ADEONA PHARMACEUTICALS, INC.
Form 10-Q
November 14, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

ý	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended September 30, 2008
	OR
o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934 For the transition period from ____________ to ____________

Commission File Number: 333-139354

ADEONA PHARMACEUTICALS, INC.
(Name of small business issuer in its charter)

Delaware	13-3808303
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)
3930 Varsity Drive Ann Arbor, MI	48108
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code:
(734) 332-7800

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

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

State registrant's revenues for its most recent fiscal year: $0

As of November 1, 2008, the registrant had 20,838,528 shares of common stock outstanding.

Transitional Small Business Disclosure Format (Check one): Yes o No ý

ADEONA PHARMACEUTICALS, INC.

FORM 10-Q
TABLE OF CONTENTS

		Page
	PART I.—FINANCIAL INFORMATION	
Item 1.	Financial Statements	
	Consolidated Balance Sheets (Unaudited)	3
	Consolidated Statements of Operations (Unaudited)	4
	Consolidated Statements of Cash Flows (Unaudited)	5
	Notes to Consolidated Financial Statements (Unaudited)	6
Item 2.	Management's Discussion and Analysis of Financial Information and Results of Operations	22
Item 3.	Controls and Procedures	28
	PART II—OTHER INFORMATION	
Item 1.	Legal Proceedings	29
Item 1A.	Risk Factors	29
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	47
Item 3.	Defaults Upon Senior Securities	47
Item 4.	Submission of Matters to a Vote of Security Holders	47
Item 5.	Other Information	47
Item 6.	Exhibits	48
SIGNATURE		49

PART I.—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Adeona Pharmaceuticals, Inc. and Subsidiaries
(A Development Stage Company)

Consolidated Balance Sheets

Assets	September 30, 2008 (Unaudited)	December 31, 2007 (Audited)
Current Assets		
Cash	$ 6,435,607	$ 11,492,802
Prepaid expenses	10,583	63,636
Other receivable	48,617	-
Total Current Assets	6,494,807	11,556,438
Property and Equipment, net of accumulated depreciation of $521,518 and $232,564	1,699,301	2,063,233
Deposits and other assets	11,989	13,381
Total Assets	$ 8,206,097	$ 13,633,052
Liabilities and Stockholders' Equity		
Current Liabilities:		
Accounts payable	$ 500,648	$ 728,119
Accrued liabilities	176,388	59,409
Notes payable	-	900,000
Total Current Liabilities	677,036	1,687,528
Stockholders' Equity		
Preferred stock, $0.001 par value; 10,000,000 shares authorized,		
none issued and outstanding	-	-
Common stock, $0.001 par value; 100,000,000 shares authorized,		
20,838,528 and 20,433,467 shares issued and outstanding	20,839	20,433
Additional paid-in capital	44,874,712	43,001,609
Deficit accumulated during the development stage	(37,366,490)	(31,076,518)
Total Stockholders' Equity	7,529,061	11,945,524
Total Liabilities and Stockholders' Equity	$ 8,206,097	$ 13,633,052

See accompanying notes to unaudited consolidated financial statements

3

Adeona Pharmaceuticals, Inc. and Subsidiaries
(A Development Stage Company)

Consolidated Statements of Operations
(Unaudited)

	For the three months ended September 30,		For the nine months ended September 30,		For the Period from January 8, 2001 (Inception) to September 30,
	2008	2007	2008	2007	2008
Operating Expenses:					
Research and development	$ 863,272	$ 1,573,610	$ 4,156,255	$ 4,069,782	$ 15,317,050
General and administrative	606,685	599,388	2,242,855	2,852,126	9,088,066
Total Operating Expenses	1,469,957	2,172,998	6,399,110	6,921,908	24,405,116
Loss from Operations	(1,469,957)	(2,172,998)	(6,399,110)	(6,921,908)	(24,405,116)
Other Income (Expense):					
Interest income	26,688	66,041	108,503	218,298	451,892
Gain on sale of equipment	14,430	-	14,430	-	14,430
Interest expense	-	(13,985)	(13,831)	(29,270)	(66,760)
Total Other Income, net	41,118	52,056	109,102	189,028	399,562
Net Loss	$ (1,428,839)	$ (2,120,942)	$ (6,290,008)	$ (6,732,880)	$ (24,005,554)
Less: Preferred stock dividend - subsidiary	-	-	-	-	(951,250)
Less: Merger dividend	-	-	-	(12,409,722)	(12,409,722)
Net Loss Applicable to Common Shareholders	$ (1,428,839)	$ (2,120,942)	$ (6,290,008)	$ (19,142,602)	$ (37,366,526)
Net Loss Per Share - Basic and Diluted	$ (0.07)	$ (0.12)	$ (0.31)	$ (1.12)	$ (6.49)
Weighted average number of shares outstanding during the period - basic and	20,715,966	17,110,581	20,587,746	17,042,690	5,759,615

diluted

See accompanying notes to unaudited consolidated financial statements

4

Adeona Pharmaceuticals, Inc. and Subsidiaries
(A Development Stage Company)

Consolidated Statements of Cash Flows
(Unaudited)

	For the nine months ended September 30,		For the Period from January 8, 2001 (Inception) to September 30, 2008
	2008	2007	
Cash Flows From Operating Activities:			
Net loss	$ (6,290,008)	$ (6,732,880)	$ (24,005,554)
Adjustments to reconcile net loss to net cash used in operating activities:			
Stock-based compensation	1,110,771	703,386	3,047,417
Stock-based consulting	344,169	641,926	1,505,156
Stock issued as compensation	55,385	-	55,385
Stock issued as compensation in acquisition of subsidiary	-	601,712	601,712
Contributed services - related party	73,750	275,124	349,395
Stock issued for license fee	145,000	-	533,691
Stock issued for milestone payment	50,000	-	75,000
Stock issued for consulting fee	90,042	-	90,042
Depreciation	307,466	108,642	540,030
Gain on sale of equipment	(14,430)	-	(14,430)
Changes in operating assets and liabilities:			
Prepaid expenses and other	4,436	9,372	(59,200)
Deposits and other assets	1,392	(17,534)	(11,989)
Accounts payable	(135,177)	189,525	592,942
Accrued liabilities	116,979	(158,899)	179,406
Net Cash Used In Operating Activities	(4,140,225)	(4,379,626)	(16,500,997)
Cash Flows From Investing Activities:			
Purchases of property and equipment	(21,398)	(1,743,313)	(2,032,805)
Cash paid to acquire shell in reverse acquisition	-	-	(665,000)
Net Cash Used In Investing Activities	(21,398)	(1,743,313)	(2,697,805)
Cash Flows From Financing Activities:			
Proceeds from loans payable - related party	-		3,210,338
Repayments of loans payable - related party	-		(220,000)
Proceeds from notes payable	-	1,100,000	1,100,000
Repayments of notes payable	(900,000)	(100,000)	(1,100,000)
Net proceeds from issuance of common stock for stock options exercised	4,428	-	4,428

Proceeds from issuance of preferred and common stock	-	-	1,150,590
Proceeds from sale of common stock and warrants in private placements	-	-	13,926,362
Proceeds from sale of common stock in connection with warrants exercise	-	282,841	7,552,378
Cash paid as direct offering costs in private placements and warrant call	-	-	(1,739,987)
Proceeds from issuance of Series B, convertible preferred stock - subsidiary	-	-	1,902,500
Direct offering costs in connection with issuance of series B, convertible preferred stock - subsidiary	-	-	(152,200)
Net Cash Provided By (Used In) Financing Activities	(895,572)	1,282,841	25,634,409
Net increase (decrease) in cash and cash equivalents	(5,057,195)	(4,840,098)	6,435,607
Cash and cash equivalents at beginning of period	11,492,802	12,192,426	-
Cash and cash equivalents at end of period	$ 6,435,607	$ 7,352,328	$ 6,435,607
Supplemental disclosures of cash flow information:			
Cash paid for interest	$ 13,831	$ 29,270	$ 66,760
Cash paid for taxes	$ -	$ -	$ -
Supplemental disclosure of non-cash investing and financing activities:			
Sale of equipment in exchange for accounts payable	$ 92,294	$ -	$ 92,294
Exchange of EPI preferred stock into Adeona common stock in acquisition	$ -	$ 12,409,722	$ 12,409,722
Adeona acquired equipment in exchange for a loan with a related party	$ -	$ -	$ 284,390
EPI declared a 10% and 30% in-kind dividend on its Series B, convertible preferred stock.	$ -	$ -	$ 951,250
The Company issued shares and warrants in connection with the conversion of certain related party debt.	$ -	$ -	$ 3,274,728
Conversion of accrued liabilities to contributed capital - former related party	$ -	$ -	$ 3,017

See accompanying notes to unaudited consolidated financial statements

Adeona Pharmaceuticals, Inc. and Subsidiaries
(A Development Stage Company)

Notes to Consolidated Financial Statements
(Unaudited)

Note 1 Organization and Nature of Operations and Basis of Presentation

(A) Description of the Business

Adeona Pharmaceuticals, Inc. (“Adeona”) is a development-stage pharmaceutical company that is developing proprietary, late-stage drug candidates for the treatment of neurologic and fibrotic diseases.

(B) Corporate Name Change

On October 16, 2008, the Company completed a corporate name change to Adeona Pharmaceuticals, Inc. from Pipex Pharmaceuticals, Inc.

(C) Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly they do not include all of the information and footnotes necessary for a fair presentation of financial condition, results of operations and cash flows in conformity with generally accepted accounting principles. In the opinion of management of Adeona, the interim consolidated financial statements included herewith contain all adjustments (consisting of normal recurring accruals and adjustments) necessary for their fair presentation.

The unaudited interim consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-KSB, which contains the audited financial statements and notes thereto, together with the Management’s Discussion and Analysis, for the year ended December 31, 2007. The interim results for the period ended September 30, 2008 are not necessarily indicative of results for the full fiscal year.

(D) Corporate Structure, Basis of Presentation and Non-Controlling Interest

The Company has seven subsidiaries, Pipex Therapeutics, Inc. (“Pipex Therapeutics”), Effective Pharmaceuticals, Inc. (“EPI”), Solovax, Inc. (“Solovax”), CD4 Biosciences, Inc. (“CD4”), Epitope Pharmaceuticals, Inc. (“Epitope”), Healthmine Inc. (“Healthmine”) and Putney Drug Corp. (“Putney”) which were previously under common control. As of September 30, 2008, EPI, Healthmine and Putney are wholly owned and Pipex Therapeutics, Solovax, CD4 and Epitope are majority owned. The combinations of these entities prior to 2006 were accounted for in a manner similar to a pooling of interests.

For financial reporting purposes, the outstanding preferred stock and common stock of the Company is that of Adeona, the legal registrant. All statements of operations, stockholders’ equity (deficit) and cash flows for each of the entities are presented as consolidated since January 8, 2001 (inception) due to the existence of common control since that date. All subsidiaries were incorporated on January 8, 2001, except for EPI, which was incorporated on December 12, 2000, Epitope which was incorporated in January of 2002, Putney which was incorporated in November of 2006 and Healthmine which was incorporated in December 2007. All of the subsidiaries were incorporated under the laws of the State of Delaware.

For financial accounting purposes, the Company's inception is deemed January 8, 2001. The activity of EPI for the period from December 12, 2000 to January 7, 2001 was nominal. Therefore, there is no financial information presented for this period.

6

Adeona Pharmaceuticals, Inc. and Subsidiaries
(A Development Stage Company)

Notes to Consolidated Financial Statements
(Unaudited)

The Company's ownership in its subsidiaries requires the Company to account for the related non-controlling interest. Under generally accepted accounting principles, when losses applicable to the minority interest in a subsidiary exceed the minority interest in the equity capital of the subsidiary, the excess is not charged to the minority interest since there is no obligation of the minority interest to make good on such losses. The Company, therefore, has included losses applicable to the minority interest against its interest. Since the Company's subsidiaries have never been profitable and present negative equity, there has been no establishment of a positive non-controlling interest. This value is not presented as a deficit balance in the accompanying consolidated balance sheet.

(E) Reverse Stock Split

In January 2007, and effective on April 25, 2007, the Company's Board of Directors approved a 3 for 1 reverse stock split of all outstanding common stock, stock options and stock warrants of Adeona. All share and per share amounts have been retroactively restated to reflect this reverse stock split.

(F) Reverse Acquisition and Recapitalization

On October 31, 2006, Sheffield Pharmaceuticals, Inc. ("Sheffield"), a then shell corporation, entered into a Merger Agreement ("Merger") with Pipex Therapeutics, a privately owned company, whereby Pipex Therapeutics was the surviving corporation. This transaction was accounted for as a reverse acquisition. Sheffield did not have any operations at the time of the merger, and this was treated as a recapitalization of Pipex Therapeutics. Since Pipex Therapeutics acquired a controlling voting interest in a public shell corporation, it was deemed the accounting acquirer, while Sheffield was deemed the legal acquirer. The historical financial statements of the Company are those of Pipex Therapeutics, EPI, Solovax and CD4 since inception, and of the consolidated entities from the date of Merger and subsequent. On December 11, 2006, Sheffield changed its name to Pipex Pharmaceuticals, Inc.

Since the transaction is considered a reverse acquisition and recapitalization, the guidance in SFAS No. 141 does not apply for purposes of presenting pro-forma financial information.

Pursuant to the agreement, Sheffield issued 34,000,000 shares of common stock for all of the outstanding Series A, convertible preferred and common stock of Pipex Therapeutics, and Sheffield assumed all of Pipex Therapeutics' outstanding options and warrants, but did not assume the options and warrants outstanding within any of Pipex Therapeutics' subsidiaries (EPI, CD4 and Solovax). On October 31, 2006, concurrent with the Merger, Pipex Therapeutics executed a private stock purchase agreement to purchase an additional 2,426,300 shares of common stock held by Sheffield's sole officer and director; these shares were immediately cancelled and retired. Aggregate consideration paid for Sheffield was $665,000. Upon the closing of the reverse acquisition, shareholders of Sheffield retained an aggregate 245,824 shares of common stock. As a result of these two stock purchase transactions, Pipex Therapeutics acquired approximately 99% ownership of the issued and outstanding common shares of Sheffield.

See Note 2(H) as it pertains to the retroactive effect of the share and per share amounts pursuant to the reverse acquisition and recapitalization discussed in this Note 1(F).

7

Adeona Pharmaceuticals, Inc. and Subsidiaries
(A Development Stage Company)

Notes to Consolidated Financial Statements
(Unaudited)

(G) Contribution Agreements — Consolidation of Entities under Common Control

1. EPI's Acquisition of CD4

On December 31, 2004, EPI acquired 91.61% of the issued and outstanding common stock of CD4 in exchange for 825,000 shares of common stock having a fair value of $825. EPI assumed certain outstanding accounts payable and loans of CD4 of approximately $664,000. The fair value of the exchange was equivalent to the par value of the common stock issued. CD4 shareholders retained 119,000 shares (8.39%) of the issued and outstanding common stock of CD4; these shareholders comprise the non-controlling shareholder base of CD4.

2. Pipex Therapeutics' Acquisition of Solovax

On July 31, 2005, Pipex Therapeutics acquired 96.9% of the aggregate voting preferred and common stock of Solovax. Pipex Therapeutics assumed all outstanding liabilities of approximately $310,000, the transfer of 1,000,000 shares of Series A Convertible Preferred Stock owned by Solovax's president and 250,000 shares of common stock owned by Solovax's COO. The fair value of the exchange was equivalent to the par value of the common stock received pursuant to the terms of the contribution.

3. Pipex Therapeutics' Acquisition of EPI/CD4

On December 31, 2005, Pipex Therapeutics acquired 65.47% of the aggregate voting preferred and common stock of EPI and EPI's majority owned subsidiary CD4. In addition, Pipex Therapeutics assumed $583,500 of outstanding liabilities of EPI. The fair value of the exchange was equivalent to the par value of the common stock received pursuant to the terms of the contribution.

In the consolidated financial statements, each of these transactions described in Note 1F, was analogous to a recapitalization with no net change to equity since the entities were under common control at the date of the transaction.

4. Adeona's Acquisition of EPI, Share Issuances and Paid-in Kind Merger Dividend

On January 5, 2007, EPI merged with and into a wholly owned subsidiary of Adeona, Effective Acquisition Corp. In the transaction, Adeona issued an aggregate 795,248 shares of common stock having a fair value of $15,865,198 based upon the quoted closing trading price of $19.95 per share. As consideration for the share issuance, EPI exchanged 1,902,501 shares of Series B Convertible Preferred stock and 75,000 shares of common stock into 765,087 and 30,161, shares of Adeona common stock, respectively.

See additional discussion below for the issuance of the 765,087 shares, the Company recorded a paid-in kind/merger dividend.

In connection with the issuance of the 30,161 shares, the Company recorded additional compensation expense of $601,712 as the stock was issued to an officer and director of the Company.

During 2006, EPI declared a 10% and 30% preferred stock dividend, respectively, on its outstanding Series B, convertible preferred stock. During 2005, EPI declared a 10% preferred stock dividend on its outstanding Series B, convertible preferred stock. In total, 951,250 shares of additional Series B, convertible preferred stock were issued to the holders of record at the declaration date. These 951,250 shares of outstanding Series B preferred stock dividend were cancelled and retired and were not contemplated in the exchange with Adeona. EPI also cancelled and retired all of the issued and outstanding 3,000,000 shares of Series A Convertible Preferred stock as well as 750,000 shares of common stock

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Adeona Pharmaceuticals, Inc. and Subsidiaries
(A Development Stage Company)

Notes to Consolidated Financial Statements
(Unaudited)

In connection with this exchange and pursuant to Securities and Exchange Commission Regulation S-X, Rule 11-01(d) and EITF 98-3, "Determining whether a Non-Monetary Transaction involves the receipt of Productive Assets or of a Business" EPI was classified as a development stage company and thus was not considered a business. As a result, SFAS No. 141 purchase accounting rules did not apply. Additionally, the Company applied the provisions of EITF 86-32, "Early Extinguishment of a Subsidiary's Mandatorily Redeemable Preferred Stock" and has determined that even though the preferred stock of EPI was not mandatorily redeemable, this transaction is analogous to a capital transaction, and there would be no resulting gain or loss.

Finally, in connection with EITF Topic D-42, "The Effect on the Calculation of Earnings Per Share for the Redemption or Induced Conversion of Preferred Stock" , The Company has determined that the fair value of the consideration transferred to the holders of EPI Series B, convertible preferred stock over the carrying amount of the preferred stock represents a return to the preferred stockholders. The difference is $12,409,722, which is included as a component of paid in-kind dividends. This amount is included as an additional reduction in net loss applicable to common shareholders for purposes of computing loss per share in the accompanying financial statements for the period from January 8, 2001 (inception) to June 30, 2008.

As part of the acquisition of EPI, the Company granted an aggregate 68,858 warrants and 34,685 options for the outstanding warrants and options held by the EPI warrant and option holders. These new warrants and options will continue to vest according to their original terms. Pursuant to SFAS No. 123R and fair value accounting, the Company treated the exchange as a modification of an award of equity instruments. As such, incremental compensation cost was measured as the excess of the fair value of the replacement award over the fair value of the cancelled award at the cancellation date. In substance, Adeona repurchased the EPI instruments by issuing a new instrument of greater value.

The Company used the following weighted average assumptions for the fair value of the replacement award: expected dividend yield of 0%; expected volatility of 196.10%; risk-free interest rate of 4.65%, an expected life ranging from seven to eight years and exercise prices ranging from $0.09 - $3.30.

The Company has the following weighted average assumptions for the fair value of the cancelled award at the cancellation date: expected dividend yield of 0%; expected volatility of 200%; risk-free interest rate of 4.65%, an expected life ranging from seven to eight years and exercise prices ranging from $0.09 -$3.30.

The fair value of the replacement award required an increase in compensation expense of approximately $352,734.

Adeona Pharmaceuticals, Inc. and Subsidiaries
(A Development Stage Company)

Notes to Consolidated Financial Statements
(Unaudited)

Note 2 Summary of Significant Accounting Policies

(A) Principles of Consolidation

All significant inter-company accounts and transactions have been eliminated in consolidation.

(B) Development Stage

The Company's consolidated financial statements are presented as statements of a development stage enterprise. For the period from inception (January 8, 2001) to date, the Company has been a development stage enterprise, and accordingly, the Company's operations have been directed primarily toward the acquisition and creation of intellectual properties and certain research and development activities to improve current technological concepts. As the Company is devoting its efforts to research and development, there have been no sales, license fees or royalties earned. Additionally, the Company continually seeks sources of debt or equity based funding to further its intended research and development activities. The Company has experienced net losses since its inception, and had an accumulated deficit of $37,366,490 at September 30, 2008.

(C) Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses during the periods presented. Actual results may differ from these estimates.

Significant estimates during 2008 and 2007 include depreciable lives of property, valuation of warrants and stock options granted for services or compensation pursuant to EITF No. 96-18 and SFAS No. 123R, respectively, estimates of the probability and potential magnitude of contingent liabilities and the valuation allowance for deferred tax assets due to continuing operating losses.

(D) Cash and Cash Equivalents

The Company minimizes its credit risk associated with cash by periodically evaluating the credit quality of its primary financial institution. The balance at times may exceed federally insured limits. At September 30, 2008, the balance exceeded the federally insured limit by $6,271,207.

(E) Property and Equipment

Property and equipment is stated at cost, less accumulated depreciation. Expenditures for maintenance and repairs are charged to expense as incurred. Items of property and equipment with costs greater than $1,000 are capitalized and depreciated on a straight-line basis over the estimated useful lives, as follows:

Description	Estimated Useful Life
Office equipment and furniture	5 years

Laboratory equipment	10 years
Manufacturing equipment	10 years
Leasehold improvements and fixtures	Lesser of estimated useful life or life of lease

On September 19, 2008, the Company transferred certain manufacturing equipment with a net book value of $77,710 and $30,000 in cash to settle an account payable totaling $122,140. This transaction resulted in a gain on the sale in the amount of $14,430 that is included in the accompanying Consolidated Statements of Operations.

Adeona Pharmaceuticals, Inc. and Subsidiaries
(A Development Stage Company)

Notes to Consolidated Financial Statements
(Unaudited)

(F) Long Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. There were no impairment charges taken during the three and nine month periods ended September 30, 2008 and September 30, 2007 and for the period from January 8, 2001 (inception) to September 30, 2008.

(G) Derivative Liabilities

In connection with the reverse acquisition, all outstanding convertible preferred stock of Adeona was cancelled and retired, as such, the provisions of EITF No. 00-19, “Accounting for Derivative Financial Instruments Index to, and Potentially Settled in, a Company’s Own Stock” do not apply. The Company’s majority owned subsidiaries also contain issued convertible preferred stock; however, none of these instruments currently contains any provisions that require the recording of a derivative liability. In connection with the acquisition of EPI on January 5, 2007 (See Note 1(G)(4), all issued and outstanding shares of Series A and B, convertible preferred stock were cancelled and retired. As such, no potential derivative liabilities will exist pertaining to these instruments.

(H) Net Loss per Share

Basic earnings (loss) per share is computed by dividing the net income (loss) less preferred dividends for the period by the weighted average number of common shares outstanding. Diluted earnings (loss) per share is computed by dividing net income (loss) less preferred dividends by the weighted average number of common shares outstanding including the effect of share equivalents. Since the Company reported a net loss for the three and nine month periods ended September 30, 2008 and September 30, 2007 and for the period from January 8, 2001 (inception) to September 30, 2008, respectively, all common stock equivalents would be anti-dilutive; as such there is no separate computation for diluted earnings per share.

The Company’s net loss per share for the three and nine month periods ended September 30, 2008 and 2007 and for the period from January 8, 2001 (inception) to September 30, 2008 was computed assuming the recapitalization associated with the reverse acquisition, as such, all share and per share amounts have been retroactively restated. Additionally, the numerator for computing net loss per share was adjusted for preferred stock dividends recorded during the three and nine month periods ended September 30, 2008 and 2007 and the period from January 8, 2001 (inception) to September 30, 2008, in connection with the acquisition of EPI (See Note 1(G)(4)) as well as and certain provisions relating to the sale of EPI’s Series B, convertible preferred stock.

(I) Research and Development Costs

The Company expenses all research and development costs as incurred for which there is no alternative future use. Research and development expenses consist primarily of license fees, manufacturing costs, salaries, stock based

compensation and related personnel costs, fees paid to consultants and outside service providers for laboratory development, legal expenses resulting from intellectual property prosecution and other expenses relating to the design, development, testing and enhancement of the Company's product candidates, as well as an allocation of overhead expenses incurred by the Company.

(J) Fair Value of Financial Instruments

The carrying amounts of the Company's short-term financial instruments, including other receivable, prepaid expenses, accounts payable and accrued liabilities, approximate fair value due to the relatively short period to maturity for these instruments.

Adeona Pharmaceuticals, Inc. and Subsidiaries
(A Development Stage Company)

Notes to Consolidated Financial Statements
(Unaudited)

(K) Stock Based Compensation

All share-based payments to employees since inception have been recorded and expensed in the statements of operations as applicable under SFAS No. 123R "Share-Based Payment".

(L) Reclassifications

Certain amounts in the year 2007 financial statements have been reclassified to conform to the year 2008 presentation. The results of these reclassifications did not materially affect the Company's consolidated financial position, results of operations or cash flows.

(M) Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" , which clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing an asset or liability. It also defines fair value and established a hierarchy that prioritizes the information used to develop assumptions. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 157 is not expected to have a material effect on our financial position, results of operations or cash flows.

On February 15, 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115" ("SFAS 159"). This standard permits an entity to measure financial instruments and certain other items at estimated fair value. Most of the provisions of SFAS No. 159 are elective; however, the amendment to FASB No. 115, "Accounting for Certain Investments in Debt and Equity Securities," applies to all entities that own trading and available-for-sale securities. The fair value option created by SFAS 159 permits an entity to measure eligible items at fair value as of specified election dates. The fair value option (a) may generally be applied instrument by instrument, (b) is irrevocable unless a new election date occurs, and (c) must be applied to the entire instrument and not to only a portion of the instrument. SFAS 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity (i) makes that choice in the first 120 days of that year, (ii) has not yet issued financial statements for any interim period of such year, and (iii) elects to apply the provisions of FASB 157. The adoption of SFAS No. 159 is not expected to have a material effect on its financial position, results of operations or cash flows.

In June 2007, the Emerging Issues Task Force ("EITF") issued EITF No. 07-01, Accounting for Collaborative Arrangements, ("EITF 07-1"). EITF 07-1 provides guidance for companies in the biotechnology or pharmaceutical industries that may enter into agreements with other companies to collaboratively develop, manufacture, and market a drug candidate (Collaboration Agreements) and is effective for fiscal years beginning after December 15, 2007. The adoption of EITF 07-1 is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

12

Adeona Pharmaceuticals, Inc. and Subsidiaries
(A Development Stage Company)

Notes to Consolidated Financial Statements
(Unaudited)

In June 2007, the EITF issued EITF No. 07-3, Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities ,(“EITF 07-3”). EITF 07-3 provides guidance for upfront payments related to goods and services of research and development costs and is effective for fiscal years beginning after December 15, 2007. The adoption of EITF 07-3 is not expected to have a material effect on the Company’s financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No 51” (“SFAS 160”). SFAS 160 establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, changes in a parent’s ownership of a noncontrolling interest, calculation and disclosure of the consolidated net income attributable to the parent and the noncontrolling interest, changes in a parent’s ownership interest while the parent retains its controlling financial interest and fair value measurement of any retained noncontrolling equity investment. SFAS 160 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The adoption of SFAS No. 160 is not expected to have a material effect on its financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS 141R, Business Combinations (“SFAS 141R”), which replaces FASB SFAS 141, Business Combinations. This Statement retains the fundamental requirements in SFAS 141 that the acquisition method of accounting be used for all business combinations and for an acquirer to be identified for each business combination. SFAS 141R defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control. SFAS 141R will require an entity to record separately from the business combination the direct costs, where previously these costs were included in the total allocated cost of the acquisition. SFAS 141R will require an entity to recognize the assets acquired, liabilities assumed, and any non-controlling interest in the acquired at the acquisition date, at their fair values as of that date. This compares to the cost allocation method previously required by SFAS No. 141. SFAS 141R will require an entity to recognize as an asset or liability at fair value for certain contingencies, either contractual or non-contractual, if certain criteria are met. Finally, SFAS 141R will require an entity to recognize contingent consideration at the date of acquisition, based on the fair value at that date. This Statement will be effective for business combinations completed on or after the first annual reporting period beginning on or after December 15, 2008. Early adoption of this standard is not permitted and the standards are to be applied prospectively only. Upon adoption of this standard, there would be no impact to the Company’s results of operations and financial condition for acquisitions previously completed. The adoption of SFAS No. 141R is not expected to have a material effect on its financial position, results of operations or cash flows.

In March 2008, the FASB issued SFAS No. 161 “Disclosures about Derivative Instruments and Hedging Activities—An Amendment of FASB Statement No. 133.” (“ SFAS 161”). SFAS 161 establishes the disclosure requirements for derivative instruments and for hedging activities with the intent to provide financial statement users with an enhanced understanding of the entity’s use of derivative instruments, the accounting of derivative instruments and related hedged items under Statement 133 and its related interpretations, and the effects of these instruments on the entity’s financial position, financial performance, and cash flows. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2008. The Company does not expect its adoption of SFAS 161 to have a material impact on its financial position, results of operations or cash flows.

In April 2008, the FASB issued FASB Staff Position (“FSP”) SFAS No. 142-3, “ Determination of the Useful Life of Intangible Assets” . This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, “Goodwill and Other Intangible Assets” (“SFAS 142”). The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R, and other GAAP. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption is prohibited. The Company is currently evaluating the impact of SFAS FSP 142-3, but does not expect the adoption of this pronouncement will have a material impact on its financial position, results of operations or cash flows.

Adeona Pharmaceuticals, Inc. and Subsidiaries
(A Development Stage Company)

Notes to Consolidated Financial Statements
(Unaudited)

In May 2008, the FASB issued FSP Accounting Principles Board ("APB") 14-1 "Accounting for Convertible Debt instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)" ("FSP APB 14-1"). FSP APB 14-1 requires the issuer of certain convertible debt instruments that may be settled in cash (or other assets) on conversion to separately account for the liability (debt) and equity (conversion option) components of the instrument in a manner that reflects the issuer's non-convertible debt borrowing rate. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008 on a retroactive basis. The Company does not believe the adoption of FSP APB 14-1 will have a significant effect on its financial position, results of operations or cash flows.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date and are not expected to have a material impact on the financial statements upon adoption.

Note 3 Notes Payable

During 2007, the Company borrowed $1,100,000 and repaid $200,000 under notes payable. These notes were secured by all assets of the Company as well as the stock certificates of Pipex Therapeutics, EPI, Solovax and CD4; the notes bore interest of prime plus 2% and were due March 30, 2010. On March 6, 2008, all of the outstanding principal and accrued interest was repaid.

Note 4 Stockholders' Equity and Non-Controlling Interest

(A) Preferred Stock Issuances

1. For the Year Ended December 31, 2001

On January 8, 2001, EPI issued 3,000,000 shares of Series A Convertible Preferred Stock to the Founder serving as the CEO and Chairman of the Board of EPI in exchange for $250,000 ($0.08 per share). On January 5, 2007, pursuant to the acquisition of EPI, these shares were cancelled and retired.

On January 15, 2001, Pipex Therapeutics issued 5,421,554 shares of Series A Convertible Preferred Stock to a founder serving as Chairman of the Board of Pipex in exchange for $300,000 ($0.055 per share). On October 31, 2006, pursuant to the reverse acquisition with Sheffield, these shares were cancelled and retired.

On January 31, 2001, Solovax issued 1,000,000 shares of Series A Convertible Preferred Stock to the Founder of Solovax in exchange for $300,000 ($0.30 per share).

On February 7, 2001, CD4 issued 1,000,000 shares of Series A Convertible Preferred Stock, to an affiliate of a founder in exchange for $300,000 ($0.30 per share).

2. For the Year Ended December 31, 2005

On March 10, 2005, EPI's board of directors and stockholders voted to authorize the designation of a Series B Convertible Preferred Stock. From March through June 2005, EPI issued 1,902,500 shares of Series B Convertible Preferred Stock, at $1 per share, for proceeds of $1,902,500. In connection with this offering, EPI paid $152,200 of offering costs that were charged against additional paid in capital. The Company also granted 171,225 warrants as compensation in connection with this equity raise.

On January 5, 2007, pursuant to the acquisition of EPI, the shares of Series B Convertible Preferred Stock were converted into 765,087 shares of Adeona common stock and the warrants were converted into 68,858 warrants of Adeona. (See Note 1(E)(4))

Adeona Pharmaceuticals, Inc. and Subsidiaries
(A Development Stage Company)

Notes to Consolidated Financial Statements
(Unaudited)

(B) Common Stock Issuances of Issuer

For the Year Ended 2006

During October 2006, the Company issued 422,314 shares of common stock to an unrelated third party in connection with the terms of a license agreement. The fair value was $388,691 based upon the recent cash offering price at that time and was charged to research and development expense.

During October 2006, the Company converted all of its 5,421,554 shares of Series A, convertible preferred stock in exchange for equivalent common shares. The fair value of the exchange was based upon par value with a net effect of $0 to the statement of equity.

On October 31, 2006, the loans payable to the Company's founder, President and CEO were converted into 1,665,211 shares of common stock and 832,606 warrants. There were no gain or loss on this transaction since it was with a related party.

During October and November of 2006, the Company completed private placements of its stock, which resulted in the issuance of 6,900,931 shares of common stock and 3,451,524 warrants. The net proceeds from the private placements were $12,765,945, which included cash paid as direct offering costs of $1,160,418.

For the Year Ended 2007

During 2007, the Company issued 3,401,972 shares of common stock in connection with the exercise of warrants for net proceeds of $6,972,809 ($2.22 per share).

In September and December of 2007, the Company issued an aggregate 2,920 shares of common stock having a fair value of $20,000 ($6.85 per share) based on the quoted closing trading price for license fees.

In December 2007, the Company issued 5,102 shares of common stock having a fair value of $25,000 ($4.90 per share) based on the quoted closing trading price for a milestone payment.

For the Year Ended 2008

In January, April and August of 2008, the Company issued 37,948 shares of common stock in connection with the exercise of stock options for net proceeds of $4,428. The related exercise prices were $0.09 and $0.18 per share.

In March and April of 2008, the Company issued 61,392 shares of common stock having a fair value of $55,385 ($0.90 per share) based on the quoted closing trading prices for payment of salaries to employees.

In April and September 2008, the Company issued 127,845 shares of common stock having a fair value of $90,042 ($0.70 per share) based on the quoted closing trading price for consulting fees.

In May, June, August and September of 2008, the Company issued an aggregate 138,505 shares of common stock having a fair value of $145,000 ($1.05 per share) based on the quoted closing trading prices for license fees.

In June 2008, the Company issued 39,370 shares of common stock having a fair value of $50,000 ($1.27 per share) based on the quoted closing trading price for a milestone payment.

Adeona Pharmaceuticals, Inc. and Subsidiaries
(A Development Stage Company)

Notes to Consolidated Financial Statements
(Unaudited)

(C) Common Stock Issuances of Subsidiaries

During the period from January 8, 2001 (inception) to September 30, 2008, the Company's majority owned subsidiaries; CD4, Solovax, EPI and Epitope issued 419,000, 419,000, 825,000 and 125,000 shares of common stock, respectively, for an aggregate $1,788. Of the 825,000 shares of common stock issued by EPI, 75,000 were converted into 30,161 common shares of Adeona and the remaining 750,000 shares were cancelled and retired for no additional consideration in the acquisition of EPI on January 5, 2007.

(D) Stock Incentive Plan

During 2001, Pipex Therapeutics' Board and stockholders adopted the 2001 Stock Incentive Plan (the "2001 Stock Plan"). This plan was assumed by Pipex in the merger, in October 2006. As of the date of the merger, there were 1,489,353 options issued and outstanding. The total number of shares of stock with respect to which stock options and stock appreciation rights may be granted to any one employee of the Company or a subsidiary during any one-year period shall not exceed 1,250,000. All awards pursuant to the Plan shall terminate upon the termination of the grantee's employment for any reason. Awards include options, restricted shares, stock appreciation rights, performance shares and cash-based awards (the "Awards"). The Plan contains certain anti-dilution provisions in the event of a stock split, stock dividend or other capital adjustment, as defined in the Plan. The Plan provides for a Committee of the Board to grant awards and to determine the exercise price, vesting term, expiration date and all other terms and conditions of the awards, including acceleration of the vesting of an award at any time. As of September 30, 2008, there are 1,229,987 options issued and outstanding under the 2001 Stock Plan.

On March 20, 2007, the Company's Board of Directors approved the Company's 2007 Stock Incentive Plan (the "2007 Stock Plan") for the issuance of up to 2,500,000 shares of common stock to be granted through incentive stock options, nonqualified stock options, stock appreciation rights, dividend equivalent rights, restricted stock, restricted stock units and other stock-based awards to officers, other employees, directors and consultants of the Company and its subsidiaries. The exercise price of stock options under the plan is determined by the compensation committee of the Board of Directors, and may be equal to or greater than the fair market value of the Company's common stock on the date the option is granted. Options become exercisable over various periods from the date of grant, and generally expire ten years after the grant date. This plan was approved by stockholders on November 2, 2007. As of September 30, 2008, there are 1,459,108 options issued and outstanding under the 2007 Stock Plan.

Pursuant to the provisions of SFAS No. 123R, in the event of termination, the Company will cease to recognize compensation expense. There is no deferred compensation recorded upon initial grant date, instead, the fair value of the share-based payment is recognized ratably over the stated vesting period.

The Company has followed fair value accounting and the related provisions of SFAS No. 123R for all share based payment awards since inception. The fair value of each option or warrant granted is estimated on the date of grant using the Black-Scholes option-pricing model. The Black-Scholes assumptions used in the three and nine months ended September 30, 2008 and 2007 are as follows:

	Three Months Ended September 30,	Nine Months Ended September 30,

	2008	2007	2008	2007
Exercise price	$0.72	$4.64 - $6.80	$0.72 - $5.10	$0.09 - $22.50
Expected dividends	0%	0%	0%	0%
Expected volatility	225%	196.06% – 197.04%	201.11% – 225%	103.29% - 200%
Risk fee interest rate	3.95%	4.79% – 5.16%	3.52% – 4.02%	4.18% - 5.16%
Expected life of option	10 years	5 - 10 years	10 years	5 - 10 years

Adeona Pharmaceuticals, Inc. and Subsidiaries
(A Development Stage Company)

Notes to Consolidated Financial Statements
(Unaudited)

All option grants are expensed in the appropriate period based upon vesting terms, in each case with an offsetting credit to additional paid in capital. The stock-based compensation expense recorded by the Company for the three and nine months ended September 30, 2008 and 2007 and the period from inception to September 30, 2008 with respect to stock option awards is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,		Inception to September 30, 2008
	2008	2007	2008	2007	
Research and development:					
employees	$ 102,556	$ 13,797	$ 768,846	$ 255,846	$ 2,234,728
non-employees	21,071				