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MANHATTAN PHARMACEUTICALS INC  
Form 10QSB  
August 15, 2003

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-QSB

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

For the quarterly period ended June 30, 2003

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-27282

MANHATTAN PHARMACEUTICALS, INC.  
(Exact Name of Registrant as Specified in Its Charter)

Delaware 36-3898269  
(State or other jurisdiction of (I.R.S. Employer Identification No.)  
incorporation or organization)

787 Seventh Avenue, 48th Floor, New York, New York 10019  
(Address of principal executive offices)

(212) 554-4525  
(Issuer's telephone number)

(Former Name, Former Address and Former Fiscal  
Year, if Changed Since Last Report)

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

As of August 8, 2003 there were 116,811,980 shares of the issuer's common stock, \$.001 par value, outstanding.

INDEX

PART I FINANCIAL INFORMATION

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Item 1. Unaudited Condensed Consolidated Financial Statements.....  
Unaudited Condensed Consolidated Balance Sheets.....  
Unaudited Condensed Consolidated Statements of Operations.....  
Unaudited Condensed Consolidated Statement of Stockholders' Equity.....  
Unaudited Condensed Consolidated Statements of Cash Flows.....  
Notes to Unaudited Condensed Consolidated Financial Statements.....  
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations...  
Item 3. Controls and Procedures.....

PART II OTHER INFORMATION

Item 1. Legal Proceedings.....  
Item 5. Other Information.....  
Item 6. Exhibits and Reports on Form 8-K.....  
Signatures.....

Forward-Looking Statements

The statements contained in this Quarterly Report on Form 10-QSB that are not historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding the expectations, beliefs, intentions or strategies regarding the future. We intend that all forward-looking statements be subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. In particular, the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section in Part I, Item 2 of this quarterly report include 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. A number of important factors could, individually or in the aggregate, cause actual results to differ materially from those expressed or implied in any forward-looking statements. Such factors include, but are not limited to, the following: our lack of significant revenues and profitability; our need for additional capital; our ability to successfully commercialize our technologies; our ability to obtain various regulatory approvals; the illiquidity and volatility of our common stock, and the other "Risk Factors" identified in our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2002.

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

PART I--FINANCIAL INFORMATION

ITEM 1. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Condensed Consolidated Balance Sheets  
(Unaudited)

		JUNE 30,
ASSETS		2003
Current assets:		
Cash and cash equivalents	\$	477,
Prepaid expenses		34,
Total current assets		512,
Property and equipment, net		10,
Deposits		19,
Intangible assets, net		3,061,
Total assets	\$	3,604,
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$	573,
Accrued expenses		410,
Note payable to bank		-
Notes payable to stockholder		70,
Due affiliate		-
Total liabilities		1,054,
Commitments and Contingencies		
Stockholders equity:		
Common stock, \$.001 par value. Authorized 150,000,000 shares; 116,811,980 and 78,765,040 shares issued and outstanding at June 30, 2003 and December 31, 2002, respectively		116,
Additional paid-in capital		4,733,
Unearned consulting costs		(7,
Deficit accumulated during development stage		(2,292,
Total stockholders equity		2,549,
Total liabilities and stockholders' equity	\$	3,604,

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 EDGAR PEOPLE:  
(Unaudited)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2003	2002	2003	2002
Revenue	\$ --	\$ --	--	--
Costs and expenses:				
Research and development	313,176	198,855	356,531	
General and administrative	463,844	49,944	842,716	
Total operating expenses	777,020	248,799	1,199,247	
Operating loss	(777,020)	(248,799)	(1,199,247)	
Other (income) expense:				
Interest and other income	(1,625)		(4,140)	
Interest expense	923	3,768	3,156	
Total other (income) expense	(702)	3,768	(984)	
Net loss	\$ (776,318)	\$ (252,567)	\$ (1,198,263)	\$
Net loss per common share:				
Basic and diluted	\$ (0.01)	\$ (0.00)	\$ (0.01)	\$
Weighted average shares of common stock outstanding:				
Basic and diluted	116,811,980	63,548,380	107,004,963	60,000,000

See accompanying notes to unaudited condensed consolidated financial statements.

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Condensed Consolidated Statement of Stockholders' Equity  
(Unaudited)

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL
	SHARES	AMOUNT	
Balance at January 1, 2003	78,765,040	\$ 78,765	\$ 1,691,142
Common Stock Issued, net of expenses	6,609,032	6,609	737,082
Effect of reverse acquisition	31,437,908	31,438	2,304,804
Amortization of unearned consulting costs			
Net loss			
Balance at June 30, 2003	116,811,980	\$ 116,812	\$ 4,733,028

	UNEARNED CONSULTING COSTS	TOTAL STOCK- HOLDERS' EQUITY
Balance at January 1, 2003	\$ (37,868)	\$ 637,923
Common Stock Issued, net of expenses		743,691
Effect of reverse acquisition		2,336,242
Amortization of unearned consulting costs	30,294	30,294
Net loss		(1,198,263)
Balance at June 30, 2003	\$ (7,574)	\$ 2,549,887

See accompanying notes to condensed consolidated financial statements.

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(A Development Stage Company)  
 Consolidated Statements of Cash Flows  
 (Unaudited)

	SIX MONTHS ENDED JUNE 30,	
	2003	2002
Cash flows from operating activities:		
Net loss	\$ (1,198,263)	\$ (508,407)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Common stock issued for license rights		
Amortization of unearned consulting services	30,294	
Amortization of intangible assets	105,571	
Depreciation	2,334	
Changes in operating assets and liabilities, net of acquisition:		
Decrease in prepaid expenses	3,869	
Increase in deferred offering costs		(2,392)
Increase in accounts payable	85,344	63,590
Decrease in accrued expenses	(145,898)	(56,796)
Decrease in due affiliate	(96,328)	
Net cash used in operating activities	(1,213,077)	(504,005)
Cash flows from investing activities:		
Purchase of property and equipment	(5,066)	
Cash paid in connection with acquisition	(32,808)	
Net cash used in investing activities	(37,874)	
Cash flows from financing activities:		
Proceeds from issuances of notes payable to stockholders		
Repayments of notes payable to stockholders	(136,000)	
Proceeds from issuance of note payable to bank		600,000
Repayment of note payable to bank	(600,000)	
Proceeds from subscriptions receivable		
Proceeds from sale of common stock, net	743,691	
Net cash provided by financing activities	7,691	600,000
Net increase (decrease) in cash and cash equivalents	(1,243,260)	95,995
Cash and cash equivalents at beginning of period	1,721,123	
Cash and cash equivalents at end of period	\$ 477,863	\$ 95,995

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Supplemental disclosure of noncash financing activities:

Interest paid	\$	502	\$	

Supplemental disclosure of noncash investing and \  
financing activities:

Stock options issued for consulting services		--		--	
Issuance of common stock for acquisition	\$	2,336,242	\$	--	\$

See accompanying notes to unaudited condensed consolidated financial statements.

6

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
June 30, 2003

(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 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 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, 2003 or for any subsequent period. These consolidated financial statements should be read in conjunction with the Annual Report on Form 10-KSB of Manhattan Pharmaceuticals, Inc. and its subsidiaries ("Manhattan" or the "Company") as of and for the year ended December 31, 2002 and the Form 8-K/A of Manhattan Pharmaceuticals, Inc. filed on May 9, 2003 containing the financial statements of Manhattan Research Development, Inc.

(2) LIQUIDITY

The Company has reported a net loss of \$1,037,320 for the year ended December 31, 2002. The Company has reported a net loss of \$1,198,263 for the six months ended June 30, 2003. The net loss from date of inception, August 6, 2001, to June 30, 2003 amounts to \$2,292,379. As discussed in Note 6, on February 21, 2003 the Company completed a reverse acquisition of privately held Manhattan Research Development, Inc. Based on the resources available at June 30, 2003 of

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the combined Company, management believes that the combined Company will continue to incur net losses through at least June 30, 2004 and will need additional equity or debt financing or will need to generate revenues through licensing its products or 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 combined 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 are currently not available on acceptable terms and may not become available, and there can be no assurance that any additional funding that the combined Company does obtain will be sufficient to meet the combined Company's needs in the short and long term. Through June 30, 2003, a significant portion of the Company's financing has been through private placements of common stock and warrants and debt financing. Until and unless the combined Company's operations generate significant revenues, the combined Company will attempt to continue to fund operations from cash on hand and through the sources of capital previously described.

The Company's common stock was delisted from the NASDAQ SmallCap Market effective at the close of business August 23, 2001 for failing to meet the minimum bid price requirements set forth in the NASD Marketplace Rules. Since August 23, 2001, the Company's common stock trades on the Over-the-Counter Bulletin Board (the "OTCBB"). The Company's ticker symbol is currently "MHTP.OB." The de-listing of the Company's common stock from the NASDAQ SmallCap Market could have a material adverse effect on the Company's ability to raise additional capital.

7

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

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) June 30, 2003

##### (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 equals basic net loss per common share, since common stock equivalents from stock options, stock warrants, stock subscriptions and convertible preferred stock would have an anti dilutive effect because the Company incurred a net loss during each period presented. The common stock equivalents from stock options, stock warrants, stock subscriptions, and convertible preferred stock, which have not been included in the diluted calculations since their effect is antidilutive, was 20,559,674 as of June 30, 2003.

##### (4) ISSUANCE OF STOCK, STOCK OPTIONS AND WARRANTS

On February 24, 2003, the Company granted employees an aggregate of 4,380,450 options outside of the Company's 1995 Stock Option Plan. 2,920,300 of



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these options vest on the first anniversary of the grant date and 1,460,150 of these options vest in two equal installments on each of the first and second anniversaries of the grant date, provided the optionee continues in service. The options were granted at the stock price on the day of issuance and are exercisable for a period of ten years regardless of whether the grantee continues to be employed by the Company.

Had compensation costs been determined in accordance with the fair value method prescribed by SFAS No. 123 for all options issued to employees, 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. There were no options granted during the second quarter of 2003. There were no options granted or outstanding in the 2002 periods.

	THREE MONTHS ENDED JUNE 30, 2003	SIX MONTHS ENDED JUNE 30, 2003
	-----	-----
Net loss applicable to common shares:		
As reported	\$ (776,318)	\$ (1,198,263)
Pro forma	(873,201)	(1,351,710)
Net loss per common share --basic		
As reported	\$ (0.01)	\$ (0.01)
Pro forma	(0.01)	(0.01)

### (5) PRIVATE PLACEMENT OF COMMON SHARES

During 2002, the Company's subsidiary, Manhattan Research Development, Inc. (Manhattan Research) commenced a private placement and sold 1,197,250 shares of common stock at \$1.60 (\$0.13

8

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

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) June 30, 2003

post merger) per share and received proceeds of \$1,704,318, net of expenses of \$211,281. These shares converted into 15,216,660 shares of the Company's common stock when the Company completed a reverse acquisition of Manhattan Research as described below. 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 119,725 shares of common stock in 2002 in connection with the private placement. Upon the merger, these converted into warrants to purchase 1,521,666 shares of the Company's common stock. Each warrant had an exercise price of \$1.60 per share, which post merger converted to approximately \$0.13. These warrants expire in 2007.

During January and February 2003, Manhattan Research sold an additional 520,000 shares of common stock at \$1.60 (\$0.13, post merger) per share and warrants to purchase 52,000 shares of common stock exercisable at \$1.60 (\$0.13

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post merger) through the private placement and received net proceeds of \$743,691. These shares converted into 6,609,032 shares of the Company's common stock when the Company completed its reverse acquisition of Manhattan Research. The warrants to purchase 52,000 shares of common stock converted into warrants to purchase 660,903 common shares of the combined Company.

In addition, in connection with the private placement, Manhattan Research issued to Joseph Stevens & Co., Inc., a NASD-member broker-dealer, warrants to purchase 652,555 shares of its common stock that are exercisable at \$1.60 (\$0.13 post merger) per share and expire in 2008. Upon the merger, these warrants converted into warrants to purchase 8,293,763 shares of common stock of the combined Company.

### (6) MERGER

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 93,449,584 shares of the Company's common stock, which represented 80 percent of the Company's outstanding voting stock after giving effect to the merger. In addition, immediately prior to the merger Manhattan Research had outstanding options and warrants to purchase an aggregate of 864,280 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 10,984,719 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 is being accounted for as a reverse acquisition whereby Manhattan Research is the accounting acquirer (legal acquiree) and the Company is the accounting acquiree (legal acquirer). Based on the five-day average price of the Company's common stock of \$0.10 per share, the purchase price approximates \$2,336,000, plus approximately \$33,000 of acquisition costs, which represents 20 percent of the market value of the combined Company's post-merger total outstanding shares of 116,811,980. In connection with the merger, the Company changed its name from "Atlantic Technology Ventures, Inc." to "Manhattan Pharmaceuticals, Inc." Based on the preliminary

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
June 30, 2003

information currently available, Manhattan Research expects to recognize patents and licenses for substantially all of the purchase price. Upon completion of a

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formal purchase price allocation there may be a decrease in the amount assigned to intangible assets and a corresponding increase in in-process research and development. As a result of acquiring Manhattan Research, the Company receives new technologies.

A summary of the preliminary purchase price allocation is as follows:

Common stock issued	\$ 2,336,242
Acquisition costs paid	32,808
	-----
Total purchase price	2,369,050
Net liabilities assumed in acquisition	798,128
	-----
Excess purchase price (preliminarily 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	540,321
	-----
	864,056
	-----
Net liabilities assumed	\$ (798,128)
	=====

The following 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 and 2002, 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 three and six months ended June 30, 2003 and 2002, respectively. The 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 periods.

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	THREE MONTHS ENDED JUNE 30, 2002		SIX MONTHS ENDED 2003	
Revenues	\$ --		\$ --	\$
Net loss	\$ (297,512)		\$ (1,239,453)	\$
Weighted-average shares of common stock outstanding: Basic	110,202,948		116,036,848	
Loss per share	\$ (0.00)		\$ (0.01)	\$

### (7) LICENSE AND DEVELOPMENT AGREEMENT

In April 2003, the Company entered into a license and development agreement with NovaDel Pharma, Inc., 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.

In consideration of the license, upon the occurrence of certain development and regulatory events, the Company is obligated to make payments to NovaDel upon the occurrence of certain milestones, including filing a New Drug Application or "NDA" that is accepted for review by the FDA for a licensed product, filing a European Marketing Application for a licensed product, having a filed NDA approved by the FDA, having a European Marketing Application accepted for review within the European Union, receiving commercial approval in Japan, Canada, Australia and South Africa, and upon receiving regulatory approval in certain other countries. The aggregate amount of the milestone payments is significant in light of the Company's currently available resources. 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. To date, the Company has paid and expensed \$125,000 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, (ii) if the Company fails to obtain financing of at least \$5,000,000 by March 31, 2004, or (iii) 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

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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.

### (8) SUBSEQUENT EVENTS

In May 2003, the Company's stockholders authorized an amendment to the Company's certificate of incorporation that would have combined the Company's outstanding common stock on a 2-for-3 basis. The proposed 2-for-3 combination was never effected, however, and the Company's board of directors has since determined to abandon the proposed 2-for-3 combination in lieu of a larger stock combination. 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. A resolution approving the 1-for-5 combination has since been consented to in writing by holders of a majority of the Company's outstanding common stock. An effective date for the proposed 1-for-5 combination has not yet been established, however, and the board may determine to abandon this proposal.

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.

11

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
June 30, 2003

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

YOU SHOULD READ THE FOLLOWING DISCUSSION OF OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION IN CONJUNCTION WITH OUR ANNUAL REPORT ON FORM 10-KSB FOR THE YEAR ENDED DECEMBER 31, 2002 AND THE FORM 8-K/A OF MANHATTAN PHARMACEUTICALS, INC. FILED ON MAY 9, 2003 CONTAINING THE FINANCIAL STATEMENTS OF MANHATTAN RESEARCH DEVELOPMENT, INC. 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 IN THE "RISK FACTORS" SECTION OF OUR MOST RECENT ANNUAL REPORT ON FORM 10-KSB, AND SHOULD NOT UNDULY RELY ON THESE FORWARD LOOKING STATEMENTS.

#### RESULTS OF OPERATIONS

THREE-MONTH PERIOD ENDED JUNE 30, 2003 VS. 2002

During the quarters ended June 30, 2003 and 2002, we had no revenue. We

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do not expect to have significant revenues relating to our technologies within the next twelve months.

For the quarter ended June 30, 2003, research and development expense was \$313,176 as compared to \$198,855 for the second quarter of 2002. The increase is due primarily to license fees paid to NovaDel Pharma, Inc. of \$125,000 during the quarter.

For the quarter ended June 30, 2003, general and administrative expense was \$463,844 as compared to \$49,944 for the quarter ended June 30, 2002. The increase is due primarily to expenses associated with hiring full time employees and consultants of approximately \$147,000 and \$43,000, respectively. In addition, we had increases in legal and accounting fees of approximately \$84,000 associated with the Company becoming a publicly traded company through the Atlantic Technology Ventures, Inc. - Manhattan Research Development Corp. merger in February 2003. Rent and insurance expenses increased by approximately \$35,000 and \$54,000, respectively, partially offset by a decrease of \$29,000 in other expenses. Finally, in 2003, we had amortization of intangible assets of approximately \$80,000.

Net loss for the quarter ended June 30, 2003, was \$776,318 as compared to \$252,567 for the quarter ended June 30, 2002. This increase in net loss is attributable primarily to an increase in general and administrative expenses of \$413,900 primarily as a result of our hiring employees and management and becoming a public company. In addition we had an increase in research and development expenses of \$114,321.

### SIX-MONTH PERIOD ENDED JUNE 30, 2003 VS. 2002

During the six months ended June 30, 2003 and 2002, we had no revenue.

For the six months ended June 30, 2003, research and development expense was \$356,531 as compared to \$452,252 for the six months ended June 30, 2002. The decrease is primarily a result of the

12

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

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) June 30, 2003

fact that we paid license fees of \$176,000 to Oleoyl-estrone Developments, Inc (OED) in 2002 but paid only \$125,000 of license fees to NovaDel Pharma, Inc. in 2003. We also had approximately \$38,000 in patent related fees in 2002, which we did not have in 2003.

For the six months ended June 30, 2003, general and administrative expense was \$842,716 as compared to \$50,341 for the six months ended June 30, 2002. The increase is due primarily to expenses associated with hiring full time employees and consultants of approximately \$228,000 and \$142,000, respectively. In addition, we had increases in legal and accounting fees of approximately \$151,000 associated with the Company becoming a publicly traded company through the Atlantic Technology Ventures, Inc. - Manhattan Research Development Corp.

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merger in February 2003. Rent, directors fees, insurance and other expenses increased by approximately \$62,000, \$29,000, \$67,000 and \$7,000, respectively. Finally, in 2003, we had amortization of intangible assets of approximately \$106,000.

Net loss for the six months ended June 30, 2003, was \$1,198,263 as compared to \$508,407 for the six months ended June 30, 2002. This increase in net loss is attributable primarily to an increase in general and administrative expenses of \$792,375 primarily as a result of our hiring employees and management and becoming a public company. The increase in net loss is partially offset by a decrease in research and development expenses of \$95,721.

### LIQUIDITY AND CAPITAL RESOURCES

From inception to June 30, 2003, we incurred an accumulated deficit of \$2,292,379, and we expect to continue to incur additional losses through the year ending June 30, 2004 and for the foreseeable future. This loss has been incurred through a combination of research and development activities related to the various technologies under our control and expenses supporting those activities.

During 2002, our subsidiary, Manhattan Research Development, Inc. (Manhattan Research) commenced a private placement and sold 1,197,250 shares of common stock at \$1.60 (\$0.13 post merger) per share and received proceeds of \$1,704,318, net of expenses of \$211,181. These shares converted into 15,216,660 shares of our common stock when we completed a reverse acquisition of Manhattan Research as described below. 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 119,725 shares of common stock in 2002 in connection with the private placement. Upon the merger, these converted into warrants to purchase 1,521,666 shares of our common stock. Each warrant had an exercise price of \$1.60 per share, which post merger converted to \$0.13. These warrants expire in 2007.

During January and February 2003, Manhattan Research sold an additional 520,000 shares of common stock at \$1.60 (\$0.13, post merger) per share and warrants to purchase 52,000 shares of common stock exercisable at \$1.60 (\$0.13 post merger) through the private placement and received net proceeds of \$743,691. These shares converted into 6,609,032 shares of our common stock when we completed our reverse acquisition of Manhattan Research. The warrants to purchase 52,000 shares of common stock converted into warrants to purchase 660,903 common shares of the combined Company.

In addition, in connection with the private placement, Manhattan Research issued to Joseph Stevens & Co., Inc., a NASD-member broker-dealer, warrants to purchase 652,555 shares of its common stock that are exercisable at \$1.60 (\$0.13 post merger) per share and expire in 2008. Upon the merger,

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these warrants converted into warrants to purchase 8,293,763 shares of common stock of the combined Company.

We have financed our operations since inception primarily through equity and debt financing and our licensing of CT-3 to Indevus. During the six months ended June 30, 2003, we had a net decrease in cash and cash equivalents of \$1,243,260. This decrease primarily resulted from net cash used in operating activities for the six months ended June 30, 2003 of \$1,213,077. Total cash resources as of June 30, 2003 were \$477,863 compared to \$1,721,123 at December 31, 2002.

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, technological advances, 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 are currently not available on acceptable terms and may not become available. There can be no assurance that any additional funding that the combined Company does obtain will be sufficient to meet the combined Company's needs in the short and long term. Through June 30, 2003, a significant portion of our financing has been through private placements of common stock and warrants and debt financing. Unless our operations generate significant revenues, 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.

On February 21, 2003, we completed a reverse acquisition of privately held Manhattan Research Development, Inc., (formerly Manhattan Pharmaceuticals, Inc.) (Manhattan Research) 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 our wholly owned subsidiary. 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 93,449,584 shares of our common stock, which represented 80 percent of our outstanding voting stock after giving effect to the merger. In addition, immediately prior to the merger Manhattan Research had outstanding options and warrants to purchase an aggregate of 864,280 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 10,984,719 shares of our common stock. Since the stockholders of Manhattan Research received the majority of our voting shares, the merger is being accounted for as a reverse acquisition whereby Manhattan Research is the accounting acquirer (legal acquiree) and we are the accounting acquiree (legal acquirer). Based on the five-day average price of our common stock of \$0.10 per share, the purchase price approximates \$2,336,000,



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which represents 20 percent of the market value of the combined Company's post-merger

14

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

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) June 30, 2003

total outstanding shares of 116,811,980. In connection with the merger, we changed our name from "Atlantic Technology Ventures, Inc." to "Manhattan Pharmaceuticals, Inc." Based on the preliminary information currently available, Manhattan Research expects to recognize patents and licenses for substantially all of the purchase price. Upon completion of a formal purchase price allocation there may be a decrease in the amount assigned to intangible assets and a corresponding increase in in-process research and development. As a result of acquiring Manhattan Research, the Company receives new technologies. We expect the formal purchase price allocation to be completed prior to the end of 2003.

In April 2003, we entered into a license and development agreement with NovaDel Pharma, Inc., under which we 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, we agreed to use our 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 our expense, a substantial portion of the development activities, including without limitation, preparation and filing of various applications with applicable regulatory authorities.

In consideration of the license, upon the occurrence of certain development and regulatory events, we are obligated to make payments to NovaDel upon the occurrence of certain milestones, including filing a New Drug Application or "NDA" that is accepted for review by the FDA for a licensed product, filing a European Marketing Application for a licensed product, having a filed NDA approved by the FDA, having a European Marketing Application accepted for review within the European Union, receiving commercial approval in Japan, Canada, Australia and South Africa, and upon receiving regulatory approval in certain other countries. The aggregate amount of the milestone payments is significant in light of our currently available resources. In addition, we are 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 our net profits from the sale of licensed products at a rate that is twice the net sales rate. In the event we sublicense the licensed product to a third party, we are obligated to pay royalties based on a fixed rate of fees or royalties received from the sublicensee until such time as we recover our 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. We are also required to pay an up-front fee in installments contingent on whether we receive certain amounts through financings, revenues or otherwise. To date, we have paid and expensed \$125,000 of such up-front fee.

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NovaDel may terminate the agreement (i) upon 10 days' notice if we fail to make any required milestone or royalty payments, (ii) if we fail to obtain financing of at least \$5,000,000 by March 31, 2004, or (iii) if we become bankrupt or if a petition in bankruptcy or insolvency is filed and not dismissed within 60 days or if we become 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. We may also terminate the agreement for any reason upon 90 days' notice to NovaDel.

Management believes that we will continue to incur net losses through at least June 30, 2004. Based on our current resources, we will need additional equity or debt financing or we will need to generate revenues through licensing our products or entering into strategic alliances to be able to sustain our operations until we can achieve profitability, if ever. These matters raise substantial doubt as to our ability to continue as a going concern.

The report of our independent auditors on our 2002 consolidated financial statements includes an explanatory paragraph, which states that our recurring losses, and limited liquid resources raise substantial doubt about our ability to continue as a going concern. Our condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Subsequent to an oral hearing before a NASDAQ Listing Qualifications Panel, on August 23, 2001, our securities were delisted from the NASDAQ Stock Market for failing to meet the minimum bid price requirements set forth in the NASD Marketplace Rules, as our common stock had traded for less than \$1.00 for more than 30 consecutive business days. Our common stock trades now on the OTC Bulletin Board under the symbol "MHTP.OB". Delisting our common stock from NASDAQ could have a material adverse effect on our ability to raise additional capital, our stockholders' liquidity and the price of our common stock.

### 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. Our significant accounting policies are described in Note 1 to our consolidated financial statements included in this annual report; however, we believe that none of them is considered to be critical.

### RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2002, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No.146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit and Activity." SFAS No. 146 requires that liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. This statement also established that fair value is the objective for initial

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
June 30, 2003

measurement of the liability. The provisions of SFAS No. 146 are effective for exit or disposal activities that initiated after December 31, 2002. The Company does not expect that the adoption of SFAS No. 146 will have a material impact on its consolidated financial statements.

In December 2002, FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation- Transition and Disclosure an Amendment of SFAS No. 123." SFAS No. 148 amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company adopted the disclosure provisions of SFAS No. 148, effective January 1, 2003.

ITEM 3. CONTROLS AND PROCEDURES

As of June 30, 2003, we carried out an evaluation, under the supervision and with the participation of our chief executive and chief financial officers, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-14(c) and 15d-14(c) of the Securities Exchange Act of 1934). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in alerting them on a timely basis to material information required to be disclosed in our periodic reports to the Securities and Exchange Commission. There have been no significant changes in our internal controls or in other factors, which could significantly affect internal controls subsequent to such evaluation.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
June 30, 2003

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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There have been no material developments to the arbitration proceeding between the Company and Summer Burstein described in the Company's Quarterly Report on Form 10-QSB/A for the quarter ended March 31, 2003, as amended. The Company is not a party to any other material legal proceedings and is not aware of any threatened litigation that would have a material adverse effect on its business.

### ITEM 5. OTHER INFORMATION

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.

17

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

#### (a) Exhibits

Exhibit No.	Description
-----	-----
10.1	License Agreement dated April 4, 2003 between the Registrant and NovaDel Pharma, Inc.
31.1	Certification of Chief Executive Officer
31.2	Certification of Chief Financial Officer
32.1	Certifications of Chief Executive and Chief Financial Officer pursuant to Section 906 of the Sarbanes - Oxley act of 2002.

#### (b) Reports on Form 8-K

On March 5, 2003, we filed a Current Report on Form 8-K dated February 21, 2003 disclosing under Item 2 thereof our merger transaction with Manhattan Research Development, Inc. On May 9, 2003, we amended the current report to include financial statements and pro forma information, as required by Item 7 of Form 8-K.

18

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
June 30, 2003

SIGNATURES

In accordance with the requirements of the Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MANHATTAN PHARMACEUTICALS, INC.

Date: August 14, 2003                      By:    /s/   Leonard Firestone  
-----  
Leonard Firestone  
President and Chief Executive Officer

Date: August 14, 2003                      By:    /s/   Nicholas J. Rossettos  
-----  
Nicholas J. Rossettos  
Chief Financial Officer and Chief Operating Officer

19

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)  
June 30, 2003

EXHIBIT INDEX

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20

