

ADVENTRX PHARMACEUTICALS INC

Form 10-K/A

August 24, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K/A
Amendment No. 2**

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

For the fiscal year ended December 31, 2006

OR

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

For the transition period from _____ to _____

Commission File No. 001-32157

ADVENTRX PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction of incorporation or
organization)*

84-1318182

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

6725 Mesa Ridge Road, Suite 100 San Diego CA

(Address of principal executive offices)

92121

(Zip Code)

(858) 552-0866

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:

Name of each exchange on which registered:

Common Stock, par value \$0.001 per share

The American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the

Act. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statement incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2006 was approximately \$ 189,214,000, based upon the closing price on the American Stock Exchange reported for such date. Shares of common stock held by each officer and director and by each person who is known to own 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates of the Company. This determination of affiliate status is not necessarily a conclusive determination for other purposes. 89,676,739 shares of the registrant's common stock were issued and outstanding as of March 12, 2007.

DOCUMENTS INCORPORATED BY REFERENCE

Not applicable.

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EXPLANATORY NOTE

This amendment (Amendment No. 2) to the Annual Report on Form 10-K for the year ended December 31, 2006 of ADVENTRX Pharmaceuticals, Inc. (the Company), which was filed on March 15, 2007 (the Annual Report), is being filed for the sole purpose of amending Item 15 of Part IV of the Annual Report. Pursuant to Securities and Exchange Commission staff comments, the report of the independent registered public accounting firm (the Report) has been amended to exclude any reference to the report of the Company s other auditors and the Company s consolidated statements of operations, stockholders equity (deficit) and cash flows for the period from June 12, 1996 (date of inception) to December 31, 2001. The financial statements of the Company and subsidiaries (a development stage enterprise) to which the Report relates are not being amended or restated and appear in this Amendment No. 2 solely to comply with Rule 12b-15 under the Securities Exchange Act of 1934. Except for the changes to the Report described above, this Amendment No. 2 does not amend or update the Annual Report in any respect and, accordingly, this Amendment No. 2 should be read in conjunction with filings we have made with the Securities and Exchange Commission subsequent to March 15, 2007, the date of the original filing of the Annual Report.

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PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) Documents Filed. The following documents are filed as part of this report:

(1) Financial Statements. The following report of J.H. Cohn LLP and financial statements:
Report of J.H. Cohn LLP, Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2006 and 2005

Consolidated Statements of Operations for the years ended December 31, 2006, 2005 and 2004 and from inception through December 31, 2006

Consolidated Statements of Stockholders Equity (Deficit) from inception through December 31, 2006

Consolidated Statements of Cash Flows for the years ended December 31, 2006, 2005 and 2004 and from inception through December 31, 2006

(2) Financial Statement Schedules. See subsection (c) below.

(3) Exhibits. See subsection (b) below.

(b) Exhibits.

Exhibit	Description
2.1 (1)	Agreement and Plan of Merger, dated April 7, 2006, among the registrant, Speed Acquisition, Inc., SD Pharmaceuticals, Inc. and certain individuals named therein (including exhibits thereto)
3.1 (2)	Amended and Restated Certificate of Incorporation of the registrant
3.2 (3)	Amended and Restated Bylaws of the registrant (formerly known as Biokeys Pharmaceuticals, Inc.)
4.1(4)	Form of Registration Rights Agreement entered into in October and November 2001 (including the original schedule of holders)
4.2 (5)	\$2.50 Warrant to Purchase Common Stock issued on April 12, 2002 to Emisphere Technologies, Inc.
4.3 (4)	Form of \$0.60 Warrant to Purchase Common Stock issued May 28, 2003 (including the original schedule of holders)
4.4 (4)	Form of \$1.25 Warrant to Purchase Common Stock issued between October 15, 2003 and December 29, 2003 (including the original schedule of holders)
4.5 (4)	Common Stock and Warrant Purchase Agreement, dated as of April 5, 2004, among the registrant and the Investors (as defined therein)
4.6 (4)	Registration Rights Agreement, dated April 5, 2004, among the registrant and the Investors (as defined therein)
4.7 (4)	Form of \$2.00 A-1 Warrant to Purchase Common Stock issued April 8, 2004 (including the original schedule of holders)

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- 4.8 (4) Form of \$2.50 A-2 Warrant to Purchase Common Stock issued April 8, 2004 (including the original schedule of holders)
- 4.9 (6) Common Stock and Warrant Purchase Agreement, dated April 8, 2004, between the registrant and CD Investment Partners, Ltd.
- 4.10 (6) Registration Rights Agreement, dated April 8, 2004, between the registrant and CD Investment Partners, Ltd.
- 4.11 (6) \$2.00 A-1 Warrant to Purchase Common Stock issued on April 8, 2004 to CD Investment Partners, Ltd.
- 4.12 (6) \$2.00 A-1 Warrant to Purchase Common Stock issued on April 8, 2004 to Burnham Hill Partners
- 4.13 (6) \$2.00 A-1 Warrant to Purchase Common Stock issued on April 8, 2004 to Ernest Pernet

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Exhibit	Description
4.14 (6)	\$2.00 A-1 Warrant to Purchase Common Stock issued on April 8, 2004 to W.R. Hambrecht + Co., LLC
4.15 (7)	Common Stock and Warrant Purchase Agreement, dated April 19, 2004, between the registrant and Franklin M. Berger
4.16 (8)	Registration Rights Agreement, dated April 19, 2004, between the registrant and Franklin M. Berger
4.17 (9)	\$2.00 A-1 Warrant to Purchase Common Stock issued on April 19, 2004 to Franklin M. Berger
4.18 (8)	Securities Purchase Agreement, dated July 21, 2005, among the registrant and the Purchasers (as defined therein)
4.19 (8)	Rights Agreement, dated July 27, 2005, among the registrant, the Icahn Purchasers and Viking (each as defined therein)
4.20 (9)	First Amendment to Rights Agreement, dated September 22, 2006, among the registrant and the Icahn Purchasers (as defined therein)
4.21 (8)	Form of \$2.26 Common Stock Warrant issued on July 27, 2005 (including the original schedule of holders)
4.22 (8)	Form of \$2.26 Common Stock Warrant issued on July 27, 2005 (including the original schedule of holders)
4.23 (10)	\$0.50 Warrant (WC-291) to Purchase Common Stock transferred on June 15, 2005 to S. Neborsky and R Neborsky TTEE Robert J. Neborsky MD Inc Comb Retirement Trust
4.24 (11)	\$0.50 Warrant (WC-292) to Purchase Common Stock transferred on June 15, 2005 to S. Neborsky and R Neborsky TTEE Robert J. Neborsky MD Inc Comb Retirement Trust
4.25 (11)	\$2.50 Warrant to Purchase Common Stock issued on October 22, 2004 to Thomas J. DePetrillo
10.1# (10)	2005 Equity Incentive Plan
10.2# (12)	Form of Stock Option Agreement under the 2005 Equity Incentive Plan
10.3# (2)	Form of Restricted Share Award Agreement under the 2005 Equity Incentive Plan
10.4# (12)	2005 Employee Stock Purchase Plan
10.5# (12)	Form of Subscription Agreement under the 2005 Employee Stock Purchase Plan
10.6* (13)	Option and License Agreement, dated January 23, 1998, between the registrant and the University of Southern California

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- 10.7 (3) First Amendment to License Agreement, dated August 16, 2000, between the registrant and the University of Southern California
- 10.8* (13) Option and License Agreement, dated August 17, 2000, between the registrant and the University of Southern California

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Exhibit	Description
10.9* (14)	Amendment to Option and License Agreement, dated April 21, 2003, between the registrant and the University of Southern California
10.10* (2)	Agreement, effective as of May 1, 2005, between the registrant and Pharm-Olam International Ltd.
10.11 (2)	Amendment dated July 19, 2005 to the Agreement between the registrant and Pharm-Olam International Ltd.
10.12 (15)	License Agreement, dated October 20, 2006, between the registrant, through its wholly-owned subsidiary SD Pharmaceuticals, Inc., and Theragenex, LLC
10.13 (10)	License Agreement, dated December 10, 2005, between SD Pharmaceuticals, Latitude Pharmaceuticals and Andrew Chen
10.14 (16)	Standard Multi-Tenant Office Lease Gross, dated June 3, 2004, between the registrant and George V. Casey & Ellen M. Casey, Trustees of the Casey Family Trust dated June 22, 1998
10.15 (2)	First Amendment to the Standard Multi-Tenant Office Lease Gross, dated June 3, 2004 between the registrant and George V. & Ellen M. Casey, Trustees of the Casey Family Trust dated June 22, 1998
10.16# (17)	Offer letter, dated March 5, 2003, to Joan M. Robbins
10.17# (18)	Offer letter, dated November 15, 2004, to Brian M. Culley
10.18# (18)	Offer letter, dated November 17, 2004, to Carrie Carlander
10.19# (19)	Severance Agreement and Release of All Claims, dated September 7, 2006, with Carrie Carlander
10.20# (19)	Consulting Agreement, dated September 7, 2006, with Carrie Carlander
10.21# (19)	Offer letter, dated September 7, 2006, to James A. Merritt
10.22# (19)	Form of Stock Option Agreement between the registrant and James A. Merritt (included in Exhibit 10.21)
10.23# (20)	Offer letter, dated December 13, 2006, to Gregory P. Hanson
10.24# (20)	Stock Option Agreement, effective December 20, 2006, between the registrant and Gregory P. Hanson
10.25 (21)	Form of Director and Officer Indemnification Agreement
10.26# (22)	Director compensation policy
10.27 (23)	Placement Agency Agreement, dated November 2, 2006, among the registrant, ThinkEquity Partners LLC and Fortis Securities LLC

14.1 (24)	Code of Business Conduct and Ethics
21.1 (10)	List of Subsidiaries
23.1	Consent of J.H. Cohn LLP, Independent Registered Public Accounting Firm
31.1	Certification of chief executive officer pursuant to Rule 13a-14(a)/15d-14(a)

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Exhibit	Description
31.2	Certification of chief financial officer pursuant to Rule 13a-14(a)/15d-14(a)
32.1±	Certification of chief executive officer and chief financial officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Indicates that confidential treatment has been requested or granted to certain portions, which portions have been omitted and filed separately with the Securities and Exchange Commission

Indicates management contract or compensatory plan

± These certifications are being furnished solely to accompany this report pursuant to 18 U.S.C. 1350, and are not being filed for purposes of Section 18 of the Securities Exchange Act of 1934 and are not to be incorporated by reference into any filing of the registrant, whether made

before or after
the date hereof,
regardless of
any general
incorporation
language in
such filing.

- (1) Filed with the registrant's Amendment No. 1 to Current Report on Form 8-K/A on May 1, 2006
- (2) Filed with the registrant's Annual Report on Form 10-K on March 16, 2006
- (3) Filed with the registrant's Registration Statement on Form 10SB on October 2, 2001
- (4) Filed with the registrant's Registration Statement on Form S-3 on June 30, 2004
- (5) Filed with the registrant's Amendment No. 1 to Quarterly Report on Form 10-Q/A on October 30, 2006
- (6) Filed with the registrant's Current Report on Form 8-K/A

on April 13,
2004

- (7) Filed with the registrant's Quarterly Report on Form 10-QSB on May 12, 2005
- (8) Filed with the registrant's Quarterly Report on Form 10-Q on August 12, 2005
- (9) Filed with the registrant's Current Report on Form 8-K on September 22, 2006
- (10) Filed with the registrant's Annual Report on Form 10-K on March 15, 2007
- (11) Filed with the registrant's Registration Statement on Form S-3 on August 26, 2005
- (12) Filed with the registrant's Registration Statement on Form S-8 on July 13, 2005
- (13) Filed with the registrant's Registration Statement on Form 10-SB/A on January 14,

2002

- (14) Filed with the registrant's Quarterly Report on Form 10-QSB on August 14, 2003
- (15) Filed with the registrant's Current Report on Form 8-K on October 23, 2006
- (16) Filed with the registrant's Quarterly Report on Form 10-QSB on August 10, 2004
- (17) Filed with the registrant's Annual Report on Form 10-KSB on April 16, 2003
- (18) Filed with the registrant's Annual Report on Form 10-KSB on March 31, 2005
- (19) Filed with the registrant's Current Report on Form 8-K on September 8, 2006
- (20) Filed with the registrant's Current Report on Form 8-K on December 20, 2006

- (21) Filed with the registrant's Current Report on Form 8-K on October 23, 2006
- (22) Filed with the registrant's Current Report on Form 8-K on June 23, 2006
- (23) Filed with the registrant's Current Report on Form 8-K on November 3, 2006
- (24) Filed with the registrant's Current Report on Form 8-K on January 23, 2007
- (c) Financial Statement Schedules. All Schedules are omitted because they are not applicable, the amounts involved are not significant or the required information is shown in the financial statements or notes thereto.

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SIGNATURES

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

ADVENTRX Pharmaceuticals, Inc.

By: /s/ Evan M. Levine
 Evan M. Levine
 Chief Executive Officer

Date: August 24, 2007

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

Signature	Title	Date
/s/ Evan M. Levine Evan M. Levine	Chief Executive Officer (Principal Executive Officer)	August 24, 2007
/s/ Gregory P. Hanson Gregory P. Hanson	Chief Financial Officer, Senior Vice President, Finance, and Treasurer (Principal Financial and Accounting Officer)	August 24, 2007
*	Chairman of the Board	
M. Ross Johnson *	Director	
Mark Bagnall *	Director	
Alexander J. Denner *	Director	
Michael M. Goldberg *	Director	
Jack Lief *	Director	
Mark J. Pykett		

* By: /s/ Evan M. Levine

August 24,
2007

Evan M. Levine
Attorney-in-Fact

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Financial statement schedules have been omitted for the reason that the required information is presented in financial statements or notes thereto, the amounts involved are not significant or the schedules are not applicable	

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders

ADVENTRX Pharmaceuticals, Inc.

We have audited the accompanying consolidated balance sheets of ADVENTRX Pharmaceuticals, Inc. and Subsidiaries (a development stage enterprise) as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 2006 and for the period from January 1, 2002 to December 31, 2006. 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, such consolidated financial statements present fairly, in all material respects, the financial position of ADVENTRX Pharmaceuticals, Inc. and Subsidiaries (a development stage enterprise) as of December 31, 2006 and 2005, and the results of operations and their cash flows for each of the years in the three-year period ended December 31, 2006 and for the period from January 1, 2002 to December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of ADVENTRX Pharmaceuticals, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 23, 2007 expressed an unqualified opinion on management's assessment of internal control over financial reporting and an unqualified opinion of the effectiveness of internal control over financial reporting.

/s/ J.H. Cohn LLP

San Diego, California

February 23, 2007

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ADVENTRX Pharmaceuticals, Inc. and Subsidiaries
(A Development Stage Enterprise)
Consolidated Balance Sheets

	December 31,	
	2006	2005
<i>Assets</i>		
Current assets:		
Cash and cash equivalents	\$ 25,974,041	\$ 14,634,618
Short-term investments	25,771,406	7,958,458
Interest receivable	80,338	10,214
Prepaid expenses	511,327	255,802
 Total current assets	 52,337,112	 22,859,092
Property and equipment, net	402,968	407,544
Other assets	58,305	355,137
 Total assets	 \$ 52,798,385	 \$ 23,621,773
 <i>Liabilities and Stockholders Equity (Deficit)</i>		
Current liabilities:		
Accounts payable	\$ 480,402	\$ 593,228
Accrued liabilities	1,675,226	930,274
Accrued compensation and payroll taxes	292,896	173,398
Warrant liability	30,356,439	29,696,411
 Total current liabilities	 32,804,963	 31,393,311
Long-term liabilities	35,674	57,078
 Total liabilities	 32,840,637	 31,450,389
 Commitments and contingencies		
Temporary equity:		
Common stock subject to continuing registration, \$0.001 par value; 10,810,809 shares issued and outstanding		
Stockholders' equity (deficit):		
Common stock, \$0.001 par value; 200,000,000 shares authorized; 78,865,930 and 56,529,388 shares issued and outstanding at December 31, 2006 and 2005, respectively	89,678	67,364
Additional paid-in capital	109,166,773	52,105,329
Deficit accumulated during the development stage	(89,296,613)	(59,964,840)
Accumulated other comprehensive loss	(2,090)	(1,722)
Treasury stock, 23,165 shares at December 31, 2005, at cost		(34,747)
 Total stockholders' equity (deficit)	 19,957,748	 (7,828,616)
 Total liabilities and stockholders' equity (deficit)	 \$ 52,798,385	 \$ 23,621,773

See accompanying notes to consolidated financial statements.

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ADVENTRX Pharmaceuticals, Inc. and Subsidiaries
(A Development Stage Enterprise)
Consolidated Statements of Operations

	<i>Years Ended December 31,</i>			<i>Inception (June 12, 1996) through December 31, 2006</i>
	<i>2006</i>	<i>2005</i>	<i>2004</i>	
Net sales	\$	\$	\$	\$ 174,830
Cost of goods sold				51,094
Gross margin				123,736
Grant revenue				129,733
Total revenue				253,469
Operating expenses:				
Research and development	12,001,212	8,682,498	2,744,328	28,157,964
In-process research and development	10,422,130			10,422,130
Selling, general and administrative	7,236,437	4,901,002	4,018,453	24,570,736
Depreciation and amortization	176,688	115,545	41,309	10,432,249
Impairment loss write-off of goodwill				5,702,130
Equity in loss of investee				178,936
Total operating expenses	29,836,467	13,699,045	6,804,090	79,464,145
Loss from operations	(29,836,467)	(13,699,045)	(6,804,090)	(79,210,676)
Interest income	1,164,722	496,059	103,042	1,863,059
Loss on fair value of warrants	(660,028)	(11,579,660)		(12,239,688)
Interest expense				(179,090)
Loss before income taxes	(29,331,773)	(24,782,646)	(6,701,048)	(89,766,395)
Provision for income taxes				
Loss before cumulative effect of change in accounting principle	(29,331,773)	(24,782,646)	(6,701,048)	(89,766,395)
Cumulative effect of change in accounting principle				(25,821)
Net loss	(29,331,773)	(24,782,646)	(6,701,048)	(89,792,216)
Preferred stock dividends				(621,240)
Net loss applicable to common stock	\$ (29,331,773)	\$ (24,782,646)	\$ (6,701,048)	\$ (90,413,456)

Loss per common share basic and diluted	\$	(0.40)	\$	(0.41)	\$	(0.13)
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Weighted average shares outstanding basic and diluted		73,988,206		59,828,357		50,720,180
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See accompanying notes to consolidated financial statements.

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ADVENTRX Pharmaceuticals, Inc. and Subsidiaries
(A Development Stage Enterprise)
Consolidated Statements of Stockholders Equity (Deficit)
Inception (June 12, 1996) through December 31, 2006

	Cumulative convertible preferred stock, series A			Cumulative convertible preferred stock, series B		Cumulative convertible preferred stock, series C		Common stock		Additional paid-in capital		Development stage		Treasury stock, at cost		Total stockholders equity (deficit)		Comprehensive loss	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	paid-in capital	loss	stage	cost	equity (deficit)	Comprehensive loss					
Balances at June 12, 1996 (date of incorporation)		\$		\$		\$		\$	\$		\$	\$	\$	\$					
Sale of common stock without par value							503	5		5							10		
Change in par value of common stock								(4)		4									
Issuance of common stock and net liabilities assumed in acquisition							1,716,132	1,716		3,224		(18,094)					(13,154)		
Issuance of common stock							2,010,111	2,010		456		(2,466)							
Net loss												(259,476)					(259,476)	\$	(259,476)
Balances at December 31, 1996							3,726,746	3,727		3,689		(280,036)					(272,620)	\$	(259,476)
Sale of common stock, net of offering costs of \$9,976							1,004,554	1,004		1,789,975									1,790,979
Issuance of common stock in acquisition							375,891	376		887,874		(45,003)							888,250
																			(45,003)

Minority interest deficiency at acquisition charged to the Company							
Net loss				(1,979,400)	(1,979,400)	\$ (1,979,400)	
Balances at December 31, 1997	5,107,191	5,107	2,681,538	(2,304,439)	382,206	\$ (1,979,400)	
Rescission of acquisition	(375,891)	(376)	(887,874)	561,166	(327,084)		
Issuance of common stock at conversion of notes payable	450,264	451	363,549		364,000		
Expense related to stock warrants issued			260,000		260,000		
Net loss				(1,204,380)	(1,204,380)	\$ (1,204,380)	
Balances at December 31, 1998	5,181,564	5,182	2,417,213	(2,947,653)	(525,258)	\$ (1,204,380)	
Sale of common stock	678,412	678	134,322		135,000		
Expense related to stock warrants issued			212,000		212,000		
Net loss				(1,055,485)	(1,055,485)	\$ (1,055,485)	
Balances at December 31, 1999	5,859,976	5,860	2,763,535	(4,003,138)	(1,233,743)	\$ (1,055,485)	
Sale of preferred stock, net of offering costs of \$76,500	3,200	32	3,123,468		3,123,500		

See accompanying notes to consolidated financial statements.

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	Cumulative convertible preferred stock, series A	Cumulative convertible preferred stock, series B	Cumulative convertible preferred stock, series C	Common stock		Deficit Accumulated			Total		
				Shares	Amount	Additional paid in capital	other comprehensive loss	during the development stage		Treasury stock, at cost	stockholders equity (deficit)
	Shares	Amount	Shares	Amount	Shares	Amount					
Issuance of common stock at conversion of notes and interest payable				412,487	412	492,085				492,497	
Issuance of common stock at conversion of notes payable				70,354	70	83,930				84,000	
Issuance of common stock to settle obligations				495,111	496	1,201,664				1,202,160	
Issuance of common stock for acquisition				6,999,990	7,000	9,325,769				9,332,769	
Issuance of warrants for acquisition						4,767,664				4,767,664	
Stock issued for acquisition costs				150,000	150	487,350				487,500	
Expense related to stock warrants issued						140,000				140,000	
Dividends payable on preferred stock						(85,000)				(85,000)	
Cashless exercise of warrants				599,066	599	(599)					
Net loss								(3,701,084)		(3,701,084)	\$ (3,701,084)
	3,200	32		14,586,984	14,587	22,299,866		(7,704,222)		14,610,263	\$ (3,701,084)

Balances at December 31, 2000								
Dividends payable on preferred stock						(256,000)		(256,000)
Repurchase of warrants						(55,279)		(55,279)
Sale of warrants						47,741		47,741
Cashless exercise of warrants		218,493	219		(219)			
Issuance of common stock to pay preferred dividends		93,421	93		212,907			213,000
Detachable warrants issued with notes payable					450,000			450,000
Issuance of warrants to pay operating expenses					167,138			167,138
Issuance of common stock to pay operating expenses		106,293	106		387,165			387,271
Issuance of preferred stock to pay operating expenses	137	1			136,499			136,500
Net loss						(16,339,120)	(16,339,120)	\$(16,399,120)
Balances at December 31, 2001	3,337	33	15,005,191	15,005	23,389,818	(24,043,342)	(638,486)	\$(16,399,120)
Dividends payable on preferred stock						(242,400)		(242,400)
Repurchase of warrants			240,000	240	117,613			117,853

Sale of warrants			
Cashless exercise of warrants	100,201	100	(100)
See accompanying notes to consolidated financial statements.			
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	Cumulative convertible preferred stock, series A		Cumulative convertible preferred stock, series B		Cumulative convertible preferred stock, series C		Common stock		Deficit Accumulated			Total	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	paid-in capital	comprehensive loss	development stage	Treasury stock, at cost	equity (deficit)
							344,573	345	168,477				168,822
			200,000	2,000						298,000			300,000
					70,109	701				700,392			701,093
	(3,000)	(30)					1,800,000	1,800	(1,770)				
										335,440			335,440
										163,109			163,109
							6,292	6	12,263				12,269
	136	1								6,000			6,001
										329,296			329,296
											(2,105,727)		(2,105,727) \$ (
	473	4	200,000	2,000	70,109	701	17,496,257	17,496	25,276,138		(26,149,069)		(852,730) \$ (

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					(37,840)	(37,840)
	(70,109)	(701)	14,021,860	14,022	(13,321)	
			165,830	165	53,326	53,491