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**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2007.

**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 000-27748

**OPKO Health, Inc.**

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

75-2402409

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

4400 Biscayne Blvd., Suite 1100  
Miami, FL 33137  
(Address of Principal Executive Offices)

(305) 575-6015

(Registrant's Telephone Number, Including Area Code)

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

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

Large accelerated filer

Accelerated filer

Nonaccelerated filer

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

YES  NO

As of August 6, 2007, the registrant had 161,020,191 shares of common stock outstanding.

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Exhibit 31.1	Certification by Phillip Frost, MD, Chief Executive Officer, pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities and Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for the quarterly period ended June 30, 2007.
Exhibit 31.2	Certification by Rao Uppaluri, Chief Financial Officer, pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities and Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for the quarterly period ended June 30, 2007.
Exhibit 32.1	Certification by Phillip Frost, MD, Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for the quarterly period ended June 30, 2007.
Exhibit 32.2	Certification by Rao Uppaluri, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for the quarterly period ended June 30, 2007.
Exhibit 99.1	Financials of Ophthalmic Technologies, Inc.

## PART I. FINANCIAL INFORMATION

### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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- the possibility of infringing a third party's patents or other intellectual property rights; and
- the uncertainty of obtaining patents covering our products and processes and in successfully enforcing them against third parties.

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

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### Item 1. Financial Statements:

The results of operations for the first six months of 2007 include Froptix' operating results for the full six month period and Acuity's operating results subsequent to March 27, 2007. As a result of the reverse merger, historical comparative results are those of Froptix. Froptix was incorporated on June 23, 2006 and did not have significant operations for most of the first six months of 2006.

OPKO Health, Inc.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(A Development-Stage Company)  
(in thousands except share data)

	<u>June 30,</u> <u>2007</u>	<u>December 31,</u> <u>2006</u>
	(unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 6,183	\$ 116
Prepaid expenses and other current assets	501	—
Total current assets	6,684	116
Property and equipment, net	98	—
Investment in Ophthalmic Technologies, Inc. (OTI)	4,965	—
Other assets	6	—
Total assets	<u>\$ 11,752</u>	<u>\$ 116</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of notes payable, net unamortized discount of \$89	\$ 3,560	\$ —
Accounts payable	1,447	95
Accrued expenses	1,191	—
Total current liabilities	6,198	95
Line of credit with a related party, net of unamortized discount of \$423	3,577	—
Notes payable	351	—
Total liabilities	<u>10,126</u>	<u>95</u>
Commitments and contingencies		
Shareholders' equity:		
Series A Preferred stock — \$0.01 par value, 4,000,000 shares authorized; 977,400 and 0 shares issued and outstanding (liquidation value of \$2,566) at June 30, 2007 and December 31, 2006, respectively	10	—
Series C Preferred Stock \$0.01 par value, 500,000 shares authorized; no shares issued or outstanding	—	—
Common stock — \$0.01 par value, 500,000,000 shares authorized; 159,320,800 and 61,775,000 shares issued and outstanding, respectively	1,593	618
Additional paid-in capital	261,930	279
Deficit accumulated during development stage	<u>(261,907)</u>	<u>(876)</u>
Total shareholders' equity	<u>1,626</u>	<u>21</u>
Total liabilities and shareholders' equity	<u>\$ 11,752</u>	<u>\$ 116</u>

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

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OPKO Health, Inc.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(A Development-Stage Company)  
(in thousands, except per share data)

	Three Months Ended June 30, 2007	Eight Days Ended (June 23, 2006 inception) June 30, 2006	Six Months Ended June 30, 2007	Eight Days Ended (June 23, 2006 inception) June 30, 2006	Period from June 23, 2006 (inception) to June 30, 2007
	(unaudited)		(unaudited)		(unaudited)
Revenue	\$ —	\$ —	\$ —	\$ —	\$ —
Operating expenses:					
Selling, general and administrative	5,339	—	5,428	—	5,804
Research and development	5,434	250	11,507	250	12,015
Write-off of acquired in- process research and development	—	—	243,761	—	243,761
Total Operating Expenses	(10,773)	(250)	(260,696)	(250)	(261,580)
Operating loss	(10,773)	(250)	(260,696)	(250)	(261,580)
Other expense, net	(165)	—	(178)	—	(170)
Loss before income taxes	(10,938)	(250)	(260,874)	(250)	(261,750)
Income taxes	—	—	—	—	—
Net loss before investment in OTI	(10,938)	(250)	(260,874)	(250)	(261,750)
Loss from investment in OTI	(35)	—	(35)	—	(35)
Net loss	(10,973)	(250)	(260,909)	(250)	(261,785)
Preferred stock dividend	(113)	—	(122)	—	(122)
Net loss attributable to common shareholders	\$ (11,086)	\$ (250)	\$ (261,031)	\$ (250)	\$ (261,907)
Loss per share, basic and diluted	\$ (0.09)	\$ (3.68)	\$ (2.86)	\$ (3.68)	
Weighted average number of shares outstanding - basic and diluted	117,871,000	68,000	91,399,000	68,000	

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

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OPKO Health, Inc.  
CONDENSED CONSOLIDATED STATEMENTS SHAREHOLDERS' EQUITY  
(A Development-Stage Company)  
(in thousands except share data)

For the Cumulative period from inception (June 23, 2006) to June 30, 2007 (unaudited)

	Series A Preferred Stock		Series C Preferred Stock		Common Stock		Additional Paid-In- Capital	Accumulated Deficit	Total
	Shares	Dollars	Shares	Dollars	Shares	Dollars			
Issuance of capital stock to founders of Froptix	—	\$ —	—	\$ —	61,775,000	\$ 618	\$ 20	\$ —	\$ 638
Stock-based compensation expense	—	—	—	—	—	—	259	—	259
Net Loss	—	—	—	—	—	—	—	(876)	(876)
Balance at December 31, 2006, adjusted to reflect reverse merger on March 27, 2007	—	—	—	—	61,775,000	618	279	(876)	21
Stock based compensation expense	—	—	—	—	—	—	11,947	—	11,947
Issuance of common and preferred stock and options and warrants for net monetary assets	1,081,800	11	—	—	36,606,000	366	15,626	—	16,003
Acquisition of Acuity Pharmaceuticals, Inc.	—	—	457,584	5	14,837,000	148	234,470	—	234,623
Issuance of common stock upon automatic conversion of Series C preferred stock	—	—	(457,584)	(5)	45,758,400	458	(453)	—	—
Exercise of stock options	—	—	—	—	79,000	1	62	—	63
Exercise of common warrants	—	—	—	—	161,000	1	(1)	—	—
Conversion of Series A preferred stock	(104,400)	(1)	—	—	104,400	1	—	—	—
Preferred Stock Dividend	—	—	—	—	—	—	—	(122)	(122)
Net Loss	—	—	—	—	—	—	—	(260,909)	(260,909)
Balance at June 30, 2007	<u>977,400</u>	<u>\$ 10</u>	<u>—</u>	<u>\$ —</u>	<u>159,320,800</u>	<u>\$1,593</u>	<u>\$261,930</u>	<u>\$ (261,907)</u>	<u>\$ 1,626</u>

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



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OPKO Health, Inc.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(A Development-Stage Company)  
(in thousands)

	Six Months Ended June 30, 2007 <u>(unaudited)</u>	Eight Days Ended (June 23, 2006 inception) June 30, 2006 <u>(unaudited)</u>	Period from June 23, 2006 (inception) to June 30, 2007 <u>(unaudited)</u>
<b>Cash flows from operating activities:</b>			
Net loss	\$ (260,909)	\$ (250)	\$ (261,785)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>			
Depreciation	8	—	8
Write-off of in-process research and development	243,761	—	243,761
Amortization of debt discount related to notes payable	69	—	69
Loss from investment in OTI	35	—	35
Stock compensation — employees and vendors	11,947	—	12,206
<b>Changes in:</b>			
Prepaid expenses and other current assets	86	—	86
Other assets	(7)	—	(7)
Accounts payable	(577)	250	(483)
Accrued expenses	(744)	—	(744)
Net cash used in operating activities	<u>(6,331)</u>	<u>—</u>	<u>(6,854)</u>
<b>Cash flows from investing activities:</b>			
Acquisition of Ophthalmic Technologies, Inc.	(5,000)	—	(5,000)
Acquisition of a business, net of cash	1,135	—	1,135
Capital expenditures	(21)	—	(21)
Net cash used in investing activities	<u>(3,886)</u>	<u>—</u>	<u>(3,886)</u>
<b>Cash flows from financing activities:</b>			
Issuance of common and preferred stock and options and warrants for cash	—	—	639
Proceeds from sale of common stock, net	16,284	—	16,284
Net cash provided by financing activity	<u>16,284</u>	<u>—</u>	<u>16,923</u>
Net change in cash	6,067	—	6,183
Cash and cash equivalents at beginning of period	116	—	—
Cash and cash equivalents at end of period	<u>\$ 6,183</u>	<u>\$ —</u>	<u>\$ 6,183</u>

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

**OPKO Health, Inc.**  
NOTES TO FINANCIAL STATEMENTS  
(A Development-Stage Company)

**Note 1 Business and Organization**

On June 8, 2007, we changed our name to OPKO Health, Inc., from *eXegenics*, Inc. Through March 26, 2007, *eXegenics* was a public shell company whose assets consisted of cash and nominal other assets. On February 9, 2007, *eXegenics* completed the sale of 19,440,491 shares of its common stock for \$8.0 million, constituting 51% of its issued and outstanding shares of capital stock on a fully diluted basis, to a small group of investors led by The Frost Group, LLC, or the Frost Group, a related party.

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

After the merger, *eXegenics* began doing business as OPKO Health, Inc., or OPKO. OPKO and its wholly-owned subsidiaries (including Froptix and Acuity) are referred to as “We” or the “Company”.

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

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

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

The Merger Agreement provided for the merger of Froptix with and into e-Acquisition Company I-A, LLC, with e-Acquisition Company I-A, LLC surviving as our wholly-owned subsidiary (referred to as the “Froptix Merger”) and the merger of Acuity with and into e-Acquisition Company II-B, LLC, with e-Acquisition Company II-B, LLC surviving as our wholly-owned subsidiary (referred to as the “Acuity Merger” and, with the Froptix Merger, the “Mergers”). In connection with the consummation of the Mergers (1) e-Acquisition Company I-A, LLC changed its name to Froptix, LLC, (2) e-Acquisition Company II-B, LLC changed its name to Acuity Pharmaceuticals, LLC and (3) OPKO became the parent company of these two wholly-owned operating subsidiaries. At the closing of the Mergers, the former shareholders of Froptix and Acuity received shares of our common stock and preferred stock as well as warrants to purchase our common stock in exchange for all of their shares of Froptix and Acuity.

As a result, at the closing of the Mergers, we issued (a) an aggregate of 61,775,000 shares of our common stock to the former holders of Froptix common stock, (b) an aggregate of 14,837,000 shares of our common stock to the former holders of Acuity common stock and Acuity Series A preferred stock, and (c) an aggregate of 457,584 shares of our Series C preferred stock, convertible into 45,758,400 shares of our common stock, to the former holders of Acuity Series B preferred stock. We also granted 21,144,128 warrants to purchase shares of our common stock to former shareholders of Froptix and Acuity. We also granted 15,810,063 options to purchase our common stock to former option holders of Froptix and Acuity.

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

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

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

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

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

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

The following table includes the pro forma results for the eight days ended June 30, 2006 of the combined companies as though the Mergers had been completed as of June 23, 2006.

<b>(in thousands, except per share amounts)</b>	<b>As reported</b>	<b>Pro forma adjustments</b>	<b>Pro forma</b>
Revenue	\$ —	\$ —	\$ —
Net loss	\$ (250)	\$ (243)	\$ (493)
Basic and diluted loss per share	\$ (3.68)	\$ (0.02)	\$ (0.03)

The basic and diluted loss per share in the pro forma columns assume the shares issued to Acuity in the Mergers were issued and outstanding for the entire period, resulting in 14,905,000 basic and diluted shares outstanding.

The following table includes the pro forma results for the six months ended June 30, 2007 of the combined companies as though the Mergers had been completed as of January 1, 2007.

<b>(in thousands, except per share amounts)</b>	<b>As reported</b>	<b>Pro forma adjustments</b>	<b>Pro forma</b>
Revenue	\$ —	\$ —	\$ —
Net loss	\$ (260,909)	\$ (6,792)	\$ (267,701)
Basic and diluted loss per share	\$ (2.86)	\$ (0.07)	\$ (2.72)

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

### **Note 2 Development Stage Risks and Liquidity**

We have been in the development stage since inception and have not generated any revenues. We have not achieved profitable operations and we expect to incur substantial losses in future periods. Accordingly, the accompanying financial statements have been prepared using the accounting formats prescribed by SFAS No. 7 "Accounting and Reporting by Development Stage Enterprises." The successful completion of our

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development program and our transition to commercial operations, if at all, is dependent upon obtaining necessary regulatory approvals from the United States Food and Drug Administration (“FDA”) prior to selling our products within the United States, and foreign regulatory approvals must be obtained to sell our products internationally. There can be no assurance that our products will receive regulatory approvals, and a substantial amount of time may pass before we achieve a level of sales adequate to support our operations, if at all. We will also incur substantial expenditures in connection with the development and regulatory approval process for our products and we will need to raise significant additional capital during the developmental period. Obtaining marketing approval will be directly dependent on our ability to implement the necessary regulatory steps required to obtain marketing approval in the United States and other countries and the success of our clinical trials. We cannot predict the outcome of these activities. Additionally, there is no assurance that profitable operations, if ever achieved, could be sustained on a continuing basis. In addition, development activities and clinical and preclinical testing and commercialization of our proprietary technology will require significant additional financing. Our deficit accumulated during the development stage through June 30, 2007 was \$261.9 million, and we expect to incur substantial and increasing losses in future periods.

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

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

### **Note 3 Summary of Significant Accounting Policies**

*Basis of Presentation.* The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. However, in the opinion of management, all adjustments (consisting of only normal recurring adjustments) considered necessary to present fairly the Company’s results of operations, financial position and cash flows have been made. The results of operations for the three and six months ended June 30, 2007 and cash flows for the six months ended June 30, 2007, are not necessarily indicative of the results of operations and cash flows that may be reported for the remainder of 2007 or for future periods. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the Notes to Consolidated Financial Statements included in our Current Report on Form 8-K filed as a result of the Merger on March 27, 2007. Refer to Note 1.

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

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

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

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*Impairment of Long-Lived Assets.* In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets*, long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, then an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. As of June 30, 2007, we believe that no revision of the remaining useful lives or write-down of long-lived assets is required.

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

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

*Loss Per Common Share.* Basic and diluted loss per common share is based on the net loss increased by dividends on preferred stock divided by the weighted average number of common shares outstanding during the period. No effect has been given to outstanding options, warrants or convertible preferred stock in the diluted computation, as their effect would be antidilutive. As of June 30, 2007, we have 159,320,800 common shares outstanding, in addition, we have options, warrants and convertible preferred stock outstanding at June 30, 2007 that, if converted/exercised would result in 55,120,200 incremental shares of common stock being outstanding resulting in 214,441,000 potential common shares outstanding. The diluted loss per share does not include the weighted average impact of these securities of 50,487,000 for the three and six months ended June 30, 2007, respectively.

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

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

*New accounting pronouncements:* In July 2006, the Financial Accounting Standards Board, or FASB, issued Interpretation Number, or FIN, No. 48, *Accounting for Uncertainty in Income Taxes*, or FIN 48. FIN 48 applies to all tax positions within the scope of SFAS No. 109, applies a “more likely than not” threshold for tax benefit recognition, identifies a defined methodology for measuring benefits and increases the disclosure requirements for companies. FIN 48 is mandatory for years beginning after December 15, 2006; accordingly, we have adopted FIN 48 effective January 1, 2007. Refer to Note 6.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, or SFAS No. 157. SFAS No. 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and expands disclosures about fair value measurements. This Statement applies to other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require

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any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning after December 15, 2007. We plan to adopt SFAS No. 157 beginning in the first quarter of our 2008 fiscal year. We are currently evaluating the impact the adoption of SFAS No. 157 may have on our financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, or SFAS No. 159, which gives companies the option to measure eligible financial assets, financial liabilities and firm commitments at fair value (i.e., the fair value option), on an instrument-by-instrument basis, that are otherwise not permitted to be accounted for at fair value under other accounting standards. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability or upon entering into a firm commitment. Subsequent changes in fair value must be recorded in earnings. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We are in the process of evaluating the impact, if any, of adopting this pronouncement.

In June 2007, the Emerging Issues Task Force, or EITF, issued EITF 07-3 *Accounting for Advance Payments for Goods or Services to be Received for Use in Future Research and Development Activities*. This EITF establishes that prepayments made related to research and development goods and services should be capitalized and recognized as expense when the goods are received or the services have been performed. The prepaid assets must be assessed for recoverability to ensure the prepaid goods or services will continue to be used. EITF 07-3 is effective for new contracts entered into in fiscal years beginning after December 15, 2007, including interim periods within those fiscal years. We are in the process of evaluating the impact, if any, of adopting this pronouncement.

### **Note 4 Debt**

On January 11, 2007, Acuity entered into an agreement with the Frost Group whereby the Frost Group provided a subordinated secured line of credit of up to \$7.0 million to Acuity. The Frost Group members include a trust controlled by Dr. Phillip Frost, who is the Company's Chief Executive Officer and Chairman of the board of directors, Dr. Jane H. Hsiao, who is the Vice Chairman of the board of directors and Chief Technical Officer, Steven D. Rubin who is Executive Vice President and a director of the Company and Rao Uppaluri who is the Chief Financial Officer of the Company. In exchange for entering into this agreement, Acuity agreed to grant to the Frost Group a warrant to purchase up to 125,000 shares of Acuity Series B Preferred Stock, par value \$0.01 per share, for an exercise price of \$2.00 per share, which upon consummation of the Merger converted into 6,478 shares of our Series C Preferred stock and a warrant to purchase up to 15,625 shares of Acuity Common Stock, for an exercise price of \$0.01 per share, which converted upon the Merger to 81,085 warrants to purchase shares of our Common Stock. On June 22, 2007, the Series C preferred stock automatically converted to 647,800 shares of our common stock.

In connection with the consummation of the Mergers, we assumed the rights and obligations of Acuity under this line of credit. We also amended and restated this line of credit to provide additional available borrowing capacity. Under this amended and restated line of credit, the line of credit was increased to \$12.0 million and we assumed Acuity's existing obligation to repay \$4.0 million outstanding under the prior line of credit. We are obligated to pay interest upon maturity, compounded quarterly on borrowings under the line of credit at a 10% annual rate, which is due on July 11, 2009. The line of credit is collateralized by all of our personal property, except intellectual property. In connection with the assumption and amendment of the line of credit, we granted warrants to purchase 4,000,000 shares of our common stock to the Frost Group. The fair value of the warrants was determined to be \$12.4 million using the Black-Scholes option valuation model. Because the issuance of the warrants and the increase in the line of credit were conditioned upon the completion of the Mergers, the value of the warrants has been allocated on a relative fair value basis to the cost of the Acuity acquisition (\$1.3 million), the cost of the reverse merger between Froptix and *eXegenics* (\$11.0 million) and debt commitment fee (\$0.1 million).

We assumed the rights and obligations of Acuity's \$4.0 million term loan with Horizon Financial, Inc., in connection with the Mergers. The term loan bears interest at 12.23%, which is payable monthly commencing September 15, 2005. The principal is payable in 12 equal monthly installments commencing August 2007. Principal on the term loan matures as follows: \$1.7 million during 2007 and \$2.3 million during 2008. The term loan is collateralized by all personal property of Acuity, except intellectual property, and contains certain negative covenants that limit the payment of cash dividends, redemption of equity securities, changes in ownership, and the creation or extinguishment of debt. In connection with the issuance of the term note, Acuity issued warrants to purchase

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200,000 shares of Series B preferred stock at \$2.00 per share, which upon the Merger converted to 10,379 shares of our Series C preferred stock and warrants to purchase 25,000 shares of common stock at \$0.01 per share, which converted to 129,736 shares of our common stock upon consummation of the Merger. On June 22, 2007, the Series C preferred stock automatically converted to 1,037,900 shares of our common stock.

### **Note 5 Stock Based Compensation**

As of June 30, 2007, we had three stock-based compensation plans, our 1996 Stock Option Plan, our 2000 Stock Option Plan and our 2007 Equity Incentive Plan. We also assumed the option plans of Acuity and Froptix in the merger discussed in Note 1 (collectively the "Plans"). Options granted under the 1996 Stock Option Plan, 2000 Stock Option Plan and the plans assumed from Froptix and Acuity are exercisable for a period of up to 10 years from date of grant. The 2007 Equity Incentive Plan is exercisable for a period up to 7 years. Vesting periods range from immediate to 4 years. The compensation expense recognized in the statements of operations for the three and six months ended June 30, 2007 for our stock-based compensation plans was \$5.9 million and \$11.9 million, respectively, of which [\$2.6 million and \$2.7 million] was a component of general and administrative expenses, respectively, and \$3.3 million and \$9.2 million was a component of research and development expenses, respectively.

The fair value of the unvested Acuity option awards was determined at the merger date and will be expensed over the remaining requisite service period of the options. Unvested options granted to non-employees are marked to market each reporting period in accordance with EITF 96-18. The fair value of stock option awards was estimated using the Black-Scholes option valuation model and the assumptions noted in the following table:

	<b>Three Months Ended June 30, 2007</b>	<b>Six Months Ended June 30, 2007</b>
Expected life	3.23 to 9.47 years	3.48 to 9.72 years
Expected volatility	73%	73% to 76%
Risk-free interest rate	4.54% to 5.16%	4.48% to 5.16%
Dividend yield	0%	0%

The expected life of the stock options was calculated using the shortcut method allowed by the provisions of SFAS No. 123R and interpreted by Staff Accounting Bulletin No. 107 (SAB 107). The expected volatility was based on a peer group of publicly-traded stock which we believe will be representative of the volatility over the expected term of the options. The risk-free interest rate is based on the rates paid on securities issued by the U.S. Treasury with a term approximating the expected life of the option. The dividend yield is based on the projected annual dividend payment per share, divided by the stock price at the date of grant; however, we have not, and do not expect to declare such dividends.

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A summary of the stock option activity under our Plans during the six months ended June 30, 2007 is presented below:

	<u>Shares</u>	<u>Exercise price per share</u>	<u>Weighted average exercise price</u>
Outstanding at December 31, 2006	4,436,878	\$ 0.01	\$ 0.01
Assumed from <i>eXegenics</i> at merger	240,000	0.32 – 0.89	0.64
Assumed from Acuity at merger	11,373,253	0.04 – 0.56	0.14
Cancelled/Forfeited	(20,109)	0.05 – 0.06	0.05
Outstanding at March 31, 2007	16,030,022	0.01 – 0.89	0.11
Granted	3,845,000	3.54 – 4.88	4.81
Exercised	(79,215)	0.05 – 0.84	0.80
Canceled/Forfeited	(555,110)	0.04 – 0.06	0.05
Outstanding at June 30, 2007	19,240,697	\$ 0.01 – \$4.88	\$ 1.04

As of June 30, 2007 there was approximately \$25.8 million of total unrecognized compensation cost related to unvested stock options, which is expected to be recognized over a remaining weighted-average vesting period of 3.3 years. As of June 30, 2007, approximately 8.9 million options to purchase our common stock were exercisable. In addition, at June 30, 2007, 15.6 million outstanding options were in the money with an aggregate intrinsic value of approximately \$61.8 million.

In addition to the common stock options there were 7,317 options to purchase Series C preferred stock at an exercise price of \$32.00 issued as replacement options to an Acuity employee at the merger, which, upon conversion of the Series C Preferred stock on June 22, 2007 converted to 731,700 options to purchase our common stock. The common stock options were 100% vested and exercisable as of June 30, 2007. The intrinsic value of the options on June 30, 2007 was \$2.4 million.

On May 11, 2007, we entered into a Settlement Agreement with our former President. Under the terms of the Settlement Agreement, our former President will receive a severance payment equivalent to one year's salary of \$325,000, paid monthly, and reimbursement of up to \$65,000 in relocation expenses. In addition, all outstanding equity awards which would have vested by May 31, 2008, were automatically vested. As a result of this acceleration, during the second quarter of 2007 we recorded \$1.5 million of additional compensation expense that would have been recognized over the period from June 1, 2007 through May 31, 2008.

In July 2007, we terminated a consulting agreement prior to the vesting of approximately 4.4 million options to purchase our common stock. As a result, during the third quarter of 2007, we will reverse compensation expense which was accrued during the previous 12 months of approximately \$8.1 million.

### **Note 6 Income Taxes**

Prior to January 1, 2007, we recognized income taxes with respect to uncertain tax positions based upon SFAS No. 5, "Accounting for Contingencies", or SFAS No. 5. Under SFAS No. 5, we would record a liability associated with an uncertain tax position if the liability was both probable and estimable. Prior to January 1, 2007, the liabilities recorded under SFAS No. 5 including interest and penalties related to income tax exposures, would have been recognized as incurred within "income taxes" in our condensed consolidated statements of operations. We recorded no such liabilities in 2006.

Effective January 1, 2007, we adopted FIN 48, "Accounting for Uncertainty in Income Taxes." FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attribute for the



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financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 requires that we determine whether the benefit of our tax positions are more likely than not to be sustained upon audit, based on the technical merits of the tax position. For tax positions that are more likely than not to be sustained upon audit, we recognize the greatest amount of the benefit that is more likely than not to be sustained in our condensed consolidated financial statements. For tax positions that are not more likely than not to be sustained upon audit, we do not recognize any portion of the benefit in our condensed consolidated financial statements. The provisions of FIN 48 also provide guidance on derecognition, classification, interest and penalties, accounting in interim periods, and disclosure.

Our policy for interest and penalties under FIN 48, related to income tax exposures, was not impacted as a result of the adoption of the recognition and measurement provisions of FIN 48. Therefore, we continue to recognize interest and penalties as incurred within “*income taxes*” in our condensed consolidated statements of operations, when applicable.

There was no change to our accumulated deficit as of January 1, 2007 as a result of the adoption of the recognition and measurement provisions of FIN 48.

### ***Uncertain Income Tax Positions***

We file income tax returns in the U.S. federal jurisdiction and with various states. We are subject to tax audits in all jurisdictions for which we file tax returns. Tax audits by their very nature are often complex and can require several years to complete. There are currently no tax audits that have commenced with respect to income returns in any jurisdiction.

*Federal:* Under the tax statute of limitations applicable to the Internal Revenue Code, we are no longer subject to U.S. federal income tax examinations by the Internal Revenue Service for years before 2003. However, because we are carrying forward income tax attributes, such as net operating losses and tax credits from 2002 and earlier tax years, these attributes can still be audited when utilized on returns filed in the future.

*State:* Under the statutes of limitation applicable to most state income tax laws, we are no longer subject to state income tax examinations by tax authorities for years before 2003 in states in which we have filed income tax returns. Certain states may take the position that we are subject to income tax in such states even though we have not filed income tax returns in such states and, depending on the varying state income tax statutes and administrative practices, the statute of limitations in such states may extend to years before 2003.

As a result of our January 1, 2007 implementation of FIN 48, the total amount of gross tax benefits, excluding the offsetting full valuation allowance, that became unrecognized, was \$0. There were no accrued interest and penalties resulting from such unrecognized tax benefits. As of June 30, 2007, the total amount of gross unrecognized tax benefits was \$0, and accrued interest and penalties on such unrecognized tax benefits was \$0.

The net unrecognized tax benefits that, if recognized, would impact the effective tax rate as of June 30, 2007 and December 31, 2006, were \$0 and \$0, respectively.

We do not anticipate that any significant increase or decrease to the gross unrecognized tax benefits will be recorded during the remainder of 2007.

### ***Other Income Tax Disclosures***

Consistent with 2006, we anticipate recording a full valuation allowance against all of our deferred tax assets during 2007. As a result of this valuation allowance, we expect our full year effective tax rate to be at or about zero.

Under Section 382 of the Internal Revenue Code, certain significant changes in ownership may restrict the future utilization of our tax loss carryforwards. The annual limitation is equal to the value of our stock immediately before the ownership change, multiplied by the long-term tax-exempt rate (i.e., the highest of the adjusted federal long-term rates in effect for any month in the three-calendar-month period ending with the calendar month in which the change

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date occurs). We are undergoing a study to determine whether we or any of our predecessors have undergone an ownership change under Section 382. It is possible that such a study could conclude that some or all of our net operating loss and credit carryforwards will be limited to utilization. Because we currently have recorded full valuation allowances against such tax attributes, we do not expect the results of such a study to have a material impact on our financial statements.

### **Note 7 Supplemental Cash Flow Information**

Supplemental cash flow information is summarized as follows:

<b>(in thousands)</b>	<b>Six Months Ended June 30, 2007</b>	<b>Period from June 23, 2006 (inception) to June 30, 2007</b>
Interest paid	\$ 163	\$ 163

### **Note 8 Related Party Transactions**

In June 2007, we paid the \$125,000 filing fee payable to the Federal Trade Commission in connection with filings to be made by us and Dr. Frost, our Chairman and Chief Executive Officer, under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 ("HSR"). The filings would permit Dr. Frost and his affiliates to acquire additional voting securities upon expiration of the HSR waiting period. On July 12, 2007, that waiting period expired.

On a month-to-month basis we are leasing office space from Frost Real Estate Holdings, LLC, an entity affiliated with Dr. Phillip Frost, our Chairman, Chief Executive Officer and a principal shareholder. We are negotiating a long-term lease for this space and expect to execute a long-term lease during 2007. The lease is for approximately 5,000 square feet of space in an office building in Miami, Florida, where our principal executive offices are located. The lease provides for payments of approximately \$15,000 per month while we negotiate the long-term lease, plus applicable sales tax. The rent is inclusive of operating expenses, property taxes and parking.

As part of the Mergers, we assumed a line of credit with the Frost Group from Acuity. Refer to Note 4.

### **Note 9 Description of Equity Securities**

Our authorized capital stock consists of 500,000,000 shares of common stock, par value \$.01 per share, and 10,000,000 shares of preferred stock, par value \$.01 per share.

#### **Common Stock**

Of the authorized common stock, 161,020,191 shares were outstanding as of August 6, 2007 and are held by approximately 399 record holders. Subject to the prior rights of the holders of any shares of preferred stock currently outstanding or which may be issued in the future, the holders of the common stock are entitled to receive dividends from our funds legally available therefore when, as and if declared by our board of directors, and are entitled to share ratably in all of our assets available for distribution to holders of common stock upon the liquidation, dissolution or winding-up of our affairs subject to the liquidation preference, if any, of any then outstanding shares of preferred stock. Holders of our common stock do not have any preemptive, subscription, redemption or conversion rights. Holders of our common stock are entitled to one vote per share on all matters which they are entitled to vote upon at meetings of stockholders or upon actions taken by written consent pursuant to Delaware corporate law. The holders of our common stock do not have cumulative voting rights, which means that the holders of a plurality of the outstanding shares can elect all of our directors. All of the shares of our common stock currently issued and outstanding are fully-paid and nonassessable. No dividends have been paid to holders of our common stock since our incorporation, and no cash dividends are anticipated to be declared or paid in the reasonably foreseeable future.

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### **Preferred Stock**

Our board of directors has the authority, without further action by the holders of the outstanding common stock, to issue preferred stock from time to time in one or more classes or series, to fix the number of shares constituting any class or series and the stated value thereof, if different from the par value, as to fix the terms of any such series or class, including dividend rights, dividend rates, conversion or exchange rights, voting rights, rights and terms of redemption (including sinking fund provisions), the redemption price and the liquidation preference of such class or series. We presently have one series of preferred stock outstanding, designated as Series A convertible preferred stock (the "Series A preferred stock"). We have no present plans to issue any other series or class of preferred stock. The designations, rights and preferences of the Series A preferred stock are set forth in the certificate of designations of Series A convertible preferred stock, which has been filed with the Secretary of State of the State of Delaware.

### **Series A Preferred Stock**

Of the authorized preferred stock, 4,000,000 shares have been designated Series A preferred stock, 977,400 of which are currently issued and outstanding and held by 66 stockholders. Dividends are payable on the Series A preferred stock in the amount of \$.25 per share, payable annually in arrears. At the option of our board of directors, dividends will be paid either (i) wholly or partially in cash or (ii) in newly issued shares of Series A preferred stock valued at \$2.50 per share to the extent cash dividend is not paid.

Holders of Series A preferred stock have the right to convert their shares, at their option exercisable at any time, into shares of our common stock on a one-for-one basis subject to anti-dilution adjustments. These anti-dilution adjustments are triggered in the event of any subdivision or combination of our outstanding common stock, any payment by us of a stock dividend to holders of our common stock or other occurrences specified in the certificate of designations relating to the Series A preferred stock. We may elect to convert the Series A preferred stock into common stock or a substantially equivalent preferred stock in the case of a merger or consolidation in which we do not survive, a sale of all or substantially all of our assets or a substantial reorganization of us.

Each share of Series A preferred stock is entitled to one vote on all matters on which the common stock has the right to vote. Holders of Series A preferred stock are also entitled to vote as a separate class on any proposed adverse change in the rights, preferences or privileges of the Series A preferred stock and any increase in the number of authorized shares of Series A preferred stock. In the event of any liquidation or winding up of the Company, the holders of the Series A preferred stock will be entitled to receive \$2.50 per share plus any accrued and unpaid dividends before any distribution to the holders of the common stock and any other class of series of preferred stock ranking junior to it.

We may redeem the outstanding shares of Series A preferred stock for \$2.50 per share (plus accrued and unpaid dividends), at any time.

### **Series C Preferred Stock**

Of the authorized preferred stock, 500,000 shares were designated Series C preferred stock. On June 22, 2007, 457,584 Series C preferred stock were issued and outstanding and held by 30 stockholders. Cumulative dividends were payable on the Series C preferred stock in the amount of \$1.54 per share when declared by the board of directors. On June 22, 2007, all of the shares of Series C preferred stock automatically converted into shares of common stock, on a one-hundred-for-one basis (subject to adjustment as noted above), as our common stock traded above the \$3.83 conversion per share price on the American Stock Exchange for ten consecutive days.

## Anti-Takeover Effects of Certain Provisions of our Certificate of Incorporation, our By-Laws and Delaware Law

### Delaware Statute.

We are subject to Section 203 of the Delaware General Corporation law, which prohibits a publicly held Delaware corporation from engaging in a “business combination” with an “interested stockholder” for a period of three years after the date of the transaction in which the person became an interested stockholder, unless:

- prior to such date, our board of directors approves either the business combination or the transaction that resulted in the stockholder’s becoming an interested stockholder;
- upon consummation of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owns at least 85% of our outstanding voting stock, excluding shares held by directors, officers and certain employee stock plans; or
- on or after the consummation date, the business combination is approved by our board of directors and by the affirmative vote at an annual or special meeting of stockholders holding of at least two-thirds of our outstanding voting stock that is not owned by the interested stockholder.

For purposes of Section 203, a “business combination” includes, among other things, a merger, asset sale or other transaction resulting in a financial benefit to the interested stockholder, and an “interested stockholder” is generally a person who, together with affiliates and associates of such person:

- owns 15% or more of outstanding voting stock; or
- is an affiliate or associate of ours and was the owner of 15% or more of our outstanding voting stock at any time within the prior three years.

### Certificate of Incorporation and Bylaw Provisions.

Our amended and restated certificate of incorporation and amended and restated bylaws include provisions that, among others, could have the effect of delaying, deferring, or discouraging potential acquisition proposals and could delay or prevent a change of control of us. The provisions in our certificate of incorporation and bylaws that may have such effect include:

- *Preferred Stock.* As noted above, our board of directors, without stockholder approval, has the authority under our certificate of incorporation to issue preferred stock with rights superior to the rights of the holders of common stock. As a result, we could issue preferred stock quickly and easily, which could adversely affect the rights of holders of our common stock and could be issued with terms calculated to delay or prevent a change of control or make removal of management more difficult.
- *Election and Removal of Directors.* Directors may be removed by the affirmative vote of the holders of at least a majority of the voting power of all of the outstanding shares of capital stock of the corporation entitled to vote thereon, voting together as a single class.
- *Stockholder Meetings.* Under our certificate of incorporation and bylaws, special meetings of our stockholders may be called only by the vote of a majority of the entire board. Our stockholders may not call a special meeting of the stockholders.
- *Requirements for Advance Notification of Stockholder Nominations and Proposals.* Our bylaws establish advance notice procedures with respect to stockholder proposals and the nomination of candidates for election as directors, other than nominations made by or at the direction of our board of directors or a committee thereof.

**Note 10 Acquisition**

On April 13, 2007, pursuant to a definitive Share Purchase Agreement (the "Purchase Agreement") with OTI and its shareholders, we invested \$5.0 million in Ophthalmic Technologies, Inc., or OTI, an Ontario corporation. In exchange for the \$5.0 million investment, OTI issued common shares of OTI to us to cause us to hold one-third of OTI's share capital on a fully diluted basis and we received an exclusive option to purchase the remaining shares of OTI in exchange for the issuance of between 3.13 million and 2.82 million shares of our common stock, depending upon the average per share closing price of our common stock for the ten (10) trading dates ended on the second business day prior to the exercise of the option. The \$5.0 million will be used by OTI for working capital.

The aforesaid option shall extend for the greater of a period of (i) six (6) months from the date of the agreement and (ii) three (3) months from completion of OTI's fiscal years ended April 30, 2006 and April 30, 2007 financial statement audits.

We have accounted for the investment in OTI under Accounting Principles Board Opinion 18, under the equity method of accounting. The initial \$5 million investment was allocated between the investment in OTI and the option to purchase OTI. The option was valued based on the estimated exercise price of the option and the estimated market value of the outstanding shares of OTI. The investment was accounted for as the gross investment less the loss incurred by OTI during the period in which we held the interest in them. The table below reconciles the investment in OTI:

<u>(in thousands)</u>	<u>Initial investment</u>	<u>Increase (decrease) during the investment period</u>	<u>Balance at June 30, 2007</u>
Option to purchase remaining shares of OTI	\$ 618	\$ —	\$ 618
Investment in OTI	4,382	(35)	4,347
Total	\$ 5,000	\$ (35)	\$ 4,965

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### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

#### OVERVIEW

*You should read this discussion together with the Financial Statements, related Notes and other financial information included elsewhere in our Current Report on Form 8-K dated March 27, 2007 (the "Form 8-K"). The following discussion contains assumptions, estimates and other forward-looking statements that involve a number of risks and uncertainties, including those discussed under "Risk Factors," in the Form 8-K. These risks could cause our actual results to differ materially from those anticipated in these forward-looking statements.*

We are a development stage company that has generated significant losses since our inception in June 2006. We expect to incur substantial losses as we plan to continue the development of our product candidates, particularly bevasiranib, continue our other research and development activities and establish a sales and marketing infrastructure in anticipation of the commercialization of our product candidates. We currently have limited commercialization capabilities, however we plan to build our commercialization infrastructure as we prepare to launch our development products, and it is possible that we may never successfully commercialize any of our product candidates. To date, we have devoted substantially all of our efforts towards research and development of our product candidates. As of June 30, 2007, we had an accumulated deficit of \$261.9 million. Since we do not generate revenue from any of our product candidates, we expect to continue to generate losses in connection with the continued clinical development of bevasiranib and the research and development activities relating to our technology and other drug candidates. Such research and development activities are budgeted to expand over time and will require further resources if we are to be successful. As a result, we believe that our operating losses are likely to be substantial over the next several years. We will need to obtain additional funds to further develop our research and development programs.

On June 8, 2007, we changed our name to OPKO Health, Inc., or OPKO, from *eXegenics, Inc.*, or *eXegenics*. On March 27, 2007, we were part of a three-way merger between Fropix Corporation, or Fropix, a research and development company, *eXegenics*, a shell public company, and Acuity Pharmaceuticals, Inc., or Acuity, a research and development company. This transaction was accounted for as a reverse merger between Fropix and *eXegenics*, with the combined company then acquiring Acuity. *eXegenics, Inc.*, formerly known as Cytoclonal Pharmaceuticals Inc., was previously involved in the research, creation, and development of drugs for the treatment and/or prevention of cancer and infectious diseases. Previously, *eXegenics* operated as a drug discovery company, exploiting new enabling technologies to advance and shorten the new drug development cycle. However, *eXegenics* had been a public shell company without any operations since 2003.

On April 13, 2007, we invested \$5.0 million in Ophthalmic Technologies, Inc., or OTI, an Ontario corporation pursuant to a definitive Share Purchase Agreement (the "Purchase Agreement") with OTI and its shareholders. In exchange for the \$5.0 million investment, OTI issued common shares of OTI to us to cause us to hold one-third OTI's share capital on a fully diluted basis and we received an exclusive option to purchase the remaining shares of OTI in exchange for the issuance of between 3.13 million and 2.82 million shares of our common stock, depending upon the average per share closing price of our common stock for the ten (10) trading dates ended on the second business day prior to the exercise of the option. The \$5.0 million will be used by OTI for working capital.

#### RESULTS OF OPERATIONS

##### FOR THE THREE MONTHS ENDED JUNE 30, 2007 AND 2006

The results of operations for the three months ended June 30, 2007 include the operating results for the full three month period. The results for the period ended June 30, 2006 only include Fropix's result from its inception on June 23, 2006 through June 30, 2006. As a result of the reverse merger, historical comparative results are those of Fropix only.

*Selling, General and Administrative Expense.* General and administrative expense for the three months ended June 30, 2007 was \$5.3 million compared to no expenses for the comparable period of 2006. General and administrative expense primarily included personnel costs, including stock-based compensation and professional fees. During 2007,

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we anticipate general and administrative expense to increase to reflect the costs of being an operating public company. We incurred costs related to building a commercial infrastructure during the three months ended June 30, 2007 in preparation of the acquisition of OTI. We were formed on June 23, 2006 and as a result, did not incur significant expenses during the comparable period of 2006.

*Research and Development Expense.* Research and development expense for the three months ended June 30, 2007 was \$5.4 million compared to no expense for the comparable period of 2006. Research and development expense primarily related to personnel costs, including stock-based compensation as well as costs related to the initiation in July 2007 of the Phase III clinical trial for bevasiranib. For the comparable period of 2006, we incurred \$250,000 of expenses relating to the execution of a research agreement.

*Other Income and Expenses.* Other expense was \$0.2 million, net of \$0.1 million of interest income. Other income primarily consists of interest earned on our cash and cash equivalents and interest expense reflects the interest incurred on the debt we assumed from Acuity as part of the merger.

### FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND FROM JUNE 23, 2006 (INCEPTION) THROUGH JUNE 30, 2006

The results of operations for the first six months of 2007 include Froptix' operating results for the full six month period, and Acuity's operating results subsequent to March 27, 2007. As a result of the reverse merger, historical comparative results are those of Froptix only. Froptix was incorporated on June 23, 2006 and as a result, did not have significant operations for most of the first six months of 2006.

*Selling, General and Administrative Expense.* General and administrative expense for the first six months of 2007 was \$5.4 million. General and administrative expense primarily included personnel costs, including stock-based compensation and professional fees. During 2007, we anticipate general and administrative expense to increase to reflect the costs of being an operating public company. We incurred costs related to building a commercial infrastructure during the three months ended June 30, 2007 in preparation of the acquisition of OTI.

*Research and Development Expense.* Research and development expense for the first six months of 2007 was \$11.5 million. Research and development expense primarily related to personnel costs, including stock-based compensation as well as costs related to the initiation of the Phase III clinical trial for bevasiranib.

Research and development expense during 2007 will primarily relate to our bevasiranib program including costs to prepare for our Phase III clinical study for bevasiranib. We initiated enrollment of our Phase III clinical trial for bevasiranib in July 2007. We expect the total cost of this trial to be approximately \$25 million, although this estimate could vary significantly as the Phase III clinical trial progresses.

*Write-off of Acquired In-Process Research and Development.* On March 27, 2007, we acquired Acuity in a stock for stock transaction. We valued our common stock issued to Acuity shareholders at the average closing price of the common stock on the date of the transaction and two days prior to the transaction. We recorded the assets and liabilities at fair value, and as a result, we recorded acquired in-process research and development expense and recorded a charge of \$243.8 million.

*Other Income and Expenses.* Other expense was \$0.2 million, net of \$0.1 million of interest income. Other income primarily consists of interest earned on our cash and cash equivalents and interest expense reflects the interest incurred during the period from March 27, 2007 through March 31, 2007 on the debt we assumed from Acuity as part of the Mergers.

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### LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2007, we had cash and cash equivalents of approximately \$6.2 million. Cash used in operations primarily related to payments of liabilities assumed and or incurred as part of the Mergers. Since our inception, we have not generated revenue and our primary source of cash has been from the private placement of stock and through credit facilities available to us.

On April 13, 2007, we invested \$5.0 million in Ophthalmic Technologies, Inc., or OTI, an Ontario corporation pursuant to a definitive Share Purchase Agreement (the "Purchase Agreement") with OTI and its shareholders. In exchange for the \$5.0 million investment, OTI issued common shares of OTI to us to cause us to hold one-third of the equity in OTI on a fully diluted basis. The \$5.0 million will be used by OTI for working capital. In addition to the one-third interest, we also received an exclusive right to purchase the remaining outstanding shares of OTI for \$10 million, payable by issuance of our common stock subject to a collar limiting the number of shares to be issued to be between 2.8 and 3.1 million shares of our common stock.

We assumed the rights and obligations of Acuity's \$4.0 million term loan with Horizon Financial, Inc., in connection with the Mergers. The term loan bears interest at 12.23%, which is payable monthly commencing September 15, 2005. The principal is payable in 12 equal monthly installments commencing August 2007. Principal on the term loan matures as follows: \$1.7 million during 2007 and \$2.3 million during 2008. The term loan is collateralized by all personal property of the Acuity, except intellectual property, and contains certain negative covenants that limit the payment of cash dividends, redemption of equity securities, change in ownership, and the creation or extinguishment of debt. In connection with the issuance of the term note, Acuity issued warrants to purchase 200,000 shares of Series B at \$2.00 per share which converted to 1,037,900 shares and 235,932 shares, respectively; of our common stock upon consummation of the Mergers in addition to warrants to purchase 25,000 shares of common stock at \$0.01 per share, which converted to 129,736 warrants to purchase our common stock upon consummation of the Mergers.

In connection with the consummation of the Mergers, we assumed the rights and obligations of Acuity under the line of credit Acuity had with the Frost Group. We also amended and restated the Frost Group line of credit to provide additional available borrowing capacity. Under this amended and restated line of credit, we gained access to \$8.0 million in available borrowings and we assumed Acuity's existing obligation to repay \$4.0 million outstanding under the line of credit. We are obligated to pay interest upon maturity, capitalized quarterly on outstanding borrowings under the line of credit at a 10% annual rate. In connection with the assumption and amendment of the line of credit, we granted warrants to purchase 4,000,000 shares of our common stock to the Frost Group. The fair value of the warrants was determined to be \$12.4 million using the Black-Scholes option valuation model. Because the issuance of the warrants and the increase in the line of credit were conditioned upon the completion of the Mergers, the value of the warrants has been allocated on a relative fair value basis to the cost of the Acuity acquisition (\$1.3 million), the cost of the reverse merger between Froptix and OPKO (\$11.0 million) and debt commitment fee (\$0.1 million).

We expect to incur losses from operations for the foreseeable future. We expect to incur increasing research and development expenses, including expenses related to the hiring of personnel and additional clinical trials. We expect that general and administrative expenses will also increase as we expand our finance and administrative staff, add infrastructure, and incur additional costs related to being a public company, including the costs of directors' and officers' insurance, investor relations programs, and increased professional fees.

We believe cash and cash equivalents on hand and our available credit line at June 30, 2007 will be sufficient to meet our anticipated cash requirements for operations and debt service for at least the next 12 months.

We will need to finance our future cash needs through public or private equity offerings, debt financings, or corporate collaboration and licensing arrangements. We currently do not have any commitments for future external funding.



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### CRITICAL ACCOUNTING POLICIES

We believe the following critical accounting policies affect management's more significant judgments and estimates used in the preparation of our financial statements.

*Impairment of Long-Lived Assets.* In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets*, long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, then an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. As of June 30, 2007, management believes that no revision of the remaining useful lives or write-down of long-lived assets is required.

*Stock-Based Compensation.* As of June 23, 2006 (the date of inception) we, adopted SFAS No. 123(R), *Share-Based Payments* SFAS No. 123(R) replaces SFAS No. 123, *Accounting for Stock-Based Compensation*, and supersedes APB No. 25. SFAS No. 123(R) requires that all stock-based compensation be recognized as an expense in the financial statements and that such cost be measured at the fair value of the award. We adopted the modified prospective transition method provided for under SFAS No. 123(R). Under this transition method, compensation cost recognized in 2006 associated with stock options includes (i) amortization related to all stock option awards granted/modified on or subsequent to January 1, 2006, based on the estimated grant date fair value using the Black-Scholes option-pricing model, and (ii) amortization of the intrinsic value recorded as deferred compensation for options granted prior to January 1, 2006 being accounted for under APB Opinion No. 25. Option awards granted prior to adoption of SFAS No. 123(R) continue to follow the provisions of APB Opinion No. 25 and FIN 44 until modified and or settled.

Prior to the adoption of SFAS No. 123(R), we presented all tax benefits resulting from the exercise of stock options as operating cash flows in the statements of cash flows. SFAS No. 123(R) requires that cash flows resulting from tax deductions in excess of the cumulative compensation cost recognized for options exercised (excess tax benefits) be classified as financing cash flows. We have sufficient net operating loss carryforwards to generally eliminate cash payments for income taxes. Therefore, no cash has been retained as a result of excess tax benefits relating to share based payments made to directors and employees.

### NEW ACCOUNTING PRONOUNCEMENTS

In July 2006, the Financial Accounting Standards Board, or FASB, issued Interpretation Number, or FIN, No. 48, *Accounting for Uncertainty in Income Taxes*, or FIN 48. FIN 48 applies to all tax positions within the scope of SFAS No. 109, applies a "more likely than not" threshold for tax benefit recognition, identifies a defined methodology for measuring benefits and increases the disclosure requirements for companies. FIN 48 is mandatory for years beginning after December 15, 2006; accordingly, we have adopted FIN 48 effective January 1, 2007. Refer to Note 6.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, or SFAS No. 157. SFAS No. 157 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and expands disclosures about fair value measurements. This Statement applies to other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning after December 15, 2007. We plan to adopt SFAS No. 157 beginning in the first quarter of our 2008 fiscal year. We are currently evaluating the impact the adoption of SFAS No. 157 may have on our financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, or SFAS No. 159, which gives companies the option to measure eligible financial assets, financial liabilities and firm commitments at fair value (i.e., the fair value option), on an instrument-by-instrument basis, that

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are otherwise not permitted to be accounted for at fair value under other accounting standards. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability or upon entering into a firm commitment. Subsequent changes in fair value must be recorded in earnings. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We are in the process of evaluating the impacts, if any, of adopting this pronouncement.

In June 2007, the Emerging Issues Task Force, or EITF, issued EITF 07-3 *Accounting for Advance Payments for Goods or Services to be Received for Use in Future Research and Development Activities*. This EITF establishes that prepayments made related to research and development goods and services should be capitalized and recognized as expense when the goods are received or the services have been preformed. The prepaid assets must be assessed for recoverability to ensure the prepaid goods or services will continue to be used. EITF 07-3 is effective for new contracts entered into in fiscal years beginning after December 15, 2007, including interim periods within those fiscal years. We are in the process of evaluating the impact, if any, of adopting this pronouncement.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

In the normal course of doing business we are exposed to the risks associated with foreign currency exchange rates and changes in interest rates. We do not engage in trading market risk sensitive instruments or purchasing hedging instruments or “other than trading” instruments that are likely to expose us to significant market risk, whether interest rate, foreign currency exchange, commodity price or equity price risk.

Our exposure to market risk relates to our cash and investments and to our borrowings. We maintain an investment portfolio of money market funds and qualified purchaser funds. The securities in our investment portfolio are not leveraged, and are, due to their very short-term nature, subject to minimal interest rate risk. We currently do not hedge interest rate exposure. Because of the short-term maturities of our investments, we do not believe that a change in market interest rates would have a significant negative impact on the value of our investment portfolio.

The primary objective of our investment activities is to preserve principal while at the same time maximizing yields without significantly increasing risk. To achieve this objective, we invest our excess cash in debt instruments of the U.S. Government and its agencies, bank obligations, repurchase agreements and high-quality corporate issuers, and, by policy, restrict our exposure to any single corporate issuer by imposing concentration limits. To minimize the exposure due to adverse shifts in interest rates, we maintain investments at an average maturity of generally less than one month.

### Item 4. Controls and Procedures

An evaluation was carried out under the supervision and with the participation of the Company’s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company’s “Disclosure Controls and Procedures” as of June 30, 2007. They have concluded as of June 30, 2007, that our Disclosure Controls and Procedures were effective at providing reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 are recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms. Disclosure Controls and Procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company’s management, as appropriate to allow timely decisions regarding required disclosure.

During the quarter ended June 30, 2007, we began performing the finance functions of our wholly-owned subsidiaries, Froptix Corporation and Acuity Pharmaceuticals, Inc., in-house. These functions were previously outsourced. Based on the evaluation of the Company’s disclosure controls and procedures as of June 30, 2007, we are not aware of any material adverse impacts on our internal control over financial reporting as a result of this change.

No other significant changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the quarter ended June 30, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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### PART II. OTHER INFORMATION

#### Item 1. Legal Proceedings

We are a party to litigation in the ordinary course of business. We do not believe that any such litigation will have a material adverse effect on our business, financial condition or results of operations.

#### Item 1A. Risk Factors

There are no material changes from the risk factors previously disclosed in the Company's Form 8-K form as of March 27, 2007 in response to Item 1A. to Part 1 of Form 10-K.

#### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On June 22, 2007, we issued 45,758,900 shares of our common stock in exchange for 457,589 shares of our Series C preferred stock which automatically converted on a one-hundred-for-one basis (subject to certain adjustments), as our common stock traded above the \$3.83 per share conversion price on the American Stock Exchange for ten consecutive trading days. The sale of such shares was deemed to be exempt from registration under Section 3(a)(9) of the 1933 Act. The purchasers of such common stock acquired these securities for their own accounts.

#### Item 3. Defaults Upon Senior Securities

None.

#### Item 4. Submission of Matters to a Vote of Security Holders

On May 16, 2007, we filed with the SEC a definitive Information Statement on Schedule 14C, whereby the Company acted by written consent of a majority of its shareholders, in approving (i) the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for 2007, (ii) our 2007 Equity Incentive Plan, (iii) the change of our name to OPKO Health, Inc. and (iv) the Amendment and Restatement of our Certificate of Incorporation to increase the authorized number of common shares from 225,000,000 to 500,000,000 and to effect the change of our name to OPKO Health, Inc. The Information Statement indicated that these actions shall not become effective until at least twenty (20) days after the Information Statement was sent to shareholders. The actions contemplated by the Information Statement were effected on or about the close of business on June 5, 2007.

#### Item 5. Other Information

None.

#### Item 6. Exhibits.

- |               |   |
|---------------|---|
| Exhibit 10.1* | Merger Agreement and Plan of Reorganization, dated March 27, 2007, by and among <i>eXeGenics</i> Inc. a Delaware corporation (" <i>eXeGenics</i> "), Acuity Pharmaceuticals, Inc., a Delaware corporation, Froptix Corporation, a Florida corporation e-Acquisition Company I-A, LLC, a Delaware limited liability company, which is a wholly owned subsidiary of <i>eXeGenics</i> and e-Acquisition Company II-B, LLC, a Delaware limited liability company which is a wholly owned subsidiary of <i>eXeGenics</i> . |
| Exhibit 10.2* | Credit Agreement, dated as of March 27, 2007, by and among <i>eXeGenics</i> Inc., The Frost Group, LLC, and Acuity Pharmaceuticals, LLC.  |
| Exhibit 10.3* | Amended and Restated Venture Loan and Security Agreement, dated as March 27, 2007, by and among Horizon Technology Funding Company LLC, Acuity Pharmaceuticals, LLC and <i>eXeGenics</i> , Inc.   |

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Exhibit 10.4*	Amended and Restated Subordination Agreement, dated as of March 27, 2007, by and among The Frost Group, LLC, Horizon Technology Funding Company LLC, Acuity Pharmaceuticals, LLC, and <i>eXe</i> genics Inc.
Exhibit 31.1	Certification by Phillip Frost, Chief Executive Officer, pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities and Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for the quarterly period ended June 30, 2007.
Exhibit 31.2	Certification by Rao Uppaluri, Chief Financial Officer, pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities and Exchange Act of 1934 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for the quarterly period ended June 30, 2007.
Exhibit 32.1	Certification by Phillip Frost, Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for the quarterly period ended June 30, 2007.
Exhibit 32.2	Certification by Rao Uppaluri, Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for the quarterly period ended June 30, 2007.
Exhibit 99.1	Financials of Ophthalmic Technologies, Inc.

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(\*) Incorporated by reference to Current Report on Form 8-K filed on April 2, 2007.

### **SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has caused this Report on Form 10-Q to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 13, 2007

**OPKO Health, Inc.**

/s/ Rao Uppaluri  
Rao Uppaluri  
Senior Vice President and Chief Financial Officer

**OPKO Health, Inc.**

**CERTIFICATION PURSUANT TO  
RULE 13A-14 OF THE SECURITIES EXCHANGE ACT OF 1934  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Phillip Frost, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended June 30, 2007 of OPKO Health Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The Registrant's other certifying officer and I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 (e) and 15d-15(e)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 2007

/s/ Phillip Frost

Phillip Frost

Chairman of the Board, Chief Executive Officer

**OPKO Health, Inc.**  
**CERTIFICATION PURSUANT TO**  
**RULE 13A-14 OF THE SECURITIES EXCHANGE ACT OF 1934**  
**AS ADOPTED PURSUANT TO**  
**SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Rao Uppaluri, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended June 30, 2007 of OPKO Health Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The Registrant's other certifying officer and I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15 (e) and 15d-15(e)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 13, 2007

/s/ Rao Uppaluri  
\_\_\_\_\_  
Rao Uppaluri  
Chief Financial Officer

**Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  
(Subsections (a) and (b) of Section 1350, Chapter 73 of Title 18, United States Code)**

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant section 906 of the Sarbanes-Oxley Act of 2002, I, Phillip Frost, Chief Executive Officer of OPKO Health, Inc. (the "Company"), hereby certify that:

The Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2007 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 13, 2007

/s/ Phillip Frost

Phillip Frost

Chairman of the Board, Chief Executive Officer

A signed original of this written statement required by Section 907 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002  
(Subsections (a) and (b) of Section 1350, Chapter 73 of Title 18, United States Code)**

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant section 906 of the Sarbanes-Oxley Act of 2002, I, Rao Uppaluri, Chief Financial Officer of OPKO Health, Inc. (the "Company"), hereby certify that:

The Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2007 (the "Form 10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 13, 2007

/s/ Rao Uppaluri

Rao Uppaluri

Chief Financial Officer

A signed original of this written statement required by Section 907 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.



*Financial Statements of*

**OPHTHALMIC TECHNOLOGIES INC.**

*April 30, 2007 and 2006*

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### **Independent Auditors' Report**

To the Board of Directors and Shareholders of  
Ophthalmic Technologies Inc.

We have audited the balance sheets of Ophthalmic Technologies Inc. (the "Company") as at April 30, 2007 and 2006 and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 2007 and 2006 and the results of its operations and its cash flows for each of the years then ended in accordance with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP  
Chartered Accountants  
Licensed Public Accountants

Toronto, Ontario  
June 28, 2007

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**OPHTHALMIC TECHNOLOGIES INC.**  
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**OPHTHALMIC TECHNOLOGIES INC.**  
**Balance Sheets**  
**April 30, 2007 and 2006**  
**(Expressed in Canadian Dollars)**

	2007	2006
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash	\$ 556,466	\$ 217,044
Short term investments (Note 2(f))	4,773,430	—
Accounts receivable — net (Note 3)	1,575,711	2,167,998
Investment tax credits recoverable (Note 5)	595,026	1,502,297
Inventory (Note 4)	2,404,165	2,148,930
Prepays and sundry assets	139,869	47,413
	<u>10,044,667</u>	<u>6,083,682</u>
CAPITAL ASSETS (Note 6)	15,993	18,102
INTANGIBLE ASSETS (Note 7)	84,000	116,000
	<u>\$10,144,660</u>	<u>\$ 6,217,784</u>
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Bank loan (Note 8)	\$ 285,000	\$ 555,000
Accounts payable and accrued liabilities (Note 9)	2,877,773	3,642,177
Deposits from customers	992,384	8,463
Related party loans payable (Note 10)	1,264,853	1,192,437
	<u>5,420,010</u>	<u>5,398,077</u>
<b>SHAREHOLDERS' EQUITY</b>		
SHARE CAPITAL (Note 11)	7,427,893	1,837,893
ADDITIONAL PAID-IN CAPITAL (Note 12)	1,921,446	1,921,446
ACCUMULATED DEFICIT	(4,624,689)	(2,939,632)
	<u>4,724,650</u>	<u>819,707</u>
	<u>\$10,144,660</u>	<u>\$ 6,217,784</u>

**OPHTHALMIC TECHNOLOGIES INC.**  
**Statements of Operations and Deficit**  
**Years ended April 30, 2007 and 2006**  
**(Expressed in Canadian Dollars)**

	2007	2006
SALES (Note 14)	\$ 9,654,008	\$12,363,803
COST OF SALES (Note 14)	<u>8,206,378</u>	<u>9,062,451</u>
GROSS MARGIN	<u>1,447,630</u>	<u>3,301,352</u>
EXPENSES		
Amortization — capital and intangible assets	37,114	38,025
Bad debts	83,297	91,074
Consulting fees (Note 14)	100,000	100,000
Insurance	142,882	117,590
Interest and bank charges (Note 10)	148,322	115,666
Office and general	68,096	166,825
Professional fees	184,451	144,222
Rent	116,928	88,454
Research and experimental development	1,511,538	1,051,473
Salaries and benefits	608,301	917,064
Trade shows and promotion	299,327	443,966
Travel	458,665	401,503
	<u>3,758,921</u>	<u>3,675,862</u>
LOSS BEFORE THE UNDERNOTED	(2,311,291)	(374,510)
OTHER EXPENSE (INCOME)		
Gain on foreign exchange	(46,040)	(23,880)
Miscellaneous income	<u>(65,205)</u>	<u>(25,175)</u>
LOSS BEFORE INCOME TAXES	<u>(2,200,046)</u>	<u>(325,455)</u>
INCOME TAXES (Note 13)		
Current income taxes	—	318,240
Recovery due to research and experimental development tax credits (Note 5)	(514,989)	(492,733)
Recovery due to application of prior years' losses	—	(292,000)
	<u>(514,989)</u>	<u>(466,493)</u>
NET (LOSS) INCOME	(1,685,057)	141,038
ACCUMULATED DEFICIT, BEGINNING OF YEAR	<u>(2,939,632)</u>	<u>(3,080,670)</u>
ACCUMULATED DEFICIT, END OF YEAR	<u>\$ (4,624,689)</u>	<u>\$ (2,939,632)</u>

**OPHTHALMIC TECHNOLOGIES INC.**  
**Statements of Cash Flows**  
**Years ended April 30, 2007 and 2006**  
**(Expressed in Canadian Dollars)**

	2007	2006
<b>NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES</b>		
<b>OPERATING</b>		
Net (loss) income	\$(1,685,057)	\$ 141,038
Items not affecting cash		
Amortization of capital and intangible assets	37,114	38,025
Capital assets written off	—	53,257
Stock based compensation	—	480,804
	<u>(1,647,943)</u>	<u>713,124</u>
Changes in non-cash operating working capital items		
Accounts receivable	592,287	(1,073,769)
Investment tax credits recoverable	907,271	(466,493)
Inventory	(255,235)	(1,485,794)
Prepays and sundry assets	(92,456)	10,772
Accounts payable and accrued liabilities	(764,404)	2,135,428
Deposits from customers	983,921	(1,329,534)
	<u>(276,559)</u>	<u>(1,496,266)</u>
<b>INVESTING</b>		
(Purchase) redemption of short term investments	(4,773,430)	1,259,935
Purchase of capital assets	(3,005)	(273)
Patents	—	(100,000)
	<u>(4,776,435)</u>	<u>1,159,662</u>
<b>FINANCING</b>		
Bank loan	(270,000)	285,000
Proceeds from issuance of Common shares	5,590,000	—
Related party loans payable	72,416	54,642
	<u>5,392,416</u>	<u>339,642</u>
<b>NET CASH INFLOW</b>	339,422	3,038
<b>CASH POSITION, BEGINNING OF YEAR</b>	<u>217,044</u>	<u>214,006</u>
<b>CASH POSITION, END OF YEAR</b>	<u>\$ 556,466</u>	<u>\$ 217,044</u>
<b>CASH FLOW SUPPLEMENTARY INFORMATION</b>		
Interest paid	\$ 29,104	\$ 25,851
Investment tax credits received	\$ 1,428,052	\$ 10,954

**1. NATURE OF BUSINESS**

Ophthalmic Technologies Inc. (the "Company") is incorporated under the laws of the Province of Ontario. The principal business activities of the Company are to provide technologically advanced, easy-to-use equipment for ophthalmology, including innovative systems with advance imaging capabilities.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). The following is a summary of the significant accounting policies used in the preparation of these financial statements.

*(a) Use of estimates*

The preparation of financial statements in conformity with accounting principals generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses and other disclosures during the reporting period. Actual results could differ from these estimates.

Estimates are included in the following: allowance for doubtful accounts, provision for inventory obsolescence, intangible assets, long lived assets, stock-based compensation, income tax valuation allowances and warranty provisions.

*(b) Revenue recognition*

Revenue from the sale of products is recognized when a sale has been executed, the product has been shipped, the sales price is fixed and determinable and collection of the resulting receivable is probable.

*(c) Stock-based compensation*

The Company follows SFAS 123(R) "Share-Based Payment". SFAS 123(R) establishes standards for the recognition, measurement and disclosure of stock-based compensation made in exchange for goods and services, and applies to transactions, including non-reciprocal transactions, in which an enterprise grants shares of common stock or other equity instruments, or incurs liabilities based on the price of common stock or other equity instruments. The Company records compensation expense over the vesting period for stock option grants based on the fair value method of accounting. The fair value at grant date of stock options is determined using a Black-Scholes option pricing model. Any consideration received by the Company on exercise of stock options is credited to share capital.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*(d) Foreign exchange*

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the balance sheet date for monetary items and at approximate exchange rates prevailing at the transaction date for non-monetary items. Income and expenses are translated at average exchange rates prevailing during the year at the time of the related transactions. Exchange gains or losses arising on the translation are included in operations.

*(e) Cash and cash equivalents*

The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents. As of April 30, 2007, cash consists of bank deposit accounts.

*(f) Inventory*

Inventory is valued at the lower of cost or market value with cost being determined using the FIFO (first in first out) cost method.

*(g) Capital assets*

Capital assets are recorded at cost less accumulated amortization. Rates and basis of amortization applied by the Company to amortize the costs of capital assets over their estimated useful lives are as follows:

Furniture and fixtures	30% declining-balance
Computer equipment	30% declining-balance
Leasehold improvements	Term of lease or shorter of useful life

*(h) Long-lived assets*

Management routinely reviews capital assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For long-lived assets held and used, the Company recognizes an impairment loss only if the carrying amount of the asset is not recoverable from its undiscounted cash flows and measures an impairment loss as the difference between the carrying amount and the fair value of the asset. Long-lived assets considered held for sale are reported at lower of carrying amount or fair value (discounted cash flows) less cost to sell and are not depreciated.



**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*(i) Intangible assets*

The Company accounts for intangible assets in accordance with the Statement of Financial Accounting Standards ("SFAS") 142, "Goodwill and Other Intangible Assets", which it adopted effective May 1, 2002.

Intangible assets, consisting of patents are recorded at cost, which are amortized on a straight-line basis over their estimated useful lives. The Company reviews the carrying values of these assets annually for evidence of impairment.

*(j) Research and development costs*

The Company expenses research and development costs when they are incurred.

*(k) Investment tax credits*

Investment tax credits arising from qualifying scientific research and experimental development efforts are recorded as reductions of income tax expense when there is reasonable assurance the credits will be realized.

*(l) Income taxes*

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

The most significant component of the Company's net deferred tax assets as of April 30, 2007 is its net operating loss carryforwards. A full valuation allowance was established for the deferred tax assets, as management of the Company does not believe realization of the tax benefits is more likely than not.

*(m) Comprehensive loss*

Comprehensive income (loss) includes net income (loss) and other comprehensive income (loss). Other comprehensive loss refers to changes in net assets from transactions which are not included in net income (loss). These changes are recorded as a separate component of shareholder's equity.

The Company's comprehensive loss has no components other than its net loss.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*(n) Financial instruments*

Concentration of credit risk

Accounts receivable are due from commercial entities to whom credit is granted based on an evaluation of the customers' financial condition.

Financial risk

Financial risk is the risk that the value of the Company's financial instruments will vary due to fluctuations in interest rates and foreign currency exchange rates, and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to interest rate and foreign currency exchange risks.

Fair values

The fair values of the Company's cash and cash equivalents, short term investments, accounts receivable, investment tax credits recoverable, bank loan, accounts payable and accrued liabilities and loans payable approximate their carrying values due to the immediate or short-term maturity of these financial instruments.

*(o) Recent accounting pronouncements*

- (i) In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments — an amendment to FASB Statements No. 133 and 140 ("SFAS 155"). SFAS 155 simplifies the accounting for certain hybrid financial instruments that contains an embedded derivative that otherwise would require bifurcation under SFAS 133. In addition, it amends SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("SFAS 140"), to eliminate certain restrictions on passive derivative financial instruments that a qualifying special-purpose entity can hold. SFAS 155 is effective for all financial instruments acquired, issued or subject to a re-measurement event occurring after the beginning of an entity's first fiscal year that begins after September 15, 2006. The implementation of SFAS 155 is not expected to have a material impact on the company's results of operations and financial position.
- (ii) In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets — an amendment of FASB Statement No. 140". SFAS 156 simplifies the accounting for assets and liabilities arising from loan servicing contracts. SFAS 156 requires that servicing rights be valued initially at fair value and subsequently either (i) accounted for at fair value or (ii) amortized over the period of estimated net servicing income (loss), with an assessment for impairment or increased obligation each reporting period. SFAS 156 is effective for fiscal years beginning after September 15, 2006. The implementation of SFAS 156 is not expected to have a material impact on the Company's results of operations and financial position.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*(o) Recent accounting pronouncements (continued)*

- (iii) In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — An Interpretation of FASB Statement No. 149" ("FIN 48"), which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken, in a tax return. FIN 48 is effective for fiscal years beginning on or after December 15, 2006. The implementation of is not expected to have a material impact on the Company's results of operations and financial position.
- (iv) In May 2005, the FASB issued SFAS No. 154, which replaces APB Opinion No. 20, "Accounting Changes", and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements — An Amendment of APB Opinion No. 28". SFAS No. 154 provides guidance on the accounting for and reporting of changes in accounting principles and error corrections. SFAS No. 154 requires retrospective application to prior period financial statements of voluntary changes in accounting principle and changes required by new accounting standards when the standard does not include specific transition provisions, unless it is impracticable to do so. SFAS No. 154 also requires certain disclosures for restatements due to corrections of an error. For the Company, SFAS No. 154 is effective for accounting changes and corrections of errors made in its fiscal year beginning on May 1, 2006. There was no impact on the adoption of SFAS No. 154 to the Company's financial statements.
- (v) In September 2006, the United States Securities Exchange Commission issued Staff Accounting Bulletin No. 108, "Considering the effects of prior year misstatements when quantifying current year misstatements" ("SAB 108"). SAB 108 requires analysis of misstatements using both an income statement (rollover) approach and a balance sheet (iron curtain) approach in assessing materiality and provides for a one-time cumulative effect transition adjustment. The provisions of SAB 108 will be effective for the Company as of May 1, 2007. The Company is currently evaluating the impact of adopting SAB 108.
- (vi) In June 2006, the EITF reached a consensus on EITF Issue No. 06-2 "Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43, Accounting for Compensated Absences" ("EITF 06-2"). EITF 06-2 provides clarification surrounding the accounting for benefits in the form of compensated absences, whereby an employee is entitled to paid time off after working for a specified period of time. EITF 06-2 is effective for fiscal years beginning after December 15, 2006. The Company will adopt the provisions of EITF 06-2 on May 1, 2007. The Company does not expect the adoption of EITF 06-2 to have a material impact on its results of operations and financial position.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*(o) Recent accounting pronouncements (continued)*

- (vii) In June 2006, the EITF reached a consensus on EITF Issue No. 06-3 “How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (that is, gross versus net presentation)” (“EITF 06-3”). EITF 06-3 provides guidance on how taxes directly imposed on revenue producing transactions between a seller and customer that are remitted to government authorities should be presented in the income statement (i.e. gross revenue versus net presentation). EITF 06-3 is effective for interim and annual reporting periods beginning after December 15, 2006. The Company does not expect the adoption of SFAS 156 to have a material impact on its results of operations and financial position.
- (viii) In September 2006, the FASB issued SFAS No. 157 “Fair Measurements” (SFAS 157), which provides accounting guidance on the definition of fair value and establishes a framework for measuring fair value in U.S. GAAP and requires expanded disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently assessing the impact of the adoption of SFAS 157 on its results of operations and financial position.
- (ix) In September 2006, the EITF reached a consensus on EITF Issue No. 06-1 “Accounting for Consideration Given by a Service Provider to Manufacturers or Resellers of Equipment Necessary for an End-Customer to Receive Service from the Service Provider (“EITF 06-1”). EITF 06-1 provides accounting guidance on the consideration given by a service provider to a manufacturer or reseller of specialized equipment for the reduction of the price of such equipment to an end-customer which is necessary for an end-customer to receive service from the service provider. EITF 06-1 is effective for fiscal years beginning after June 15, 2007. The Company does not expect the adoption of EITF 06-1 to have a material impact on its results of operations and financial position.
- (x) In February of 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No. 115, (“SFAS NO. 159”), which permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of SFAS 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company has not completed its evaluation of the effects of SFAS 159.

**OPHTHALMIC TECHNOLOGIES INC.**  
**Notes to the Financial Statements**  
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**3. ACCOUNTS RECEIVABLE**

Accounts receivable are comprised of the following:

	<u>2007</u>	<u>2006</u>
Trade accounts receivable	\$1,673,760	\$2,321,530
Other accounts receivable	86,596	46,789
Allowance for doubtful accounts	(184,645)	(200,321)
<b>Total</b>	<b><u>\$1,575,711</u></b>	<b><u>\$2,167,998</u></b>

**4. INVENTORY**

The components of inventory, stated at the lower of cost or market with cost determined on the specific identified cost method, are as follows:

	<u>2007</u>	<u>2006</u>
Raw materials	\$1,867,476	\$1,551,726
Finished goods	536,689	597,204
<b>Total</b>	<b><u>\$2,404,165</u></b>	<b><u>\$2,148,930</u></b>

**5. INVESTMENT TAX CREDITS RECOVERABLE**

The Company has made claims for investment tax credits on scientific research and development expenditures incurred in Canada during the year and in previous years. Management is of the opinion that there is reasonable assurance that the credits will be realized. The determination of reasonable assurance of realization is subject to management estimates based on an ongoing evaluation of existing conditions. These claims are subject to audit by the income tax authorities and any adjustments that result could reduce or increase the tax credits recorded.

**6. CAPITAL ASSETS**

	<u>2007</u>		<u>2006</u>	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Computer equipment	\$ 50,607	43,563	\$ 7,044	\$ 6,013
Furniture and fixtures	37,294	35,624	1,670	2,386
Leasehold improvements	12,131	4,852	7,279	9,703
	<b><u>\$100,032</u></b>	<b><u>\$ 84,039</u></b>	<b><u>\$ 15,993</u></b>	<b><u>\$ 18,102</u></b>

Amortization during the year ended April 30, 2007 was \$5,114 (2006 — \$6,025).

**OPHTHALMIC TECHNOLOGIES INC.**  
**Notes to the Financial Statements**  
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**7. INTANGIBLE ASSETS**

	<u>2007</u>	<u>2006</u>
Patents — at cost	\$160,000	\$160,000
Accumulated amortization	(76,000)	(44,000)
Net book value	<u>\$ 84,000</u>	<u>\$116,000</u>

Amortization of intangibles assets during the years ended April 30, 2007 and April 30, 2006 was \$32,000 and \$32,000, respectively. Amortization for intangible assets for the next three fiscal years is as follows:

2008	\$32,000
2009	32,000
2010	<u>20,000</u>
	<u>\$84,000</u>

**8. BANK LOAN**

The bank loan is due on demand, bears interest at the bank's prime rate plus 1/4% per annum and is fully secured by a corporate guarantee by a shareholder of the Company, Grall Corporation Limited.

**9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<u>2007</u>	<u>2006</u>
Accounts payable Trade	\$2,062,939	\$2,968,786
Other	25,735	51,160
Accruals Trade payables	789,099	622,231
	<u>\$2,877,773</u>	<u>\$3,642,177</u>

**OPHTHALMIC TECHNOLOGIES INC.**  
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**10. RELATED PARTY LOANS PAYABLE**

	<u>2007</u>	<u>2006</u>
1161983 Ontario Limited, demand loan, interest- bearing at chartered bank's prime rate, with no specific repayment terms and secured by a general security agreement on all the assets of the Company	\$1,170,688	\$1,103,661
L & R Medical Inc., demand loan, interest-bearing at Canadian prime rate, unsecured, with no specified repayment terms	<u>94,165</u>	<u>88,776</u>
	<u>\$1,264,853</u>	<u>\$1,192,437</u>

Included in interest and bank charges is \$72,417 (2006 — \$54,643) relating to the above loans.

1161983 Ontario Limited is a shareholder of the Company. L & R Medical Inc. and the Company have a common shareholder.

**11. SHAREHOLDERS' EQUITY**

The Company's authorized share capital consists of the following:

Authorized Unlimited number of common shares

The following is a summary of the stated and issued share capital of the Company:

	<u>Number of shares</u>	<u>Book Value</u>
Balance, April 30, 2005 and 2006	132.48	\$1,837,893
Shares issued on private placement (a)	<u>67.94</u>	<u>5,590,000</u>
Balance, April 30, 2007	<u>200.42</u>	<u>\$7,427,893</u>

- (a) On April 15, 2007, the Company issued 67.94 common shares, representing 33.3% of the common shares on a fully diluted basis, for cash consideration of \$5,590,000 (US\$5,000,000) to a public company. The purchaser has an option to acquire the remaining 66.7% of the common shares from the other shareholders through a share exchange for a consideration of US\$10,000,000 of the purchaser's common shares. The option expires in October 2007.

**12. SHARE BASED COMPENSATION**

During the year-ended April 30, 2006, the Company granted an option to an employee as follows:

Number of options	option to purchase 3.4 shares
Exercise price	\$110,294.12 per share
Vesting	immediate
Life of option	10 years if employee remains employed by the Company

The fair value of this option grant was estimated on the date of grant using the Black-Scholes option pricing model, with the following assumptions:

Dividend yield	0%
Expected volatility	117%
Risk free rate of return	4%
Expected life	10 years

In fiscal year 2006 stock-based compensation expense was recognized in the amount of \$480,804 with a corresponding amount being recognized as additional paid in capital.

In addition, the option agreement contains a provision which allows the employee to immediately require the Company to repurchase the options from the employee if a Material Event, as defined in the Option agreement, occurs, at a price equal to the increase in value, if any, of the option over the original fair value. In addition, the Company is also obligated to pay an amount not exceeding \$500,000 to the employee in respect of this option if certain conditions are met. No amounts have been recorded with respect to these potential obligations as they have been determined by management to be not determinable as the requirement to pay these amounts depends on the achievement of future events.

The Black-Scholes option valuation model used by the Company to determine fair values was developed for use in estimating the fair value of freely traded options, which are fully transferable. The Company estimated expected volatility based upon historical industry data and expected life based on management's best estimate. The Company's stock options are not transferable, cannot be traded and are subject to investing restrictions, which would tend to reduce the fair value of the Company's stock options. Changes to subjective input assumptions used in the model can cause a significant variation in the estimate of the fair value of options.

SFAS 123R requires that cash flows resulting from tax deductions in excess of the cumulative compensation cost recognized for options exercised (excess tax benefits) be classified as financing cash flows. The Company has sufficient net operating losses to generally eliminate cash payments for income taxes to date.



**OPHTHALMIC TECHNOLOGIES INC.**  
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**13. INCOME TAXES**

The Company's basic tax rate approximated 19% on income eligible for the small business deduction and approximately 36% on the excess. However, because the statement of operations and retained earnings includes items which are non-deductible for income tax purposes, the provision for income taxes does not reflect the basic tax rate.

As at April 30, 2007 the Company has non-capital losses of approximately \$896,000, which can be applied against future taxable income. These carryforwards will expire at various times between 2008 and 2026.

In addition, the Company has available scientific research and experimental development expenditures of approximately \$3,500,000 (Federal) and \$5,500,000 (Ontario) which can be applied against future taxable income.

A reconciliation of expected income tax at the statutory federal rate with the actual income tax provision is as follows for the years ended April 30 (in thousands):

	<u>2007</u>	<u>2006</u>
Expected income tax benefit at statutory rate (36%)	\$ (609)	\$ 51
Effect of change in valuation allowance	630	(70)
Non-deductible expenses	1	175
Recovery due to ITC	(514)	(493)
Other	(23)	(129)
	<u>\$ (515)</u>	<u>\$ (466)</u>

Significant components of the net deferred tax asset (liability) at December 31 were as follows:

	<u>2007</u>	<u>2006</u>
<b>Noncurrent assets:</b>		
Loss carryforwards	\$ 298,943	\$ 11,001
Capital and intangible assets	29,326	5,473
SR&ED expenditures	<u>1,325,851</u>	<u>854,675</u>
Deferred tax asset	1,654,120	871,149
Less: Valuation allowance	<u>(1,654,120)</u>	<u>(871,149)</u>
	<u>\$ —</u>	<u>\$ —</u>

The Company has provided a full valuation allowance on the total amount of its deferred tax assets at April 30, 2007 and 2006 since management does not believe that it is more likely than not that these assets will be realized.

**OPHTHALMIC TECHNOLOGIES INC.**  
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**14. RELATED PARTY TRANSACTIONS**

The Company had certain transactions with various shareholders during the year.

The amounts included in the balance sheet of the Company from these related parties not disclosed elsewhere are as follows:

	<u>2007</u>	<u>2006</u>
Accounts receivable	\$ 69,348	\$48,102
Accounts payable and accrued liabilities	\$233,121	\$35,667
Deposits from customers	\$732,666	\$ —

The following transactions not disclosed elsewhere, which are recorded at the exchange amount, are reflected in the statement of operations and deficit of the Company:

	<u>2007</u>	<u>2006</u>
Sales	\$1,449,770	\$4,121,929
Purchases	\$ 234,780	\$ 545,344
Consulting fees	\$ 100,000	\$ 100,000

**15. COMMITMENTS**

*Lease commitments*

The Company is committed to the following minimum lease payments under operating leases for its vehicle and equipment:

2008	\$18,295
2009	17,000
2010	17,000
	<u>\$52,295</u>

**OPHTHALMIC TECHNOLOGIES INC.**  
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**15. COMMITMENTS (continued)**

*Licensing agreement*

The Company has entered into a licensing agreement. Under the terms of the agreement, the Company is committed to make the following minimum royalty payments during the next five years:

2008	\$15,000
2009	15,000
2010	15,000
2011	15,000
2012	<u>15,000</u>
	<u>\$75,000</u>

As at April 2007, \$13,138 (2006 — \$27,762) is included in accounts payable.

**16. FINANCIAL INSTRUMENTS**

*Credit risk*

The Company is subject to the risk of non-payment of its accounts receivable. The Company mitigates this risk by checking the credit worthiness of its customers and by requiring significant deposits from its customers. As at April 30, 2007 approximately 29% of the accounts receivable balance is from one customer (2006 — 17% from two customers) and 27% of the sales balance is from two customers (2006 — 36% from one customer).

*Interest rate risk*

The Company has interest-bearing borrowings for which general interest rate fluctuations apply. The Company does not use derivative instruments to reduce its exposure to interest rate risk.

*Foreign currency risk*

The Company undertakes revenue and purchase transactions in foreign currencies, and therefore is subject to gains and losses due to fluctuations in foreign currency exchange rates. The Company does not use derivative financial instruments to reduce its exposure to foreign currency risk.

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**17. GUARANTEES**

The Company has entered into agreements that include indemnities in favour of third parties, such as confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements and leasing contracts. These indemnification agreements may require the Company to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The nature of these indemnification agreements prevent the Company from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically the Company has not made any significant payments under such or similar indemnification agreements and therefore no amount has been accrued in the financial statements with respect to these agreements.

**18. SEGMENT INFORMATION**

The Company operates and manages its business in one industry segment — the supply of equipment for ophthalmology including innovative systems with advance imaging capabilities which is also the principal product family.

*Sales by Country of Origin (in \$ millions)*

	<u>2007</u>	<u>2006</u>
North America	\$ 1.71	\$ 2.47
Europe	3.69	3.53
Middle East	2.48	0.98
South America	0.24	0.07
Asia and Australia	1.58	5.35
	<u>\$ 9.70</u>	<u>\$ 12.40</u>