aggregate of 100,000 shares of common stock under the Company's 2003 Stock Option Plan at an exercise price of $1.60 per share. All shares subject to these options vest in thirty-six equal monthly installments beginning on the first month anniversary of the date of the grant, provided the consultant continues to provide services to the Company.

The Company uses the intrinsic value method of accounting for employee stock options pursuant to the provisions of APB Opinion No. 25. Since all of the options granted by the Company have been at exercise prices that were at least equal to the market value at the date of grant, there were no charges to operations upon issuance. Had compensation costs been determined using the Black-Scholes option pricing model in accordance with the fair value method prescribed by SFAS No. 123 for all options issued to employees and amortized over the vesting period, the Company's net loss applicable to common shares and net loss per common share (basic and diluted) would have been increased to the pro forma amounts indicated below.

	Six months ended June 30,	
	2005	**2004**
Net loss applicable to common shares, as reported	$ (15,038,540)	$ (2,349,759)
Deduct: Total stock-based employee compensation expense determined under fair value method	(561,219)	(564,288)
Net loss applicable to common shares, pro forma	$ (15,599,759)	$ (2,914,047)
Net loss per common share – basic		
As reported	$ (0.43)	$ (0.09)
Pro forma	(0.45)	(0.11)

As a result of amendments to SFAS No. 123, the Company will be required to expense the fair value of employee stock options over the vesting period, beginning January 1, 2006.

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MANHATTAN PHARMACEUTICALS, INC. and SUBSIDIARIES
(A Development Stage Company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
June 30, 2005

The fair value of each option granted is estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions used for the grants in the six months ended June 30, 2005: dividend yield of 0%; expected volatility of 70%; risk-free interest rate of 3.7%; and expected lives of five years. The following assumptions were used for the grants in the six months ended June 30, 2004: dividend yield of 0%; expected volatility of 82%; risk-free interest rate of 3.2%; and expected lives of eight years.

(5) ACQUISITION OF TARPAN THERAPEUTICS, INC.

On April 1, 2005, the Company entered into an Agreement and Plan of Merger (the "Agreement") with Tarpan Therapeutics, Inc., a Delaware corporation ("Tarpan"), and Tarpan Acquisition Corp., a Delaware corporation and wholly-owned subsidiary of the Company ("TAC"). The Agreement provided that TAC would merge with and into Tarpan, with Tarpan remaining as the surviving corporation and a wholly-owned subsidiary of the Company (the "Merger"). The Merger was completed April 1, 2005. In consideration for their shares of Tarpan capital stock and in accordance with the Agreement, the stockholders of Tarpan received 10,731,052 shares of the Company's common stock such that, upon the effective time of the Merger, the Tarpan stockholders collectively received approximately 20 percent of the Company's outstanding common stock on a fully-diluted basis. Based on the five day average price of the Company's common stock of $1.03 per share, the purchase price totaled $11,052,984, plus $166,184 of acquisition costs. At the time of the Merger, Tarpan had outstanding indebtedness of $651,000 resulting from a series of promissory notes issued to Paramount BioCapital Investments, LLC and Horizon BioMedical Ventures, LLC, both of which are owned or controlled by Dr. Lindsay Rosenwald. The notes were amended at the time of the Merger to provide that one-half of the outstanding indebtedness was payable upon completion of the Merger and the remaining one-half will be payable at such time as the Company raises at least $5 million in new financing.

The acquisition of Tarpan has been accounted for by the Company under the purchase method of accounting in accordance with Statement of Financial Accounting Standards No. 141 "Business Combinations". Under the purchase method, assets acquired and liabilities assumed by the Company are recorded at their estimated fair values and the results of operations of the acquired company are consolidated with those of the Company from the date of acquisition.

Several of Tarpan's former stockholders are directors or significant stockholders of the Company. Dr. Rosenwald and various trusts established for the benefit of Dr. Rosenwald and members of his immediate family collectively beneficially owned approximately 46 percent of Tarpan's common stock and beneficially own approximately 26 percent of the Company's common stock. In addition, Joshua Kazam, David Tanen, Dr. Michael Weiser and Timothy McInerney, all of whom are members of the Company's board of directors, collectively owned approximately 13.4 percent of Tarpan's outstanding common stock. Dr. Weiser and Mr. McInerney are also employed by Paramount BioCapital, Inc., an entity owned and controlled by Dr. Rosenwald. As a result of such relationships between the Company and Tarpan, the Company's board of directors established a special committee to consider and approve the Agreement. The members of the special committee did not have any prior relationship with Tarpan.

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MANHATTAN PHARMACEUTICALS, INC. and SUBSIDIARIES
(A Development Stage Company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
June 30, 2005

Upon completion of the Merger, Douglas Abel, formerly chief executive officer of Tarpan, was appointed President and Chief Executive Officer of the Company. Pursuant to the agreement, the Company entered into an employment agreement dated April 1, 2005 with Mr. Abel. This agreement has a three-year term commencing on April 1, 2005, which may be extended for additional one year periods thereafter. Under the agreement, Mr. Abel is entitled to an annual salary of $300,000, in addition to health, disability insurance and other benefits. The annual salary shall be increased to $325,000 at such time as the Company completes a financing transaction that results in aggregate gross proceeds to the Company of at least $5,000,000, retroactive to the date of the employment agreement. In addition, the Company will pay Mr. Abel a cash bonus of $200,000 in the first year and he may receive a discretionary bonus in the first and subsequent years of up to 50 percent of his base salary. Pursuant to his employment agreement, Mr. Abel was granted an option to purchase an aggregate of 2,923,900 shares of common stock at a price of $1.50 per share. The option vests in three equal installments, on November 1, 2005, November 1, 2006, and November 1, 2007.

The excess purchase price paid by the Company to acquire the net assets of Tarpan was allocated to acquired in-process research and development totaling $11,887,807. As required by FASB Interpretation No. 4, “Applicability of FASB Statement No. 2 to Business combinations Accounted for by the Purchase Method “ (“FIN4”), the Company recorded a charge in its statements of operations for the three and six months ended June 30, 2005 for the in-process research and development. Tarpan is a biopharmaceutical company engaged in the development of the Phase II pharmaceutical product candidate, PTH (1-34). The acquisition of Tarpan gives Manhattan this third product candidate. Results of operations of Tarpan are included in the consolidated financials since April 1, 2005.

A summary of the purchase price is as follows:

Assets purchased:	
Cash	$ 6,777
Property and equipment	2,037
Acquired in-process research and development	11,887,807
Total	11,896,621
Liabilities:	
Accounts payable	26,051
Notes payable - related parties	651,402
Total	677,453
Net purchase price	$ 11,219,168

The following unaudited pro forma financial information presents the condensed consolidated results of operations of the Company and Tarpan, as if the acquisition had occurred on January 1, 2005 and 2004 instead of April 1, 2005, after giving effect to certain adjustments, including the issuance of the Company’s common stock as part of the purchase price. The pro forma information does not necessarily reflect the results of operations that would have occurred had the entities been a single company during the period.

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MANHATTAN PHARMACEUTICALS, INC. and SUBSIDIARIES
(A Development Stage Company)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
June 30, 2005

	Six months ended June 30,	
	2005	**2004**
Net loss	$ (14,914,400)	$ (14,150,463)
Weighted average number of common shares outstanding	40,058,300	37,175,170
Loss per common share - basic and fully diluted	$ (0.37)	$ (0.38)

(6) SUBSEQUENT EVENT - PRIVATE PLACEMENT

The Company recently completed a private placement offering of units consisting of shares of the Company's common stock and warrants to purchase additional shares of common stock. The private placement was completed in two separate closings held on August 26, 2005 and August 30, 2005. In the August 26 closing, the Company sold a total of 10,808,971 shares of common stock and five-year warrants to purchase 2,161,767 shares for total gross proceeds of approximately $12 million. The warrants issued at the August 26 closing are exercisable at a price of $1.44 per share. On August 30, 2005, the Company closed on the sale of an additional 1,108,709 shares of common stock and warrants to purchase 221,741 common shares, which resulted in gross proceeds of approximately $1.28 million. The warrants issued in connection with the August 30 closing are exercisable at a price of $1.49 per share. Accordingly, the total gross proceeds resulting from the private placement was $13.27 million, before deducting selling commissions and expenses.

The Company engaged Paramount BioCapital, Inc. as placement agent and paid total cash commissions of $836,360, of which $121,625 was paid to certain selected dealers engaged by Paramount in connection with the private placement and issued five-year warrants to purchase an aggregate of 538,191 shares of common stock exercisable at a price of $1.44 per share, of which Paramount received warrants to purchase 459,932 common shares. In connection with the August 30 closing, the Company paid cash commissions to Paramount of $88,550 and issued an additional five-year warrant to purchase 55,000 common shares at a price of $1.49 per share. After deduction of these selling commissions and expenses, the Company realized aggregate net proceeds from the Company's August 2005 private placement of approximately $12.2 million.

As a result of this offering, the Company expects that the its current cash position is sufficient to fund the Company's operations, including the development of the Company's three product candidates, through late 2006.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Manhattan Pharmaceuticals, Inc.

We have audited the accompanying consolidated balance sheets of Manhattan Pharmaceuticals, Inc. and Subsidiaries (a development stage company) as of December 31, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity (deficiency) and cash flows for the years then ended, and for the period from August 6, 2001 (date of inception) to December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Manhattan Pharmaceuticals, Inc. and Subsidiaries as of December 31, 2004 and 2003, and their consolidated results of operations and cash flows for the years then ended and for the period from August 6, 2001 (date of inception) to December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2, the Company incurred a net loss of $5,896,031 and used $5,690,445 of cash in operating activities during the year ended December 31, 2004 and, as of that date, it had a loss from inception of $12,951,054. These matters raise substantial doubt about the Company’s ability to continue as a going concern. Management's plans concerning these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/J.H. Cohn LLP

Roseland, New Jersey
March 18, 2005

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MANHATTAN PHARMACEUTICALS, INC. AND SUBSIDIARIES
(A Development Stage Company)

Consolidated Balance Sheets

Assets	December 31, 2004	December 31, 2003
Current assets:		
Cash and cash equivalents	$ 905,656	$ 7,413,803
Short-term investments, available for sale, at market	4,514,216	352,147
Prepaid expenses	40,126	24,981
Total current assets	5,459,998	7,790,931
Property and equipment, net	119,017	8,021
Other assets	70,506	—
Total assets	$ 5,649,521	$ 7,798,952
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 1,143,603	$ 548,595
Accrued expenses	52,102	417,425
Total liabilities	1,195,705	966,020
Commitments and contingencies		
Stockholders' equity:		
Series A convertible preferred stock, $.001 par value. Authorized 1,500,000 shares; 854,373 and 1,000,000 shares issued and outstanding at December 31, 2004 and December 31, 2003, respectively (liquidation preference aggregating $8,973,730 and $10,000,000 at December 31, 2004 and 2003, respectively)	854	1,000
Common stock, $.001 par value. Authorized 150,000,000 shares; 28,309,187 and 23,362,396 shares issued and outstanding at December 31, 2004 and December 31, 2003, respectively	28,309	23,362
Additional paid-in capital	18,083,208	14,289,535
Deficit accumulated during development stage	(13,955,035)	(7,473,205)
Dividends payable in Series A preferred shares	303,411	—
Accumulated other comprehensive income (loss)	13,237	(7,760)
Unearned consulting costs	(20,168)	—
Total stockholders' equity	4,453,816	6,832,932
Total liabilities and stockholders' equity	$ 5,649,521	$ 7,798,952

See accompanying notes to consolidated financial statements.

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MANHATTAN PHARMACEUTICALS, INC. AND SUBSIDIARIES
(A Development Stage Company)

Consolidated Statements of Operations

	Years ended December 31, 2004	2003	Cumulative period from August 6, 2001 (inception) to December 31, 2004
Revenue	$ —	$ —	$ —
Costs and expenses:			
Research and development	4,152,994	1,724,043	6,602,434
General and administrative	1,989,829	1,786,080	4,125,490
Impairment of intangible assets	—	1,248,230	1,248,230
Loss on disposition of intangible assets	—	1,213,878	1,213,878
Total operating expenses	6,142,823	5,972,231	13,190,032
Operating loss	(6,142,823)	(5,972,231)	(13,190,032)
Other (income) expense:			
Interest and other income	(175,610)	(16,079)	(191,689)
Interest expense	—	4,755	23,893
Realized gain on sale of short-term investments	(71,182)	—	(71,182)
Total other income	(246,792)	(11,324)	(238,978)
Net loss	(5,896,031)	(5,960,907)	(12,951,054)
Preferred stock dividends (including imputed amounts)	(585,799)	(418,182)	(1,003,981)
Net loss applicable to common shares	$ (6,481,830)	$ (6,379,089)	$ (13,955,035)
Net loss per common share:			
Basic and diluted	$ (0.24)	$ (0.28)	
Weighted average shares of common stock outstanding:			
Basic and diluted	26,936,658	22,389,755	

See accompanying notes to consolidated financial statements.

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MANHATTAN PHARMACEUTICALS, INC. AND SUBSIDIARIES
(A Development Stage Company)

Consolidated Statement of Stockholders' Equity (Deficiency)

	Series A convertible preferred stock		Common stock		Additional paid-in capital	Subscription receivable	Deficit accumulated during development stage	Dividends payable in Series A preferred shares	Accumulated other comprehensive income/(loss)	Unearned consulting costs
	Shares	Amount	Shares	Amount						
Stock issued at $0.0004 per share for subscription receivable	—	$ —	10,167,741	$ 10,168	$ (6,168)	$ (4,000)	$ —	$ —	$ —	$ —
Net loss	—	—	—	—	—	—	(56,796)	—	—	
Balance at December 31, 2001	—	—	10,167,741	10,168	(6,168)	(4,000)	(56,796)	—	—	
Proceeds from subscription receivable	—	—	—	—	—	4,000	—	—	—	
Stock issued at $0.0004 per share for license rights	—	—	2,541,935	2,542	(1,542)	—	—	—	—	
Stock options issued for consulting services	—	—	—	—	60,589	—	—	—	—	(60,589
Amortization of unearned consulting services	—	—	—	—	—	—	—	—	—	22,72
Sales of common stock at $0.63 per sharethrough private placement, net of expenses	—	—	3,043,332	3,043	1,701,275	—	—	—	—	
Net loss	—	—	—	—		—	(1,037,320)	—	—	
	—	—	15,753,008	15,753	1,754,154	—	(1,094,116)	—	—	(37,86

Balance at December 31, 2002										
Common stock issued at $0.63 per share, net of expenses	—	—	1,321,806	1,322	742,369	—	—	—	—	
Effect of reverse acquisition	—	—	6,287,582	6,287	2,329,954	—	—	—	—	
Amortization of unearned consulting costs	—	—	—	—	—	—	—	—	—	37,86
Unrealized loss on short-term investments	—	—	—	—	—	—	—	—	(7,760)	
Payment for fractional shares for stock combination	—	—	—	—	(300)	—	—	—	—	
Preferred stock issued at $10 per share, net of expenses	1,000,000	1,000	—	—	9,045,176	—	—	—	—	
Imputed preferred stock dividend					418,182	—	(418,182)	—		
Net loss	—	—	—	—	—	—	(5,960,907)	—	—	
Balance at December 31, 2003	1,000,000	1,000	23,362,396	23,362	14,289,535	—	(7,473,205)	—	(7,760)	
Exercise of stock options	—	—	27,600	27	30,073	—	—	—	—	
Common stock issued through private placement at $1.10 per share, net of expenses per share, net of expenses	—	—	3,368,952	3,369	3,358,349	—	—	—	—	

Conversion of preferred stock to common stock	(170,528)	(171)	1,550,239	1,551	(1,380)	—	—	—	—	
Preferred stock dividends paid by issuance of shares	24,901	25	—	—	281,073	—	—	(282,388)	—	
Preferred stock dividend accrued	—	—	—	—	—	—	(585,799)	585,799	—	
Warrants issued for consulting services	—	—	—	—	125,558	—	—	—	—	(120,96
Amortization of unearned consulting costs	—	—	—	—	—	—	—	—	—	100,80
Reversal of unrealized loss on short-term investments and unrealized gain on short-term investments	—	—	—	—	—	—	—	—	20,997	
Net loss	—	—	—	—	—	—	(5,896,031)	—	—	
Balance at December 31, 2004	854,373	$ 854	28,309,187	$ 28,309	$ 18,083,208	$ —	$ (13,955,035)	$ 303,411	$ 13,237	$ (20,16

See accompanying notes to consolidated financial statements.

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MANHATTAN PHARMACEUTICALS, INC. AND SUBSIDIARIES
(A Development Stage Company)

Condensed Consolidated Statements of Cash Flows

	Years ended December 31, 2004	2003	Cumulative period from August 6, 2001 (inception) to December 31, 2004
Cash flows from operating activities:			
Net loss	$ (5,896,031)	$ (5,960,907)	$ (12,951,054)
Adjustments to reconcile net loss to net cash used in operating activities:			
Common stock issued for license rights	—	—	1,000
Amortization of unearned consulting costs	100,800	37,868	161,389
Warrants issued for consulting services	4,590	—	4,590
Amortization of intangible assets	—	145,162	145,162
Gain on sale of short-term investments	(71,182)	—	(71,182)
Depreciation	27,344	6,216	33,560
Loss on impairment of intangible assets	—	1,248,230	1,248,230
Loss on disposition of intangible assets	—	1,213,878	1,213,878
Changes in operating assets and liabilities, net of acquisition:			
(Increase)/decrease in prepaid expenses and other current assets	(15,145)	33,264	18,119
Increase in other assets	(70,506)	—	(70,506)
Increase in accounts payable	595,008	59,961	819,868
Decrease in accrued expenses	(365,323)	(138,869)	(488,219)
Decrease in due affiliate	—	(96,328)	—
Net cash used in operating activities	(5,690,445)	(3,451,525)	(9,935,165)
Cash flows from investing activities:			
Purchase of property and equipment	(138,340)	(6,554)	(144,894)
Cash paid in connection with acquisition	—	(32,808)	(32,808)
Purchase of short-term investments	(5,000,979)	—	(5,000,979)
Proceeds from sales of short-term investments	931,089	—	931,089
Proceeds from sale of license	—	200,000	200,001
Net cash provided by (used in) investing activities	(4,208,230)	160,638	(4,047,591)
Cash flows from financing activities:			
Proceeds from issuances of notes payable to stockholders	—	—	233,500
Repayments of notes payable to stockholders	—	(206,000)	(233,500)
Proceeds from issuance of note payable to bank	—	—	600,000
Repayment of note payable to bank	—	(600,000)	(600,000)
Proceeds from subscriptions receivable	—	—	4,000
Payment for fractional shares for stock combination	(1,290)	(300)	(990)
Proceeds from sale of common stock, net	3,361,718	743,691	5,809,126

Proceeds from sale of preferred stock, net	—	9,046,176	9,046,176
Proceeds from exercise of stock options	30,100	—	30,100
Net cash provided by financing activities	3,390,528	8,983,567	14,888,412
Net increase (decrease) in cash and cash equivalents	(6,508,147)	5,692,680	905,656
Cash and cash equivalents at beginning of period	7,413,803	1,721,123	—
Cash and cash equivalents at end of period	$ 905,656	$ 7,413,803	$ 905,656
Supplemental disclosure of cash flow information:			
Interest paid	$ —	$ 502	$ 26,934
Supplemental disclosure of noncash investing and financing activities:			
Stock options/warrants issued for consulting services	$ 120,968	$ —	$ 181,557
Preferred stock dividends accrued	585,799	—	585,799
Conversion of preferred stock to common stock	171	—	171
Preferred stock dividends paid by issuance of shares	282,388	—	282,388
Issuance of common stock for acquisition	—	2,336,242	2,336,242
Short-term investments received in connection with sale of license	—	359,907	359,907

See accompanying notes to consolidated financial statements.

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MANHATTAN PHARMACEUTICALS, INC. AND SUBSIDIARIES
(A Development Stage Company)

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

(1) Merger and Nature of Operations

On February 21, 2003, the Company (formerly known as "Atlantic Technology Ventures, Inc.") completed a reverse acquisition of privately held Manhattan Research Development, Inc. (formerly Manhattan Pharmaceuticals, Inc.), a Delaware corporation. The merger was effected pursuant to an Agreement and Plan of Merger dated December 17, 2002 (the "Merger Agreement") by and among the Company, Manhattan Research and Manhattan Pharmaceuticals Acquisition Corp, the Company's wholly owned subsidiary ("MPAC"). In accordance with the terms of the Merger Agreement, MPAC merged with and into Manhattan Research, with Manhattan Research remaining as the surviving corporation and a wholly owned subsidiary of the Company. Pursuant to the Merger Agreement, upon the effective time of the merger, the outstanding shares of common stock of Manhattan Research automatically converted into an aggregate of 18,689,917 shares of the Company's common stock, which represented 80 percent of the Company's outstanding voting stock after giving effect to the merger. All share and per share amounts have been adjusted for a 1-for-5 combination on September 25, 2003 (see Note 5). In addition, immediately prior to the merger Manhattan Research had outstanding options and warrants to purchase an aggregate of 172,856 shares of its common stock, which, in accordance with the terms of the merger, automatically converted into options and warrants to purchase an aggregate of 2,196,944 shares of the Company's common stock. Since the stockholders of Manhattan Research received the majority of the voting shares of the Company, the merger was accounted for as a reverse acquisition whereby Manhattan Research was the accounting acquirer (legal acquiree) and the Company was the accounting acquiree (legal acquirer). Based on the five-day average price of the Company's common stock of $0.50 per share, the purchase price approximated $2,336,000 ($3,167,178 including net liabilities assumed) which represents 20 percent of the market value of the combined Company's post-merger total outstanding shares of 23,362,396. In connection with the merger, the Company changed its name from "Atlantic Technology Ventures, Inc." to "Manhattan Pharmaceuticals, Inc." At the time of the merger, Manhattan Research recognized patents and licenses for substantially all of the purchase price. A purchase price allocation was completed in the third quarter of 2003 and did not result in changes to the initial estimate. As a result of acquiring Manhattan Research, the Company received new technologies.

A summary of the purchase price allocation is as follows:

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MANHATTAN PHARMACEUTICALS, INC. AND SUBSIDIARIES
(A Development Stage Company)

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

Common stock issued	$ 2,336,241
Acquisition costs paid	32,808
Total purchase price	2,369,049
Net liabilities assumed in acquisition	798,129
Excess purchase price (allocated to intangible assets)	$ 3,167,178
Assets purchased:	
Prepaid expenses	$ 38,307
Property and equipment	7,683
Deposits	19,938
	65,928
Liabilities assumed:	
Accounts payable	323,735
Accrued expenses	540,322
	864,057
Net liabilities assumed	$ (798,129)

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MANHATTAN PHARMACEUTICALS, INC. AND SUBSIDIARIES
(A Development Stage Company)

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

The following unaudited pro forma financial information presents the combined results of operations of Manhattan Pharmaceuticals and Manhattan Research as if the acquisition had occurred as of January 1, 2003, after giving effect to certain adjustments, including the issuance of Manhattan Pharmaceuticals common stock as part of the purchase price. For the purpose of this pro forma presentation, both Manhattan Pharmaceuticals' and Manhattan Research's financial information is presented for the year ended December 31, 2003. The unaudited pro forma condensed consolidated financial information does not necessarily reflect the results of operations that would have occurred had Manhattan Pharmaceuticals and Manhattan Research been a single entity during such period.

	Year ended December 31, 2003
Revenues	$ —
Net loss	(6,160,455)
Weighted-average shares of common stock outstanding: Basic and diluted	23,362,396
Basic and diluted net loss per common share	$ (0.26)

On August 22, 2003, the Company sold all if its remaining rights to its CT-3 technology to Indevus Pharmaceuticals, Inc. ("Indevus"), the Company's licensee, for aggregate consideration of approximately $559,000. The purchase price was paid through a combination of cash and shares of Indevus' common stock. On the same date, the Company settled its arbitration with Dr. Sumner Burstein, the inventor of the CT-3 technology, which includes a complete mutual release from all claims that either party had against the other. As a result of the sale of the Company's rights to the CT-3 technology to Indevus, the Company recorded a one-time charge of $1,213,878 in 2003.

In addition, on August 8, 2003, Bausch & Lomb informed the Company that it had elected not to pursue its development of the Avantix technology, effective August 11, 2003. According to the terms of the Company's agreement with Bausch & Lomb, the Company may re-acquire the technology from Bausch & Lomb and sell or re-license the technology to a third party. The price to re-acquire the technology from Bausch & Lomb is 50% of the proceeds from a third party sale to a maximum of $3,000,000. The Company has no further obligation under the agreement. As a result of Bausch & Lomb's decision not to develop the Avantix technology, the Company recorded a one-time charge of $1,248,230 in 2003 for the impairment of the related intangible asset.

As a result of the events discussed in the two preceding paragraphs, as of December 31, 2003, all intangible assets were eliminated from the Company's consolidated financial statements and amortization of such intangible assets ceased.

As described above, the Company resulted from the February 21, 2003 reverse merger between Atlantic Technology Ventures, Inc., which was incorporated on May 18, 1993, and privately-held Manhattan Research Development, Inc.,

incorporated on August 6, 2001. The Company was incorporated in the State of Delaware. In connection with the merger, the former stockholders of Manhattan Research received a number of shares of Atlantic's common stock so that following the merger they collectively owned 80 percent of the outstanding shares. Upon completion of the merger, Atlantic changed its name to Manhattan Pharmaceuticals, Inc. and thereafter adopted the business of Manhattan Research Development.

The Company is a development stage biopharmaceutical company that holds an exclusive world-wide, royalty-free license to certain intellectual property related to oleoyl-estrone, which is owned by Oleoyl-Estrone Developments, SL (“OED”) of Barcelona, Spain. Oleoyl-estrone is an orally administered small molecule that has been shown to cause significant weight loss in pre-clinical animal studies regardless of dietary modifications. The Company also holds the worldwide, exclusive rights to proprietary lingual spray technology to deliver the drug propofol for proprocedural sedation prior to diagnostic, therapeutic or endoscopic procedures.

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MANHATTAN PHARMACEUTICALS, INC. AND SUBSIDIARIES
(A Development Stage Company)

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

(2) Liquidity and Basis of Presentation

Liquidity

The Company has reported a net loss of $5,960,907 and negative cash flows from operating activities of $3,451,525 for the year ended December 31, 2003 and a net loss of $5,896,031 and negative cash flows from operating activities of $5,690,445 for the year ended December 31, 2004. The net loss from date of inception, August 6, 2001 to December 31, 2004 amounts to $12,951,054.

Management believes that the Company will continue to incur net losses and negative cash flows from operating activities through at least December 31, 2005. Based on the resources of the Company available at December 31, 2004, management believes that the Company will need additional equity or debt financing or will need to generate revenues during 2005 through licensing of its products or entering into strategic alliances to be able to sustain its operations through 2005 and that it will need additional financing thereafter until it can achieve profitability, if ever. These matters raise substantial doubt about the Company's ability to continue as a going concern.

The Company's continued operations will depend on its ability to raise additional funds through various potential sources such as equity and debt financing, collaborative agreements, strategic alliances and its ability to realize the full potential of its technology in development. Additional funds may not become available on acceptable terms, and there can be no assurance that any additional funding that the Company does obtain will be sufficient to meet the Company's needs in the long term. Through December 31, 2004, a significant portion of the Company's financing has been through private placements of common and preferred stock and debt financing. Until and unless the Company's operations generate significant revenues and cash flows from operating activities, the Company will attempt to continue to fund operations from cash on hand and through the sources of capital previously described.

Basis of Presentation

The consolidated financial statements have been prepared in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 7, "Accounting and Reporting by Development Stage Enterprises."

(3) Summary of Significant Accounting Policies

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 certain 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 expenses during the reporting period. Actual results could differ from those estimates.

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MANHATTAN PHARMACEUTICALS, INC. AND SUBSIDIARIES
(A Development Stage Company)

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

Research and Development

All research and development costs are expensed as incurred and include costs of consultants who conduct research and development on behalf of the Company and its subsidiaries. Costs related to the acquisition of technology rights and patents for which development work is still in process are expensed as incurred and considered a component of research and development costs.

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 temporary differences between financial statement carrying amounts of existing assets and liabilities, and their 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 income in the period that includes the enactment date. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Computation of Net Loss per Common Share

Basic net loss per common share is calculated by dividing net loss applicable to common shares by the weighted-average number of common shares outstanding for the period. Diluted net loss per common share is the same as basic net loss per common share, since potentially dilutive securities from stock options, stock warrants and convertible preferred stock would have an antidilutive effect because the Company incurred a net loss during each period presented. The amounts of potentially dilutive securities excluded from the calculation were 14,871,502 and 15,420,033 shares at December 31, 2004 and 2003, respectively.

Stock-Based Compensation

Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (“SFAS 123”), provides for the use of a fair value based method of accounting for employee stock compensation. However, SFAS 123 also allows an entity to continue to measure compensation cost for stock options granted to employees using the intrinsic value method of accounting prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (“APB 25”), which only requires charges to compensation expense for the excess, if any, of the fair value of the underlying stock at the date a stock option is granted (or at an appropriate subsequent measurement date) over the amount the employee must pay to acquire the stock, if such amounts differ materially from historical amounts. The Company has elected to continue to account for employee stock options using the intrinsic value method under APB 25. By making that election, it is required by SFAS 123 and SFAS 148, “Accounting for Stock-Based Compensation - Transition and Disclosure” to provide pro forma disclosures of net income (loss) and earnings (loss) per share as if a fair value based method of accounting had been applied.

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MANHATTAN PHARMACEUTICALS, INC. AND SUBSIDIARIES
(A Development Stage Company)

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

Had compensation costs been determined in accordance with the fair value method prescribed by SFAS No. 123 for all options issued to employees and amortized over the vesting period, the Company's net loss applicable to common shares and net loss per common share (basic and diluted) for plan options would have been increased to the pro forma amounts indicated below.

		2004		2003
Net loss applicable to common shares, as reported	$	(6,481,830)	$	(6,379,089)
Deduct: Total stock-based employee compensation expense determined under fair value method		(1,211,384)		(302,974)
Net loss applicable to common shares, pro forma	$	(7,693,214)	$	(6,682,063)
Net loss applicable to common shares – basic				
As reported	$	(0.24)	$	(0.28)
Pro forma		(0.29)		(0.30)

The fair value of each option granted is estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions used for the grants in 2004 and 2003: dividend yield of 0%; expected volatility of 73% and 78% for 2004 and 82% for 2003; risk-free interest rate of 2.0% for 2004 and 3.2% for 2003; and expected lives of eight years for each year presented.

As a result of amendments to SFAS No. 123, the Company will be required to expense the fair value of employee stock options over the vesting period, beginning January 1, 2006.

Financial Instruments

At December 31, 2004 and 2003, the fair values of cash and cash equivalents, short-term investments, accounts payable and accrued expenses approximate carrying values due to the short-term nature of these instruments.

Short-term Investments

Short-term investments are carried at market value since they are considered available-for-sale. The following is a summary of the Company's short-term investments:

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	Cost	Unrealized loss	Fair value
2003			
Indevus Pharmaceuticals, Inc. common stock	$ 359,907	$ (7,760)	$ 352,147

	Cost	Unrealized gain	Fair value
2004			
Eaton Vance Floating Rate Fund	$ 4,500,979	$ 13,237	$ 4,514,216

Unrealized gain (and loss, if any) is excluded from operations and included in accumulated other comprehensive income (loss). The Company's comprehensive losses (net losses adjusted for changes in unrealized gains/losses on short-term investments) for 2004 and 2003 were $5,875,034 and $5,968,667, respectively.

(4) Property and Equipment

Property and equipment consists of the following at December 31:

	2004	2003
Property and equipment	$ 165,394	$ 27,054
Less accumulated depreciation	(46,377)	(19,033)
Net property and equipment	$ 119,017	$ 8,021

(5) Stockholders' Equity

Common Stock

On January 13, 2004, the Company completed a private placement of 3,368,637 shares of its common stock at a per share price of $1.10. After deducting commissions and other expenses relating to the private placement, the Company received aggregate net proceeds of approximately $3,362,000. In connection with the common stock private placement and the Series A Convertible Preferred private placement, the Company issued to the placement agents a 5-year warrant to purchase 1,235,589 shares of common stock at a price of $1.10 per share.

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On July 25, 2003, the Board of Directors adopted a resolution authorizing an amendment to the certificate of incorporation providing for a 1-for-5 combination of the Company's common stock. A resolution approving the 1-for-5 combination was thereafter consented to in writing by holders of a majority of the Company's outstanding common stock. The 1-for-5 combination became effective on September 25, 2003. Accordingly, all share and per share information in these consolidated financial statements has been restated to retroactively reflect the 1-for-5 combination.

The Company issued 10,167,740 shares of common stock to investors during December 2001 for subscriptions receivable of $4,000 or $0.0004 per share. During 2002, the Company received the $4,000.

In August 2002, the Company entered into one-year agreements with four consultants and issued options to these consultants to purchase 101,678 shares of the Company's common stock at an exercise price of $.0039 per share expiring in August 2007. The Company valued these options at $60,589, using the minimum value method, and amortized the expense through August 2003. Therefore, the Company expensed $22,721 in 2002 and $37,868 in 2003. During 2002 and 2003 no options were exercised.

During 2002, the Company commenced a private placement and sold 239,450 shares of common stock at $8 ($0.63 post merger) per share and received proceeds of $1,704,318, net of expenses of $211,281. These shares converted into 3,043,332 shares of the Company's common stock when the Company completed the reverse acquisition of Manhattan Research as discussed in Note 1. In addition, each investor received warrants equal to 10% of the number of shares of common stock purchased and, accordingly, Manhattan Research issued warrants to purchase 23,945 shares of common stock in 2002 in connection with the private placement. Upon the merger, these converted into warrants to purchase approximately 304,000 shares of the Company's common stock. Each warrant had an exercise price of $8 per share, which post merger converted to approximately $0.63. These warrants expire in 2007.

During January and February 2003, the Company sold an additional 104,000 shares of common stock at $8 ($0.63, post merger) per share and warrants to purchase 10,400 shares of common stock exercisable at $8 ($0.63 post merger) through the private placement and received net proceeds of $743,691. These shares converted into 1,321,806 shares of the Company's common stock when the Company completed its reverse acquisition of Manhattan Research. The warrants to purchase 10,400 shares of common stock converted into warrants to purchase 132,181 common shares of the Company.

In addition, in connection with the private placement, the Company issued to Joseph Stevens & Co., Inc., a NASD-member broker-dealer, warrants to purchase 130,511 shares of its common stock that are exercisable at $8 ($0.63 post merger) per share and expire in 2008. Upon the merger, these warrants converted into warrants to purchase 1,658,753 shares of common stock of the Company.

Series A Preferred Stock

On November 7, 2003, the Company completed a private placement of 1,000,000 shares of its newly-designated Series A Convertible Preferred Stock at a price of $10 per share, resulting in gross proceeds to the Company of $10,000,000 (net proceeds $9,046,176). Each share of Series A Convertible Preferred Stock is convertible at the

holder's election into shares of the company's common stock at a conversion price of $1.10 per share. The conversion price of the Series A Convertible Preferred Stock was less than the market value of the Company's common stock on November 7, 2003. Accordingly, the Company recorded a charge for the beneficial conversion feature associated with the convertible preferred stock of $418,182. The Series A Convertible Preferred Stock has a payment-in-kind dividend of 5 percent.

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Maxim Group, LLC of New York, together with Paramount Capital, Inc., a related party, acted as the placement agents in connection with the private placement.

On all matters submitted for stockholder approval, each share of Series A stock is entitled to such number of votes as is equal to the number of common shares into which such preferred shares are then convertible. In addition, so long as at least 50 percent of the number of Series A shares originally issued are outstanding, the affirmative vote of at least two-thirds of all outstanding Series A shares voting separately as a class shall be necessary to permit, effect any one or more of the following:

- the amendment, alteration or repeal of any provision of our certificate of incorporation or bylaws so as to adversely affect the relative rights and preferences of the Series A stock;

- the declaration or payment of any dividend or distribution on any securities of the Company other than the Series A stock;

- the authorization, issuance or increase of any security ranking prior to or on parity with the Series A stock in connection with a dissolution, sale of all or substantially all of our assets or other “Liquidation Event,” or with respect to the payment of any dividends or distributions;

- the approval of any Liquidation Event; and

- the effect any amendment of our certificate of incorporation or bylaws that would materially adversely affect the rights of the Series A stock.

(6) Stock Options

2003 Stock Option Plan

In December 2003 the Company established the 2003 Stock Option Plan (the 2003 Plan), which provides for the granting of up to 5,400,000 options to officers, directors, employees and consultants for the purchase of stock. At December 31, 2004 and 2003, 5,400,000 shares were authorized for issuance. The options have a maximum term of 10 years and vest over a period determined by the Company’s Board of Directors (generally 3 years) and are issued at fair market value. The 2003 Plan expires on December 10, 2013 or when all options have been granted, whichever is sooner.

1995 Stock Option Plan

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In July 1995, the Company established the 1995 Stock Option Plan (the 1995 Plan), which provided for the granting of up to 130,000 options to officers, directors, employees and consultants for the purchase of stock. In July 1996, the 1995 Plan was amended to increase the total number of shares authorized for issuance by 60,000 shares to a total of 190,000 shares and beginning with the 1997 calendar year, by an amount equal to one percent (1%) of the shares of common stock outstanding on December 31 of the immediately preceding calendar year. At December 31, 2004 and 2003, 522,381 and 298,767 shares were authorized for issuance. The options have a maximum term of 10 years and vest over a period determined by the Company's Board of Directors (generally 4 years) and are issued at fair market value. The 1995 Plan expires June 30, 2005.

A summary of the status of the Company's stock options as of December 31, 2004 and 2003 and changes during the years then ended is presented below:

	2004		2003	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding at beginning of year	1,392,690	$ 1.68	689,840	$ 5.00
Granted	1,672,000	1.44	876,490	0.40
Exercised	(27,600)	1.09		
Cancelled	(214,950)	6.57	(173,640)	8.43
Outstanding at end of year	2,822,140	$ 1.17	1,392,690	$ 1.68
Options exercisable at year-end	1,282,292		398,617	
Weighted-average fair value of options granted during the year	$ 0.91		$ 0.06	

The following table summarizes the information about stock options outstanding at December 31, 2004:

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Exercise price	Number outstanding	Remaining contractual life (years)	Number of options exercisable
$0.400	876,090	8.16	730,075
0.425	400	8.15	400
0.970	503,500	8.75	113,334
1.000	97,400	7.24	97,400
1.250	175,750	7.14	160,083
1.650	1,149,000	9.08	161,000
4.375	10,000	6.14	10,000
20.938	10,000	5.28	10,000
	2,822,140		1,282,292

(7) Stock Warrants Relating to Atlantic Technology Ventures, Inc.

As of December 31, 2004, the Company had a total of 348,901 warrants outstanding relating to Atlantic Technology Ventures, Inc. The prices of these warrants range from $2.95 to approximately $27. These warrants expire between 2005 and 2007.

(8) Related-Party Transactions

In 2004 and 2003 the Company entered into consulting agreements with certain members of its Board of Directors. These agreements required aggregate payments of $10,417 per month. Consulting expense under these agreements was approximately $173,000 and $125,000 for the years ended December 31, 2004 and 2003, respectively. These agreements were terminated during 2004.

Oleoylestrone Developments, SL

Pursuant to the terms of a license agreement dated February 15, 2002 by and between Manhattan Research Development, Inc., the Company's wholly owned subsidiary, and Oleoylestrone Developments, SL ("OED"), the Company has an exclusive, worldwide license to U.S. and foreign patents and patent applications relating to certain technologies. Although the Company is not obligated to pay royalties to OED, the license agreement requires the Company to make certain performance-based milestone payments. See Note 10. OED currently owns approximately 16 percent of the Company's outstanding common stock. Additionally, Mr. Pons, a member of the Company's board of directors, is chief executive officer of OED.

NovaDel Pharma Inc.

As discussed in Note 10, pursuant to the terms of a license agreement dated April 4, 2003 by and between the Company and NovaDel Pharma Inc. (NovaDel), the Company has the rights to develop NovaDel's proprietary lingual spray technology to deliver propofol for preprocedural sedation. The license agreement with NovaDel requires the Company to make certain license and milestone payments, as well as pay royalties. During 2003, the Company paid aggregate license fees of $500,000 to NovaDel under the license agreement. In 2004, there were no similar payments made to NovaDel. Lindsay A. Rosenwald, who beneficially owns more than 10 percent of the Company's common stock, also beneficially owns in excess of 20 percent of the common stock of NovaDel and may therefore be deemed to be an affiliate of that company.

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Paramount BioCapital, Inc.

Two members of the Company's board of directors, Timothy McInerney and Michael Weiser, are also employees of Paramount BioCapital, Inc. or one of its affiliates. In addition, two members of the Company's board of directors, Joshua Kazam and David Tanen were employed by Paramount BioCapital through August 2004. The sole shareholder of Paramount BioCapital, Inc. (Paramount BioCapital) is Lindsay A. Rosenwald, M.D. Dr. Rosenwald beneficially owns more than 10 percent of the Company's common stock as of December 31, 2004. In November 2003, the Company paid to Paramount BioCapital approximately $460,000 as commissions earned in consideration for placement agent services rendered in connection with the private placement of the Company's Series A Convertible Preferred Stock, which amount represented 7 percent of the shares sold by Paramount BioCapital in the offering. In addition, in January 2004, the Company paid approximately $260,000 as commissions earned in consideration for placement agent services rendered by Paramount BioCapital in connection with a private placement of the Company's common stock, which amount represented 7 percent of the shares sold by Paramount BioCapital in the private placement. In connection with both private placements and as a result of their employment with Paramount BioCapital, Mr. Kazam, Mr. McInerney and Dr. Weiser were allocated 5-year placement agent warrants to purchase 60,174, 58,642 and 103,655 shares of the Company's common stock, respectively, at a price of $1.10 per share.

(9) Income Taxes

There was no current or deferred tax expense for the years ended December 31, 2004 and 2003 because of the Company's operating losses.

The components of deferred tax assets as of December 31, 2004 and 2003 are as follows:

	2004	2003
Deferred tax assets:		
Tax loss carryforwards	$ 4,175,000	$ 1,889,000
Research and development credit	226,000	51,000
License and other costs	115,000	84,000
Gross deferred tax assets	4,516,000	2,024,000
Less valuation allowance	(4,516,000)	(2,024,000)
Net deferred tax assets	$ —	$ —

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The reasons for the difference between actual income tax benefit for the years ended December 31, 2004 and 2003 and the amount computed by applying the statutory federal income tax rate to losses before income tax benefit are as follows:

	2004		2003	
	Amount	**% of pretax loss**	**Amount**	**% of pretax loss**
Income tax benefit at statutory rate	$ (2,005,000)	(34.0%)	$ (2,027,000)	(34.0%)
State income taxes, net of Federal tax	(342,000)	(5.8%)	(354,000)	(5.9%)
Change in valuation allowance	2,492,000	42.3%	1,568,000	26.3%
Credits generated in current year	(175,000)	(3.0%)	(30,000)	(0.5%)
Impairment of intangible assets	—	—	424,000	7.1%
Loss on sale of intangible assets	—	—	412,000	6.9%
Other, net	30,000	0.5%	7,000	0.1%
Income tax benefit	$ —	—%	$ —	—%

A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The net change in the total valuation allowance for the years ended December 31, 2004 and 2003 was an increase of $2,492,000 and $1,568,000, respectively. The tax benefit assumed using the federal statutory tax rate of 34% has been reduced to an actual benefit of zero due principally to the aforementioned valuation allowance.

At December 31, 2004, the Company had potentially utilizable federal and state net operating loss tax carryforwards of approximately $10,619,000. The net operating loss carryforwards expire in various amounts through 2024 for federal and state tax purposes. The Tax Reform Act of 1986 contains provisions, which limit the ability to utilize net operating loss carryforwards in the case of certain events including significant changes in ownership interests. As a result of the merger with Manhattan Research Development, Inc. in February 2003, the Company incurred a significant change in its ownership, limiting its ability to utilize net operating loss carryforwards to approximately $100,000 annually. If the Company has taxable income in the future which exceeds this permissible annual net operating loss carryforward, the Company would incur a federal income tax liability even though net operating loss carryforwards would be available in future years. At December 31, 2004, the Company also had research and development credit carryforwards of approximately $226,000 for federal tax purposes which expire in various amounts through 2024.

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(10) License and Consulting Agreements

On February 15, 2002, the Company entered into a License Agreement (the "License Agreement") with OED. Under the terms of the License Agreement, OED granted to the Company a world-wide license to make, use, lease and sell the products incorporating the licensed technology (see Note 1). OED also granted to the Company the right to sublicense to third parties the licensed technology or aspects of the licensed technology with the prior written consent of OED. OED retains an irrevocable, nonexclusive, royalty-free right to use the licensed technology solely for its internal, noncommercial use. The License Agreement shall terminate automatically upon the date of the last to expire patent contained in the licensed technology or upon the Company's bankruptcy. OED may terminate the License Agreement in the event of a material breach by the Company that is not cured within the notice period. The Company may terminate the License Agreement for any reason upon 60 days notice.

Under the License Agreement, the Company agreed to pay to OED certain licensing fees which are being expensed as they are incurred. Through December 31, 2004, the Company paid $175,000 in licensing fees which is included in 2002 research and development expense. In addition, pursuant to the License Agreement, the Company issued 1,000,000 shares of its common stock to OED. The Company valued these shares at their then estimated fair value of $1,000.

In connection with the License Agreement, the Company has agreed to future milestone payments to OED as follows:

(i) $250,000 upon the treatment of the first patient in a Phase I clinical trial under a Company-sponsored investigational new drug application ("IND"); (ii) $250,000 upon the treatment of the first patient in a Phase II clinical trial under a Company-sponsored IND; (iii) $750,000 upon the first successful completion of a Company-sponsored Phase II clinical trial under a Company-sponsored IND; (iv) $2,000,000 upon the first successful completion of a Company-sponsored Phase III clinical trial under a Company sponsored IND; and (v) $6,000,000 upon the first final approval of the first new drug application for the first licensed product by the United States Food and Drug Administration (“FDA”).

In addition to the License Agreement, the Company entered into a consulting agreement with OED. The agreement became effective in February 2002, at a fee of $6,250 per month, and will terminate when the License Agreement terminates. The fees associated with the consulting agreement are expensed as incurred. OED agreed to serve as a member of the Company's Scientific Advisory Board and to render consultative and advisory services to the Company. Such services include research, development and clinical testing of the Company's technology as well as the reporting of the findings of such tests, assistance in the filing of patent applications and oversight and direction of efforts in regards to personnel for clinical development.

In April 2003, the Company entered into a license and development agreement with NovaDel Pharma, Inc. (“NovaDel”), under which the Company received certain worldwide, exclusive rights to develop and commercialize products related to NovaDel’s proprietary lingual spray technology for delivering propofol for pre-procedural sedation. Under the terms of this agreement, the Company agreed to use its commercially reasonable efforts to develop and commercialize the licensed products, to obtain necessary regulatory approvals and to thereafter exploit the licensed

products. The agreement also provides that NovaDel will undertake to perform, at the Company's expense, a substantial portion of the development activities, including, without limitation, preparation and filing of various applications with applicable regulatory authorities. Holders of a significant portion of the Company's common stock own a significant portion of the common stock of NovaDel.

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In consideration for our rights under the NovaDel license agreement, we paid NovaDel an initial license fee of $500,000 upon the completion of our $10 million private placement of Series A Convertible Preferred Stock in November 2003. In addition, the license agreement requires us to make certain milestone payments as follows: $1,000,000 payable following the date that the first IND for lingual spray propofol is accepted for review by the FDA; $1,000,000 following the date that the first European Marketing Application is accepted for review by any European Union country; $2,000,000 following the date when the first filed NDA for lingual spray propofol is approved by the FDA; $2,000,000 following the date when the first filed European Marketing Application for lingual spray propofol is accepted for review; $1,000,000 following the date on which an application for commercial approval of lingual spray propofol is approved by the appropriate regulatory authority in each of Australia, Canada, Japan and South Africa; and $50,000 following the date on which an application for commercial approval for lingual spray propofol is approved in any other country (other than the U.S. or a member of the European Union).

In addition, the Company is obligated to pay to NovaDel an annual royalty based on a fixed rate of net sales of licensed products, or if greater, the annual royalty is based on the Company's net profits from the sale of licensed products at a rate that is twice the net sales rate. In the event the Company sublicenses the licensed product to a third party, the Company is obligated to pay royalties based on a fixed rate of fees or royalties received from the sublicensee until such time as the Company recovers its out-of-pocket costs, and thereafter the royalty rate doubles. Because of the continuing development efforts required of NovaDel under the agreement, the royalty rates are substantially higher than customary for the industry. The Company is also required to pay an up-front fee in installments contingent on whether the Company receives certain amounts through financings, revenues or otherwise. Through December 31, 2003, the Company has paid and expensed $500,000 of such up-front fee.

NovaDel may terminate the agreement (i) upon 10 days' notice if the Company fails to make any required milestone or royalty payments, or (ii) if the Company becomes bankrupt or if a petition in bankruptcy or insolvency is filed and not dismissed within 60 days or if the Company becomes subject to a receiver or trustee for the benefit of creditors. Each party may terminate the agreement upon 30 days' written notice and an opportunity to cure in the event the other party committed a material breach or default. The Company may also terminate the agreement for any reason upon 90 days' notice to NovaDel.

On August 22, 2003, the Company sold all of its remaining rights to its CT-3 technology to Indevus Pharmaceuticals, Inc. ("Indevus"), the Company's licensee, for aggregate consideration of approximately $559,000. The purchase price was paid through a combination of cash and shares of Indevus' common stock. On the same date, the Company settled its arbitration with Dr. Sumner Burstein, the inventor of the CT-3 technology, which includes a complete mutual release from all claims that either party had against the other. As a result of the sale of the Company's rights to the CT-3 technology to Indevus, the Company recorded a one-time charge of $1,213,878 in 2003.

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On August 8, 2003, Bausch & Lomb informed the Company that it had elected not to pursue its development of the Avantix technology effective August 11, 2003. According to the terms of Company's agreement with Bausch & Lomb, the Company may re-acquire the technology from Bausch & Lomb and sell or re-license the technology to a third party. The price to re-acquire the technology from Bausch & Lomb is 50 percent of the proceeds from a third party sale to a maximum of $3 million. The Company has no further obligation under the agreement. As a result of Bausch & Lomb's decision not to develop the Avantix technology, the Company recorded a one-time charge of $1,248,230 in 2003 for the impairment of the related intangible asset.

(11) Commitments and Contingencies

Legal Proceedings

The Company is currently not party to any claims or lawsuits.

Employment Agreement

The Company has an employment agreement with one employee for the payment of a base salary of $175,000 as well as performance based bonuses. The agreement is for a term of two years and has a remaining obligation of $350,000.

Consulting Agreements

The Company had month to month agreements with certain employees requiring aggregate monthly payments of $20,834. These agreements were terminated during 2004.

Leases

Rent expense for the years ended December 31, 2004 and 2003 was $112,176 and $93,346, respectively.

Future minimum rental payments subsequent to December 31, 2004 under an operating lease for the Company's office facility are as follows:

Years Ending December 31,	Commitment
2005	$ 141,600
2006	$ 141,600
2007	$ 141,600
2008	$ 100,000

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(12) Subsequent Events

On January 5, 2005, the Company announced it had signed a letter of intent to merge with Tarpan Therapeutics, Inc. (“Tarpan”), a privately-held, New York-based pharmaceutical company developing dermatological therapeutics, in an all stock transaction. Upon consummation of the transaction, Tarpan shareholders will own approximately 20% of the shares of Manhattan on a fully-diluted basis.

Pursuant to the merger, Douglas Abel, President and CEO of Tarpan will be appointed Chief Executive Officer of the Company, overseeing all operations and clinical development.

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TARPAN THERAPEUTICS, INC.
(A Development Stage Company)

Condensed Balance Sheets
March 31, 2005 and December 31, 2004
(Unaudited)

Assets	March 31, 2005	December 31, 2004
Current assets:		
Cash	$ 6,777	$ 12,202
Total current assets	6,777	12,202
Computer equipment, net	2,037	2,156
Total assets	$ 8,814	$ 14,358
Liabilities and Stockholders' Deficiency		
Current liabilities:		
Accounts payable and accrued expenses	$ 26,052	$ 4,939
Accrued interest - related parties	17,318	11,397
Due to related parties	3,381	—
Total liabilities	46,751	16,336
Notes payable - related parties	630,702	550,702
Total liabilities	677,453	567,038
Commitments		
Stockholders' deficiency:		
Preferred stock, $.001 par value; 5,000,000 shares authorized;		
none issued	—	—
Common stock, $.001 par value; 20,000,000 shares authorized;		
4,000,000 shares issued and outstanding	4,000	4,000
Deferred compensation	(118,668)	(129,970)
Additional paid-in capital	135,621	135,621
	(689,592)	(562,331)

Deficit accumulated during development stage				
Total stockholders’ deficiency		(668,639)		(552,680)
Total liabilities and stockholders' deficiency	$	8,814	$	14,358

See accompanying notes to unaudited condensed financial statements.

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TARPAN THERAPEUTICS, INC.
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Condensed Statements of Operations
Three months ended March 31, 2005 and 2004 and cumulative period from July 16, 2003 (inception) to March 31, 2005
(Unaudited)

	Three months ended March 31, 2005	2004	Cumulative period from July 16, 2003 (inception) to March 31, 2005
Operating expenses:			
Research and development, principally license fee	$ —	$ 25,000	$ 307,555
General and administrative	119,901	—	363,280
Total operating expenses	119,901	25,000	670,835
Loss from operations	(119,901)	(25,000)	(670,835)
Interest expense	(7,360)	—	(18,757)
Net loss	$ (127,261)	$ (25,000)	$ (689,592)

See accompanying notes to unaudited condensed financial statements.

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December 31, 2004 and 2003

TARPAN THERAPEUTICS, INC.
(A Development Stage Company)

Condensed Statement of Stockholders' Deficiency
For the three months ended March 31, 2005
(Unaudited)

	Common stock		Deferred	Additional paid-in	Deficit accumulated during the development	Total stock–holders'
	Shares	Amount	compensation	capital	stage	deficiency
Balance at January 1, 2005	4,000,000	$ 4,000	$ (129,970)	$ 135,621	$ (562,331)	$ (552,680)
Amortization of deferred compensation	—	—	11,302	—	—	11,302
Net loss	—	—	—	—	(127,261)	(127,261)
Balance at March 31, 2005	4,000,000	$ 4,000	$ (118,668)	$ 135,621	$ (689,592)	$ (668,639)

See accompanying notes to unaudited condensed financial statements.

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TARPAN THERAPEUTICS. INC.
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Condensed Statements of Cash Flows
Three months ended March 31, 2005 and 2004 and cumulative period from July 16, 2003 (inception) to March 31, 2005
(Unaudited)

	Three months ended March 31, 2005	2004	Cumulative period from July 16, 2003 (inception) to March 31, 2005
Cash flows from operating activities:			
Net loss	$ (127,261)	$ (25,000)	$ (689,592)
Adjustments to reconcile net loss to net cash used in operating activities:			
Expenses paid by related entities on behalf of company	3,381	—	309,083
Amortization of deferred compensation	11,302	—	16,953
Depreciation	119	—	359
Changes in operating assets and liabilities:			
Accounts payable and accrued expenses	21,113	—	26,052
Accrued interest - related parties	5,921	—	17,318
Net cash used in operating activities	(85,425)	(25,000)	(319,827)
Cash flows from investing activities:			
Purchase of computer equipment	—	—	(2,396)
Net cash used in investing activities	—	—	(2,396)
Cash flows from financing activities:			
Proceeds from notes from related parties	80,000	25,000	325,000
Receipt of cash for subscription receivable	—	—	4,000
Net cash provided by financing activities	80,000	25,000	329,000
Net increase (decrease) in cash	(5,425)	—	6,777
Cash at beginning of period	12,202	—	—
Cash at end of period	$ 6,777	$ —	$ 6,777

Supplemental disclosure of cash flow information:			
Stock options granted to the Company's Chief Executive Officer	$ —	$ —	$ 135,621

See accompanying notes to unaudited condensed financial statements.

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TARPAN THERAPEUTICS, INC.
(A Development Stage Company)

NOTES TO CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
March 31, 2005

(1) BASIS OF PRESENTATION

The accompanying unaudited condensed financial statements of Tarpan Therapeutics, Inc. ("Tarpan" or the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. Accordingly, the financial statements do not include all information and footnotes required by accounting principles generally accepted in the United States of America for complete annual financial statements. In the opinion of management, the accompanying unaudited condensed financial statements reflect all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation. Interim operating results are not necessarily indicative of results that may be expected for the year ending December 31, 2005 or for any subsequent period. These unaudited condensed financial statements should be read in conjunction with the audited financial statements included elsewhere in this prospectus.

(2) LIQUIDITY

On April 1, 2005, Manhattan Pharmaceuticals, Inc. ("Manhattan") entered into an Agreement and Plan of Merger ("the Agreement") with Tarpan. Pursuant to the Agreement, Manhattan issued 10,731,052 shares of its common stock to Tarpan's stockholders in exchange for 100% of the outstanding common stock of Tarpan. Manhattan is a pharmaceutical company that acquires and develops proprietary prescription drugs.

The Company's financial statements have been prepared on a going concern basis which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. For the three months ended March 31, 2005 and from inception, the Company has reported a net loss of $689,592 and negative cash flows from operating activities of $319,827 and, at March 31, 2005, it had a working capital deficiency of $39,974 and a stockholders' deficiency of $668,639. As discussed above, Manhattan acquired 100% of Tarpan's assets and assumed 100% of its liabilities. Manhattan has also incurred losses from inception and as of March 31, 2005, had a deficit accumulated during the development stage of $15,508,580. Based on the resources available to the Company and Manhattan, at March 31, 2005, management believes that the combined company will continue to incur net losses through at least March 31, 2006 and will need additional equity or debt financing or will need to generate revenues from the licensing of its products or by entering into strategic alliances to be able to sustain its operations until it can achieve profitability, if ever. These matters raise substantial doubt about the Company's ability to continue as a going concern. The condensed financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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(3) STOCK OPTIONS

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), provides for the use of a fair value based method of accounting for employee stock compensation. The Company has elected to account for employee stock options using the fair value based method of accounting.

On November 14, 2004, the Company granted stock options to the Company's Chief Executive Officer to purchase 301,000 shares of the Company's common stock at an exercise price of $2.00 per share. These options vest equally over a three-year period and expire on November 14, 2014. The Company valued the options on the date of grant using the minimum value method and recorded a deferred stock-based compensation charge of $135,621, which represents the estimated fair value of the options granted. Such amount is being amortized over the vesting period of the stock options on a straight-line basis. The Company recorded compensation expense of $11,302 for the three months ended March 31, 2005 in conjunction with this grant. There were no options granted during the first quarter of 2005.

(4) RELATED PARTY TRANSACTIONS

Note Payable

At various times during the three months ended March 31, 2005, the Company issued 5% promissory notes payable totaling $80,000 to Paramount BioCapital Investments, LLC, an affiliate of a significant stockholder of the Company. These notes and other notes previously issued to related parties which had an aggregate balance of $630,702 at March 31, 2005 were initially due to mature on various dates from January 2007 through December 2007 (see Note 5).

Administrative Services

The Company pays monthly fees for administrative services of $500 to Paramount BioCapital Investments, LLC. For the three months ended March 31, 2005, the Company has accrued $1,500 for administrative services.

(5) SUBSEQUENT EVENTS

On April 1, 2005, the Company entered into the Agreement and Plan of Merger (the “Agreement”) with Manhattan Pharmaceuticals, Inc., a Delaware corporation (“Manhattan”), and Tarpan Acquisition Corp., a Delaware corporation and wholly-owned subsidiary of Manhattan (“TAC”). The Agreement provided that TAC would merge with and into the Company, with the Company remaining as the surviving corporation and a wholly-owned subsidiary of Manhattan (the “Merger”). The Merger was completed April 1, 2005. In consideration for their shares of capital stock and in accordance with the Agreement, the stockholders of the Company received a number of shares of Manhattan’s common stock such that, upon the effective time of the Merger, the Company’s stockholders collectively received (or are entitled to receive) approximately 20 percent of Manhattan’s outstanding common stock on a fully-diluted basis (i.e., assuming the issuance of common stock underlying outstanding options, warrants and other rights). Based on the number of fully-diluted outstanding shares of Manhattan’s common stock on the date of the Merger, the Company’s stockholders as of April 1, 2005 will receive an aggregate of 10,731,052 shares of Manhattan’s common stock in the Merger. At the time of the Merger, the Company had outstanding indebtedness of approximately $651,000 resulting from a series of promissory notes issued to Paramount BioCapital Investments, LLC and Horizon BioMedical Ventures, LLC, both of which are owned or controlled by Dr. Lindsay Rosenwald. The notes were amended at the time of the Merger to provide that one-half of the outstanding indebtedness was payable upon completion of the Merger and the remaining one-half will be payable at such time as Manhattan raises at least $5 million in new financing.

Several of the Company’s former stockholders are directors or significant stockholders of Manhattan. Dr. Rosenwald and various trusts established for the benefit of Dr. Rosenwald and members of his immediate family collectively beneficially owned approximately 46 percent of our common stock and beneficially own approximately 26 percent Manhattan’s common stock. In addition, Joshua Kazam, David Tanen, Dr. Michael Weiser and Timothy McInerney, all of whom are members of Manhattan’s board of directors, collectively owned approximately 13.4 percent of the Company's outstanding common stock. Dr. Weiser and Mr. McInerney are also employed by Paramount BioCapital, Inc., an entity owned and controlled by Dr. Rosenwald.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Tarpan Therapeutics, Inc.

We have audited the accompanying balance sheets of Tarpan Therapeutics, Inc. (A Development Stage Company) as of December 31, 2004 and 2003, and the related statements of operations, changes in stockholders' deficiency and cash flows for the year ended December 31, 2004, the period from July 16, 2003 (Inception) to December 31, 2003 and the cumulative amounts for the period from July 16, 2003 (Inception) to December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tarpan Therapeutics, Inc. as of December 31, 2004 and 2003, and its results of operations and cash flows for the year ended December 31, 2004, the period from July 16, 2003 (Inception) to December 31, 2003 and the cumulative amounts for the period from July 16, 2003 (Inception) to December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have prepared assuming that the Company will continue as a going concern. As discussed in Note 1, from its inception the Company has incurred net losses and negative cash flows from operating activities and had working capital and stockholders' deficiencies at December 31, 2004. These matters raise substantial doubt about the Company's ability to continue as a going concern. Management's plans concerning these matters are also described in Note 1. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ J.H. Cohn LLP

Roseland, New Jersey
April 1, 2005

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TARPAN THERAPEUTICS, INC.
(A Development Stage Company)

BALANCE SHEETS
DECEMBER 31, 2004 AND 2003

ASSETS	2004	2003
Current assets - cash	$ 12,202	$ —
Computer equipment, net of accumulated depreciation of $240	2,156	—
Totals	$ 14,358	$ —
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current liabilities:		
Accounts payable and accrued expenses	$ 4,939	$ —
Accrued interest - related parties	11,397	—
Total current liabilities	16,336	—
Notes payable - related parties	550,702	—
Total liabilities	567,038	$ —
Commitments		
Stockholders' deficiency:		
Preferred stock, $.001 par value; 5,000,000 shares authorized; none issued	—	—
Common stock, $.001 par value; 20,000,000 shares authorized, 4,000,000 shares issued and outstanding	4,000	4,000
Less stock subscription receivable		(4,000)
Deferred compensation	(129,970)	—
Additional paid-in capital	135,621	—
Deficit accumulated during the development stage	(562,331)	—
Total stockholders' deficiency	(552,680)	—
Totals	$ 14,358	$ —

See Notes to Financial Statements.

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TARPAN THERAPEUTICS, INC.
(A Development Stage Company)

STATEMENTS OF OPERATIONS
YEAR ENDED DECEMBER 31, 2004, PERIOD FROM JULY 16, 2003 (Inception) TO DECEMBER 31, 2003 AND PERIOD FROM JULY 16, 2003 (Inception) TO DECEMBER 31, 2004

	Year Ended December 31, 2004	Period from July 16, 2003 (Inception) to December 31, 2003	Period from July 16, 2003 (Inception) to December 31, 2004
Operating expenses:			
Research and development, principally license fee	$ 307,555	$	$ 307,555
General and administrative	243,379		243,379
Totals	550,934		550,934
Loss from operations	(550,934)		(550,934)
Interest expense	(11,397)		(11,397)
Net loss	$ (562,331)	$ —	$ (562,331)

See Notes to Financial Statements.

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TARPAN THERAPEUTICS, INC.
(A Development Stage Company)

STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIENCY
YEAR ENDED DECEMBER 31, 2004 AND PERIOD FROM JULY 16, 2003 (Inception) TO DECEMBER 31, 2003

	Common Stock Shares	Common Stock Amount	Stock Subscription Receivable	Deferred Compensation	Additional Paid-in Capital	Deficit Accumulated During the Development Stage	Total
Issuance of common stock to founders in July 2003 at $.001 per share	4,000,000	$ 4,000	$ (4,000)				
Balance, December 31, 2003	4,000,000	4,000	(4,000)				
Payments received for stock subscriptions from founders			4,000				$ 4,000
Issuance of stock options				$ (135,621)	$ 135,621		
Amortization of deferred compensation				5,651			5,651
Net loss						$ (562,331)	(562,331)
Balance, December 31, 2004	4,000,000	$ 4,000	$ —	$ (129,970)	$ 135,621	$ (562,331)	$ (552,680)

See Notes to Financial Statements.

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TARPAN THERAPEUTICS, INC.
(A Development Stage Company)

STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2004,
PERIOD FROM JULY 16, 2003 (Inception) TO DECEMBER 31, 2003 AND
THE PERIOD FROM JULY 16, 2003 (Inception) TO DECEMBER 31, 2004

	Year Ended December 31, 2004	Period from July 16, 2003 (Inception) to December 31, 2003	Period from July 16, 2003 (Inception) to December 31, 2004
Cash flows from operating activities:			
Net loss	$ (562,331)		$ (562,331)
Adjustments to reconcile net loss to net cash used in operating activities:			
Expenses paid by related entities on behalf of the Company	305,702		305,702
Amortization of deferred compensation	5,651		5,651
Depreciation	240		240
Changes in operating assets and liabilities:			
Accounts payable and accrued expenses	4,939		4,939
Accrued interest - related parties	11,397		11,397
Net cash used in operating activities	(234,402)		(234,402)
Cash flows from investing activities - purchase of computer equipment	(2,396)		(2,396)
Cash flows from financing activities:			
Proceeds from notes from related parties	245,000		245,000
Receipt of cash for stock subscription receivable	4,000		4,000
Net cash provided by financing activities	249,000		249,000
Net increase in cash	12,202	$ —	12,202
Cash, beginning of period	—	—	—
Cash, end of period	$ 12,202	$ —$	12,202
Supplemental schedule of noncash financing activities:			
Stock options granted to the Company's Chief Executive Officer	$ 135,621		$ 135,621

See Notes to Financial Statements.

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TARPAN THERAPEUTICS, INC.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

Note 1 - Business, basis of presentation and summary of significant accounting policies:
Business:
Tarpan Therapeutics, Inc. ("Tarpan" or the "Company") was incorporated in the State of Delaware on July 16, 2003. Tarpan is a specialty pharmaceutical company focused on the acquisition, development and commercialization of innovative pharmaceutical products. The Company's currently licensed compound targets the treatment of skin disorders.

Basis of presentation:
The Company's primary activities since incorporation have been organizational activities, including recruiting personnel, establishing office facilities, payment of a license fee, performing business and financial planning and raising capital through the issuance of notes payable. Accordingly, the Company is considered to be in the development stage.

On April 1, 2005, Manhattan Pharmaceuticals, Inc. ("Manhattan") entered into an Agreement and Plan of Merger (the "Agreement") with Tarpan. Pursuant to the Agreement, Manhattan issued 10,731,052 shares of its common stock to Tarpan's stockholders in exchange for 100% of the outstanding common stock of Tarpan. Manhattan is a pharmaceutical company that acquires and develops proprietary prescription drugs.

The Company's financial statements have been prepared on a going concern basis which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. For the year ended December 31, 2004 and from inception, the Company has reported a net loss of $562,331 and negative cash flows from operating activities of $234,402 and, at December 31, 2004, it had a working capital deficiency of $4,134 and a stockholders' deficiency of $552,680. As discussed above, Manhatan acquired 100% of Tarpan's assets and assumed 100% of its liabilities. Manhattan has also incurred losses from inception and as of December 31, 2004, had a deficit accumulated during the development stage of $13,955,035. Based on the resources available to the Company and Manhattan, at December 31, 2004, management believes that the combined company will continue to incur net losses through at least December 31, 2005 and will need additional equity or debt financing or will need to generate revenues from the licensing of its products or by entering into strategic alliances to be able to sustain its operations until it can achieve profitability, if ever. These matters raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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TARPAN THERAPEUTICS, INC.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

Note 1 - Business, basis of presentation and summary of significant accounting policies (continued):
Computer equipment:
Computer equipment is stated at cost and depreciated using the straight-line method over the estimated useful life of the related asset of five years.

Research and development:
Research and development costs are expensed as incurred.

In 2004, the Company incurred costs of $300,000 for license fees which have been expensed (see Note 3).

Income taxes:
In accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes," a deferred tax asset or liability is determined based on temporary differences between the financial statement and the tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which these assets and liabilities are expected to be recovered or settled. The Company provides a valuation allowance when it is more likely than not that the net deferred tax assets will not be realized.

Stock-based compensation:
Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), provides for the use of a fair value based method of accounting for employee stock compensation. The Company has elected to account for employee stock options using the fair value based method of accounting.

On November 14, 2004, the Company granted stock options to the Company's Chief Executive Officer to purchase 301,000 shares of the Company's common stock at an exercise price of $2.00 per share. These options vest equally over a three-year period and expire on November 14, 2014. The Company valued the options on the date of grant using the minimum value method and recorded a deferred stock-based compensation charge of $135,621, which represents the estimated fair value of the options granted. Such amount will be amortized over the vesting period of the stock options on a straight-line basis. The Company recorded compensation expense of $5,651 for the year ended December 31, 2004 in conjunction with this grant. The expected future amortization expense for the deferred stock-based compensation for stock option grants through December 31, 2004 is as follows:

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TARPAN THERAPEUTICS, INC.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

Note 1 - Business, basis of presentation and summary of significant accounting policies (concluded):
Stock-based compensation (concluded):

Year Ending December 31,	Amount
2005	$ 45,207
2006	45,207
2007	39,556
Total	$ 129,970

The fair value for these options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2004	2003
Dividend yield	0%	N/A
Risk-free interest rate	3.68%	N/A
Volatility	0%	N/A
Expected life	7 years	N/A

Note 2 - Related party transactions:
Notes payable:
At various times during 2004, the Company issued 5% promissory notes payable totaling $550,702 to both Paramount BioCapital Investments, LLC and Horizon Biomedical Ventures LLC, both of which are affiliates of a significant stockholder of Tarpan. These notes mature on various dates from January 2007 through December 2007 (see Note 7). The Company received proceeds totaling $245,000 from these notes payable and the related balance of these notes payable were issued to the lenders for expenses paid on behalf of the Company.

Administrative services:
The Company pays monthly fees for administrative services of $500 to Paramount BioCapital Investments, LLC. For the year ended December 31, 2004, the Company has accrued $1,500 for administrative services.

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TARPAN THERAPEUTICS, INC.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

Note 3 - License agreement:
The Company is a specialty pharmaceutical company focused on acquiring, developing and commercializing innovative pharmaceutical products. In April 2004, the Company entered into an agreement to acquire the rights to an exclusive, world-wide, royalty-bearing sublicense to develop and commercialize a technology for topical dermatologic products for localized usage at the delivery zone (the "Novasome Technology").

The amount expended under these agreements and charged to research and development expense during the year ended December 31, 2004 was $300,000. Future potential milestone payments under this agreement total approximately $9,100,000. The Company may also owe the licensor royalty payments based on future net sales, as defined, from Novasome Technology. There are no minimum royalties required under the agreement.

Note 4 - Stockholders' deficiency:
In 2003, the Company issued 4,000,000 shares of common stock to its founders for subscriptions receivable of $4,000 or $.001 per share. During 2004, the Company received the $4,000.

The Company has a stock inventive plan (the "Plan") under which incentive stock options may be granted to officers, directors, consultants and key employees of the Company for the purchase of up to 1,000,000 shares of common stock.

A summary of the Company's stock option activity and related information for the year ended December 31, 2004 is as follows:

	Available for Grant	Granted	Weighted Average Exercise Price
Establish 2004 Stock Option Plan	1,000,000		
2004 option grants	(301,000)	301,000	$ 2.00
Balance, December 31, 2004	699,000	301,000	

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TARPAN THERAPEUTICS, INC.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

Note 4 - Stockholders' deficiency (concluded):
The exercise price for all vested and unvested options outstanding is $2.00 per share. The average remaining contractual life of options outstanding at December 31, 2004 is 9.875 years. The average fair value of options granted during the year ended December 31, 2004 was approximately $.45 per share. At December 31, 2004, no options were vested and no options have been exercised.

Note 5 - Income taxes:
There was no current or deferred income tax expense for the year ended December 31, 2004 or the period from July 16, 2003 (date of inception) to December 31, 2003.

The Company's deferred tax assets as of December 31, 2004 and 2003 are as follows:

	2004	2003
Net operating loss carryforwards - Federal	$ 189,000	
Net operating loss carryforwards - state	34,000	
Total	223,000	
Less valuation allowance	(223,000)	
Deferred tax assets	$ —	$ —

At December 31, 2004, the Company had potentially utilizable Federal and state net operating loss tax carryforwards of approximately $555,000.

The utilization of the Company's net operating losses may be subject to a substantial limitation due to the "change of ownership provisions" under Section 382 of the Internal Revenue Code and similar state provisions. Such limitation may result in the expiration of the net operating loss carryforwards before their utilization.

Note 6 - Employment agreement:
The Company has entered into a three-year employment agreement with its President and Chief Executive Officer at $300,000 annually. In addition, the Company is required to pay its President and Chief Executive Officer a guaranteed bonus of $200,000 payable in two equal installments. The first installment of $100,000 is payable on May 15, 2005 and the second installment is payable on November 15, 2005.

Note 7 - Subsequent events:
During the period from January 1, 2005 through March 14, 2005, the Company issued $80,000 of additional promissory notes to Paramount BioCapital Investments, LLC (see Note 1).

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TARPAN THERAPEUTICS, INC.
(A Development Stage Company)

NOTES TO FINANCIAL STATEMENTS

On April 1, 2005, the Company entered into the Agreement with Manhattan, a Delaware corporation, and Tarpan Acquisition Corp., a Delaware corporation and wholly-owned subsidiary of Manhattan ("TAC"). The Agreement provided that TAC would merge with and into the Company, with the Company remaining as the surviving corporation and a wholly-owned subsidiary of Manhattan (the "Merger"). The Merger was completed April 1, 2005. In consideration for their shares of capital stock and in accordance with the Agreement, the stockholders of the Company received a number of shares of Manhattan's common stock such that, upon the effective time of the Merger, the Company's stockholders collectively received (or are entitled to receive) approximately 20 percent of Manhattan's outstanding common stock on a fully-diluted basis (i.e., assuming the issuance of common stock underlying outstanding options, warrants and other rights). Based on the number of fully-diluted outstanding shares of Manhattan's common stock on the date of the Merger, the Company's stockholders as of April 1, 2005 will receive an aggregate of 10,731,052 shares of Manhattan's common stock in the Merger. At the time of the Merger, the Company had outstanding indebtedness of approximately $651,000 resulting from a series of promissory notes issued to Paramount BioCapital Investments, LLC and Horizon BioMedical Ventures, LLC, both of which are owned or controlled by Dr. Lindsay Rosenwald. The notes were amended at the time of the Merger to provide that one-half of the outstanding indebtedness was payable upon completion of the Merger and the remaining one-half will be payable at such time as Manhattan raises at least $5 million in new financing.

Several of the Company's former stockholders are directors or significant stockholders of Manhattan. Dr. Rosenwald and various trusts established for the benefit of Dr. Rosenwald and members of his immediate family collectively beneficially owned approximately 46 percent of our common stock and beneficially own approximately 26 percent Manhattan's common stock. In addition, Joshua Kazam, David Tanen, Dr. Michael Weiser and Timothy McInerney, all of whom are members of Manhattan's board of directors, collectively owned approximately 13.4 percent of the Company's outstanding common stock. Dr. Weiser and Mr. McInerney are also employed by Paramount BioCapital, Inc., an entity owned and controlled by Dr. Rosenwald.

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Introduction to Unaudited Pro Forma Condensed Combined Financial Statements

On April 1, 2005, Manhattan Pharmaceuticals, Inc. (the "Company") entered into an Agreement and Plan of Merger (the "Agreement") with Tarpan Therapeutics, Inc., a Delaware corporation ("Tarpan"), and Tarpan Acquisition Corp., a Delaware corporation and wholly-owned subsidiary of the Company ("TAC"). The Agreement provided that TAC would merge with and into Tarpan, with Tarpan remaining as the surviving corporation and a wholly-owned subsidiary of the Company (the "Merger"). The Merger was completed April 1, 2005. In consideration for their shares of Tarpan capital stock and in accordance with the Agreement, the stockholders of Tarpan received a number of shares of the Company's common stock such that, upon the effective time of the Merger, the Tarpan stockholders collectively received approximately 20 percent of the Company's outstanding common stock on a fully-diluted basis (i.e., assuming the issuance of common stock underlying outstanding options, warrants and other rights). Based on the number of fully-diluted outstanding shares of the Company's common stock on the date of the Merger, the former stockholders of Tarpan received an aggregate of 10,731,052 shares of the Company's common stock in the Merger. At the time of the Merger, Tarpan had outstanding indebtedness of approximately $651,000 resulting principally from a series of promissory notes issued to Paramount BioCapital Investments, LLC and Horizon BioMedical Ventures, LLC, both of which are owned or controlled by Dr. Lindsay Rosenwald. The notes were amended at the time of the Merger to provide that one-half of the outstanding indebtedness was payable upon completion of the Merger and the remaining one-half will be payable at such time as the Company raises at least $5 million in new financing.

The Unaudited Pro Forma Condensed Combined Statements of Operations combine the historical consolidated statements of operations of the Company and Tarpan giving effect to the merger as if it had been consummated on January 1, 2004.

You should read this information in conjunction with the:
Accompanying notes to the Unaudited Pro Forma Condensed Combined Financial Statements;

Separate audited historical consolidated financial statements of the Company as of and for the years ended December 31, 2004 and 2003 and for the period from August 6, 2001 (inception) to December 31, 2004 included elsewhere in this prospectus;

Separate unaudited historical consolidated financial statements of the Company as of and for the six months ended June 30, 2005 and 2004 and the period from August 6, 2001 (inception) to June 30, 2005 included elsewhere in this prospectus;

Separate audited and unaudited historical financial statements of Tarpan as of December 31, 2004 and 2003 and March 31, 2005 and for the year ended December 31, 2004, the period from July 16, 2003 (inception) to December 31, 2003 and 2004 and the three months ended March 31, 2005 and 2004 and the period from July 16, 2003 (inception) to March 31, 2005 which are included elsewhere in this prospectus.

We present the unaudited pro forma condensed combined financial information for informational purposes only. The pro forma information is not necessarily indicative of what our results of operations actually would have been had we completed the merger on January 1, 2004. In addition, the unaudited pro forma condensed combined financial information does not purport to project the future operating results of the combined company.

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We prepared the unaudited pro forma condensed combined financial information using the purchase method of accounting with the Company treated as the acquirer. Accordingly, the Company’s cost to acquire Tarpan has been allocated to the assets acquired and liabilities assumed (substantially in process research and development ("IPR&D")) based upon their estimated fair values as of the date of acquisition.

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UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

(Development Stage Companies)

For the six months ended June 30, 2005
(Unaudited)
($000, except share information)

	Manhattan Pharmaceuticals, Inc.	Tarpan Therapeutics, Inc.	Pro Forma Adjustments	Pro Forma Combined
Revenue	$ —	$ —	$ —	$ —
Costs and expenses:				
Research and development	1,921	—		1,921
General and administrative	1,046	120		1,166
In-process research and development charge	11,888	—	(11,888)	—
Total operating expenses	14,855	120	(11,888)	3,087
Operating loss	(14,855)	(120)	11,888	(3,087)
Other, net	(68)	7	—	(61)
Net loss	(14,787)	(127)	11,888	(3,026)
Preferred stock dividends (including imputed amounts)	(252)	—	—	(252)
Net loss applicable to common shares	$ (15,039)	$ (127)	$ 11,888	$ (3,278)
Net loss per common share:				
Basic and diluted	$ (0.43)			$ (0.08)
Weighted average shares of common stock outstanding:				
Basic and diluted	34,663,130			40,058,300

See accompanying notes to unaudited condensed combined financial statements.

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UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

(Development Stage Companies)

For the year ended December 31, 2004
(Unaudited)
($000, except share information)

	Manhattan Pharmaceuticals, Inc.	Tarpan Therapeutics, Inc.	Pro Forma Adjustments	Pro Forma Combined
Revenue	$ —	$ —	$ —	$ —
Costs and expenses:				
Research and development	4,153	308	—	4,461
General and administrative	1,990	243	—	2,233
Total operating expenses	6,143	551	—	6,694
Operating loss	(6,143)	(551)	—	(6,694)
Other, net	(247)	11	—	(236)
Net loss	(5,896)	(562)	—	(6,458)
Preferred stock dividends (including imputed amounts)	(586)	—	—	(586)
Net loss applicable to common shares	$ (6,482)	$ (562)	$ —	$ (7,044)
Net loss per common share:				
Basic and diluted	$ (0.24)			$ (0.19)
Weighted average shares of common stock outstanding:				
Basic and diluted	26,936,658			37,667,710

See accompanying notes to unaudited condensed combined financial statements.

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Notes to Unaudited Pro Forma Condensed Combined Financial Statements

(1) Description of Transaction and Basis of Presentation

On April 1, 2005, Manhattan Pharmaceuticals, Inc. (the "Company") consummated an Agreement and Plan of Merger (the "Agreement") with Tarpan Therapeutics, Inc., a Delaware corporation ("Tarpan"), and Tarpan Acquisition Corp., a Delaware corporation and wholly-owned subsidiary of the Company ("TAC"). The Agreement provided that TAC would merge with and into Tarpan, with Tarpan remaining as the surviving corporation and a wholly-owned subsidiary of the Company (the "Merger"). The Merger was completed April 1, 2005. In consideration for their shares of Tarpan capital stock and in accordance with the Agreement, the stockholders of Tarpan received a number of shares of the Company's common stock such that, upon the effective time of the Merger, the Tarpan stockholders collectively received approximately 20 percent of the Company's outstanding common stock on a fully-diluted basis (i.e., assuming the issuance of common stock underlying outstanding options, warrants and other rights). Based on the number of fully-diluted outstanding shares of the Company's common stock on the date of the Merger, the former stockholders of Tarpan received an aggregate of 10,731,052 shares of the Company's common stock in the Merger. At the time of the Merger, Tarpan had outstanding indebtedness of approximately $651,000 resulting principally from a series of promissory notes issued to Paramount BioCapital Investments, LLC and Horizon BioMedical Ventures, LLC, both of which are owned or controlled by Dr. Lindsay Rosenwald. The notes were amended at the time of the Merger to provide that one-half of the outstanding indebtedness was payable upon completion of the Merger and the remaining one-half will be payable at such time as the Company raises at least $5 million in new financing, which occurred August 26, 2005.

The merger was accounted for as a purchase by the Company under accounting principles generally accepted in the United States of America. Under the purchase method of accounting, the assets and liabilities of Tarpan were recorded as of the acquisition date, at their respective fair values, and combined with those of the Company. The estimated purchase price has been allocated to acquired in process research and development. Since the charge to acquired in process research and development is non-recurring and directly related to the merger, such amount is not reflected in the pro forma information.

As required by FASB Interpretation No. 4, "Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method" ("FIN 4"), the Company recorded a charge in the second quarter of 2005 of $12,567,000 for the portion of the purchase price allocated to acquired in-process research and development.

A valuation using the guidance in SFAS No. 141, "Business Combinations" and the AICPA Practice Aid "Assets Acquired in a Business Combination to Be Used in Research and Development Activities: A Focus on Software, Electronic Devices and Pharmaceutical Industries" was performed to determine the fair value of research and development projects of Tarpan which were in-process but not yet completed.

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25,627,684 Shares

Common Stock

Manhattan Pharmaceuticals, Inc.

PROSPECTUS

October 4, 2005