VioQuest Pharmaceuticals, Inc.
Form 10KSB/A
July 28, 2005

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1 to
FORM 10-KSB/A

x Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2004

o Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ___to___

Commission File Number 0-16686

VIOQUEST PHARMACEUTICALS, INC.

(Exact name of issuer as specified in its charter)

Minnesota	58-1486040
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
7 Deer Park Drive, Suite E, Monmouth Junction, NJ	08852
(Address of Principal Executive Offices)	(Zip Code)

(732) 274-0399

(Issuer's telephone number)

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

None

Securities registered pursuant to Section 12(g) of the Exchange Act:
Common Stock, $.01 par value

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

Check if there is no disclosure of delinquent filers pursuant to Item 405 of Regulation S-B is not contained herein, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. o

The issuer's revenues for the fiscal year ended December 31, 2004 were $1,485,148.

The aggregate market value of the voting common stock of the issuer held by non-affiliates of the issuer on March 14, 2005 based on the $.90 closing price of the common stock as quoted by the NASD Over-the-Counter Bulletin Board on such date was $10,220,443.

As of March 14, 2005 there were 17,827,924 outstanding shares of common stock, par value $.01 per share.

Transitional Small Business Disclosure Format: Yes o No x

References to the "Company," the "Registrant,""we,""us,""our" or in this Annual Report on Form 10-KSB refer to VioQuest Pharmaceuticals, Inc., formerly Chiral Quest, Inc., a Minnesota corporation, and our consolidated subsidiaries, together taken as a whole, unless the context indicates otherwise.

EXPLANATORY NOTE

This Amendment No. 1 to the Company's Annual Report on Form 10-KSB/A for the year ended December 31, 2004, which amends the Company's Form 10-KSB originally filed on March 31, 2005, is being filed solely to amend Items 6 and 7 in response to comments received from the staff of the Securities and Exchange Commission in connection with its review of such report. This Form 10-KSB/A does not reflect events occurring after the filing of the original Form 10-KSB filed on March 31, 2005. The filing of this Form 10-KSB/A shall not be deemed an admission that the original filing, when made, included any untrue statement of a material fact or omitted to state a material fact necessary to make a statement not misleading.

Forward-Looking Statements

This Annual Report on Form 10-KSB contains statements that are not historical but are forward-looking in nature, including statements regarding our current expectations, beliefs, intentions or strategies regarding the future. In particular, the "Risk Factors" section following Item 1 in the Company's Annual Report on Form 10-KSB for the year ended December 31, 2004, which was filed on March 31, 2005, and the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section in Item 6 of this annual report include forward-looking statements that reflect our current views with respect to future events and financial performance. We use words such as we "expect,""anticipate,""believe," and "intend" and similar expressions to identify forward-looking statements. Investors should be aware that actual results may differ materially from our expressed expectations because of risks and uncertainties inherent in future events, particularly those risks identified in the subsection entitled "Risk Factors" following Item 1 in the Company's Annual Report on Form 10-KSB filed on March 31, 2005, and should not unduly rely on these forward looking statements.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OR PLAN OF OPERATIONS.

Overview

Since our inception in October 2000, we have focused our efforts and resources on the development of asymmetric catalysis technology, our primary intellectual property to which we hold an exclusive worldwide license from the Pennsylvania State Research Foundation ("PSRF"), the technology development arm of the Pennsylvania State University ("Penn State"). Our license from PSRF covers certain inventions discovered by our Chief Technology Officer ("CTO") prior to November 8, 2002.

In August 2004, the Company restructured operations by contributing all of its operating assets relating to its asymmetric catalysis business, which has been its historical business since inception, to its wholly- owned subsidiary, CQ Acquisition, Inc., which was subsequently renamed Chiral Quest, Inc. In addition, the Company changed its name to VioQuest Pharmaceuticals, Inc. and formed a new wholly-owned subsidiary, called VioQuest Drug Development, Inc. As a result, we have two subsidiaries - VioQuest Drug Development, Inc., which was created for the purpose of acquiring, developing and eventually commercializing human therapeutics, and Chiral Quest, Inc., which continues our historical business of providing chiral products, technology and services to the pharmaceutical and fine chemical industries. The Company develops chemical catalysts and other products used in the synthesis of desired isomers of chiral molecules.

Since inception we have incurred a cumulative deficit of $7,434,763 through December 31, 2004. We expect our operating losses to increase over the next several years, primarily due to expansion of our research and development programs, the hiring of additional chemists, and the expansion of our manufacturing capabilities.

The accompanying financial statements have been prepared assuming that we will continue as a going concern. We have had a net loss of $7,434,763 since inception, and cash used in operating activities totaled $3,786,173 in 2004. These matters raise doubt about our ability to continue as a going concern. Management's plan in regards to these matters is described in the Notes to the Financial Statements.

Our ability to achieve profitability depends upon, among other things, our ability to discover and develop products (specifically new "ligands"), and to develop our products on a commercial scale through a cost effective and efficient process. To the extent that we are unable to produce, directly or indirectly, ligands in quantities required for commercial use, we will not realize any significant revenues from our technology. Moreover, there can be no assurance that we will ever achieve significant revenues or profitable operations from the sale of any of our products or technologies. Risks associated with our business are more thoroughly addressed in the section entitled "Risk Factors."

Since our inception, we have generated sales revenue but not yet generated any net profits. Our management believes that our research and development ("R&D") and manufacturing capacity will need to grow in order for us to be able to obtain significant licensing and manufacturing agreements with large fine chemical and pharmaceutical companies. We believe that our manufacturing capacity will be enhanced with our new office and laboratory space located in Monmouth Junction, New Jersey that was leased in June 2003, in addition to the laboratory space acquired in October 2004, located in Jiashan, China.

On February 18, 2003, we acquired Surg II, Inc., a Minnesota corporation ("Surg"), in a reverse merger transaction (the "Merger"). Pursuant to the terms of the Merger, Chiral Quest, LLC merged with and into a wholly-owned subsidiary of Surg. In exchange for all of the outstanding membership interests of Chiral Quest, LLC, Surg issued to the former member of Chiral Quest, LLC a number of shares of Surg's common stock that resulted in the members of Chiral Quest, LLC owning two-thirds of Surg's outstanding shares following the Merger. In connection with the Merger, Surg changed its name to Chiral Quest, Inc., and adopted the business plan of Chiral Quest, LLC. Accordingly, when we refer to our business or financial information relating to periods prior to the Merger, we are referring to the business and financial information of Chiral Quest, LLC, unless the context indicates otherwise.

Results of Operations - Years Ended December 31, 2004 vs. 2003

Our revenues for the year ended December 31, 2004 were $1,485,148 as compared to $669,036 for the year ended December 31, 2003. For the year ended December 31, 2004, approximately 8% of total revenue was derived from the amortization of option fee income pertaining to the licensing of our intellectual property and 92% of total revenue was derived from customized process development services sold to third parties- (accounting for 47% of total 2004 revenue), sales of our catalysts and ligands (34% of total 2004 revenue), and feasibility screening reports provided to clients (11% of total 2004 revenue). The overall increase in 2004 revenue is attributable primarily from a 75% increase from 2003 revenue from contracts for customized process development services. In addition, the increase in 2004 revenues is also attributable to our selling and production capabilities transitioning from an academic Research and Development sales volume level, to a commercial sales volume quantity level for its ligands, catalysts, and customized process development services. As a result, revenue from sales of catalysts and ligands increased five fold from 2003 because we were able to sell greater quantities and a wider variety of our proprietary ligands and catalysts to an expanded customer base that more than doubled in 2004 compared to 2003. Revenue from feasibility screening in 2004 also increased three fold from 2003 levels. We anticipate that sales of our proprietary ligands and catalysts and customized process development services will continue to comprise a greater percentage of our revenues in the future as we expand our manufacturing capabilities.

Our gross profit decreased for the year ended December 31, 2004, as compared to December 31, 2003, as a result of our 2004 revenues being significantly derived from the sale of ligands and catalysts products and services versus a greater percentage of revenues derived from option fee income pertaining to a license agreement for the fiscal year ended 2003. For the year ended December 31, 2003, approximately 20% of total revenue was derived from the amortization of option fee income and 80% of total revenue was comprised of sales or our ligands.

Cost of goods sold for the year ended December 31, 2004 was $837,653 as compared to $196,045 during the year ended December 31, 2003. The increase of cost of goods sold is attributed to increased sales, associated manufacturing costs of scaling operations to a commercialized level, in addition to the allocation of direct labor and overhead expenses to finished goods. These expenses were allocated from compensation and rent expenses as part of overall general operating expenses.

Management and consulting expenses for the year ended December 31, 2004 were $626,709 as compared to $361,622 during the year ended December 31, 2003. The overall increase in 2004 from 2003 was primarily caused by an increase in consulting expense. Consulting expense increased due to the consultant agreement entered with our CTO, which required us to make payments to our CTO of $10,000 per month effective May 15, 2003. Management and consulting expense also increased as a result of consulting fees paid to our Scientific Advisory Board members for services provided during 2004. In addition, consulting expense increased from the amortization of stock options issued to consultants, Scientific Advisory Board members, during the second, third and fourth quarters of 2003.

Our Research and Development ("R&D") expenses for the year ended December 31, 2004 were $1,526,561 as compared to $639,426 during the year ended December 31, 2003. This increase resulted primarily from the R&D costs associated to preparing and analyzing several test pilot programs of our proprietary technology related to the

Company's developmental manufacturing processes and commercial scale up capabilities to satisfy manufacturing requirements. The R&D costs include the sponsoring of four post doctorates at Penn State to develop reports on our technological feasibility of our proprietary technology in addition to preparing sample batches for analysis in the Princeton, NJ office. Also included in R&D are the purchases of additional laboratory materials and supplies such as chemicals, solvents, glassware used as part of the facility's test pilot programs used for the formulation and analyzing of our proprietary products during 2004 to determine their technological feasibility and to further develop and enhance our R&D processes to determine the Company's manufacturing capabilities. The agreement with Penn State required us to fund services of four post-doctorate fellows who, under the supervision of the CTO, conduct research and provide research quantities of chiral ligands to us. This agreement has been extended to April 14, 2005. The approximate obligation payable by us for the remaining period from January 1, 2005 through the end of the agreement dated April 14, 2005 is approximately $98,000. From October 2002 through December 31, 2004, the Company has paid and incurred expenses of approximately $596,000 pursuant to the agreement. This amount consists principally of four post-doctorate salaries, fringe benefits, materials and supplies for the stated period. In addition, during the first and second quarters of 2004, we expanded our laboratory facility in New Jersey, which enabled us to commercialize our proprietary ligands and catalysts. In connection with the facility's expansion, numerous lab supplies and chemicals were purchased. Accordingly, we incurred significant R&D expenses in the first and second quarters due to the laboratory expansions of the New Jersey facility, along with the increased costs of using the facility and chemists at Penn State.

Selling, general and administrative ("SG&A") expenses for the year ended December 31, 2004 were $2,377,021 as compared to $1,415,182 during the year ended December 31, 2003. This increase in SG&A expenses was due in part by the resignation of our CEO in April 2004, of which we incurred $375,000 in severance costs in 2004. In addition, SG&A increased due to the hiring of several laboratory chemists to work at the newly expanded laboratory facility in New Jersey. SG&A also increased as a result of the reporting obligations as a public company, increased rent expense for the New Jersey facility, additional spending on advertising and promotion expenses, increased travel expenses for new business development opportunities and higher administrative expenses associated with having more employees such as insurance and employer payroll taxes.

Depreciation and amortization expenses for the year ended December 31, 2004 were $179,034 as compared to $86,325 during the year ended December 31, 2003. This increase was primarily related to fixed asset purchases for office equipment, computer equipment, laboratory equipment and leasehold improvements for the newly expanded leased facility in New Jersey.

Interest expense for the year ended December 31, 2004 was $0 as compared to $2,809 during the year ended December 31, 2003. The interest expense for the year ended December 31, 2003 is attributed to the promissory notes issued between July 2002 through February 2003 owed to a related party, which were fully paid and discharged in February 2003.

Interest income for the year ended December 31, 2004 was $38,272 as compared to $13,973 during the year ended December 31, 2003. The increase in interest income was caused by significantly higher cash reserves obtained after private placement of our common stock during February 2004.

Our net loss for the year ended December 31, 2004 was $4,023,558 as compared to $2,018,400 for the year ended December 31, 2003. The increased net loss in 2004 from 2003 was primarily due to increased SG&A expense from severance compensation to our former CEO and the hiring of additional personnel, together with increased R&D expense incurred as a result of the commercial scale up of our proprietary catalysts and ligands, as well as increased legal and accounting expenses associated with the private placement of our common stock, and expenses in reporting as a public company. We expect losses to continue and increase in the next year as we expand our laboratory space in China, purchase more chemicals and raw material compounds, and hire additional employees.

Results of Operations - Years Ended December 31, 2003 vs. 2002

Our revenues for the year ended December 31, 2003 were $669,036 as compared to $191,613 for the year ended December 31, 2002. The increase from fiscal 2002 can be attributed to sales resulting from our proprietary catalyst and ligand technology, contract research development and feasibility screening services provided. For the year ended December 31, 2003 approximately 80% of total revenue was derived from sales of our ligands, feasibility screening and customized process development services sold to third parties and 20% of total revenue was derived from the amortization of option fee income pertaining to the licensing of our intellectual property. For the year ended December 31, 2002, approximately 85% of total revenue was derived from the amortization of option fee income and 15% of total revenue was comprised of sales or our ligands. Revenues are comprised of our proprietary technology ligands and catalysts, contract research development, feasibility screening in addition to licensing of PSRF’s technology. We assume the financial risks related to these revenues by financing the research and development of PSRF’s technology as well as the defense of PSRF’s patents. It is anticipated that sales of our ligands, molecular building blocks and customized chiral services will continue to comprise a greater percentage of our revenues in the future as we expand our manufacturing capabilities.

Cost of goods sold for the year ended December 31, 2003 was $196,045 as compared to $6,763 during the year ended December 31, 2002. The increase of cost of goods sold is attributed to allocating material costs to specific projects as part of finished goods during the year ended December 31, 2003, as compared to primarily expensing materials, laboratory chemicals and supplies as part of operating expenses during the year ended December 31, 2002.

Management and consulting expense fees for the year ended December 31, 2003 were $361,622 as compared to $231,424 during the year ended December 31, 2002. The overall change for the years ended December 2003 vs. 2002 was primarily caused by a consulting agreement entered with our CTO at a rate of $10,000 per month effective May 15, 2003.

Our R&D expenses for the year ended December 31, 2003 were $639,426 as compared to $63,728 during the year ended December 31, 2002. This change was primarily caused by the Company sponsoring four post doctorates at Penn

State University to perform research analysis related to the Company's proprietary technology in addition to hiring several chemists during the year ended 2003, in addition to the increased laboratory supplies and chemicals purchased during the year ended 2003 in connection with the development and testing the feasibility of its new proprietary products of ligands and catalysts.

SG&A expenses for the year ended December 31, 2003 were $1,415,182 as compared to $193,449 during the year ended December 31, 2002. SG&A expenses increased due in part to the hiring of a vice president of business development, controller and additional chemists to work at our New Jersey office and laboratory facility. SG&A expenses also increased as a result of higher legal and accounting fees associated with our reporting obligations as a public company, increased rent expense for the New Jersey facility, additional spending on advertising and promotion expenses, increased travel expenses for new business development opportunities and higher administrative expenses associated with having more employees such as insurance and employer payroll taxes.

Depreciation and amortization expenses for the year ended December 31, 2003 were $86,325 as compared to $36,631 during the year ended December 31, 2002. This increase was primarily related to fixed asset purchases for office equipment, computer equipment, and laboratory equipment, for our newly leased facility in New Jersey during May 2003.

Interest expense for the year ended December 31, 2003 was $2,809 as compared to $0 during the year ended December 31, 2002. The interest expense for the year ended December 31, 2003 is attributed to the promissory notes issued between July 2002 through February 2003 owed to a related party, which were fully paid and discharged in February 2003.

Interest income for the year ended December 31, 2003 was $13,973 as compared to $0 during the year ended December 31, 2002. The increase in interest income in 2003 was caused by higher cash reserves as a result of the proceeds received from the reverse merger with Surg II, Inc. completed in February 2003.

Our net loss for the year ended December 31, 2003 was $2,018,400 as compared to $537,978 for the year ended December 31, 2002. The higher loss for the year ended December 31, 2003 as compared to December 31, 2002 was primarily due to higher R&D expenses incurred with the purchases of laboratory supplies and chemicals, management and consulting fees, in addition to the leasehold improvement related to the newly leased facility in New Jersey as of May 2003.

Liquidity and Capital Resources

As of December 31, 2004, we had working capital of $2,721,707 and cash and cash equivalents of $3,065,547. The Company will be unable to continue as a going concern unless we are able to significantly increase our revenues or obtain additional financing. We will most likely require additional financing by the end of the second quarter of 2005 in order to continue operations. The most likely source of such financing includes private placements of our equity or debt securities or bridge loans to us from third party lenders.

Our net cash used in operating activities for the year ended 2004 was $3,786,173 and our net loss of $4,023,558 was offset by amortization of deferred expenses of $296,385, deferred revenue of $304,134, and depreciation and amortization of $179,034. The Company received prepayments from customers during 2004, which are classified as deferred revenue, as agreed upon by customers' signed purchase order contracts, and has provided early funding for the Company to purchase raw materials for goods and services ordered. Operating activities also included increases in accounts receivable of $266,880 and inventory of $283,255. Net cash used in the Company's operating activities as a result of the Company's net loss, also include additional employees hired during 2004, primarily chemists, in addition to purchases for laboratory supplies, and chemicals used for the manufacturing scale up related to the Company's production capabilities transitioning from an academic sales volume, to a commercial sales volume level.

Our net cash used in investing activities for the year ended 2004 was $549,029. Investing activities expenditures consisted of purchases of property and equipment of $356,548 which was attributed to the laboratory expansions during the second and third quarters of 2004, and payments for increased patent filings of intellectual property rights of $192,481.

Our net cash provided by financing activities for the year ended 2004 was $6,741,632. Financing activities consisted of cash received as a result of a February 2004 private placement of approximately 4.8 million shares of our common stock at a price per share of $1.50, and 5-year warrants to purchase one share of common stock at $1.65 per share for every two common shares purchased in the offering.

Our working capital requirements will depend upon numerous factors, including without limitation the progress of our R&D programs, the resources we devote to developing manufacturing and marketing capabilities, technological advances, the status of competitors, and our ability to establish sales arrangements with new customers. Working capital will also be affected by the China facility expansion of office and laboratory space lease agreements that were entered into during 2004, along with the hiring of additional employees. Our management believes that by opening a facility in China to produce non-proprietary chemical building blocks and related compounds, we will be able to significantly decrease our manufacturing costs and expenses, which will enable us to cost-effectively produce our ligands and end products and make our products substantially more competitive and even more attractive to current and potential customers. We expect operations to commence on a limited basis by April 2005.

Our working capital requirements will also be substantially impacted by the costs associated with the company's drug development process. These costs of acquiring, developing and eventually commercializing human therapeutics in the

areas of oncology, metabolic and inflammatory diseases and disorders that are current unmet medical needs will significantly impact our working capital based upon milestone payments, license fees and manufacturing costs. Upon acquiring a drug candidate, we will need substantial additional capital to fund the activities necessary to develop and eventually gain regulatory approval to sell the drug.

Critical Accounting Policies and Estimates

Impairment of Intellectual Property Rights

The Company evaluates the recoverability of its long-lived assets, where indicators of impairment are present, by reviewing current and projected profitability or undiscounted cash flows of such assets. Intangible assets that are subject to amortization are reviewed for potential impairment whenever events or circumstances indicate that carrying amounts may not be recoverable. Intangible assets not subject to amortization are tested for impairment at least annually. For the years ended December 31, 2004 and 2003, the Company determined that impairment to its long-lived assets did not occur. Accordingly, no impairment loss was recorded for the years ended December 31, 2004 and 2003. Management has determined based upon the useful lives of its intellectual property rights the future economic benefits exceed their carrying costs.

Revenue Recognition

Revenues are comprised principally of four main components: (1) the licensing of PSRF's technology, (2) the sale of proprietary ligands and catalysts, (3) feasibility screening, and (4) custom contract development. Revenues as they relate to the licensing of the Company's rights to PSRF's intellectual property are recognized upon over the applicable license periods. In determining net revenues, the Company recognizes revenues based upon shipments and the invoicing of its products and services. Accordingly, the Company does not have a sales allowance, sales discount or sales returns reserve policy in place and, accordingly, does not make any material judgments or estimates relating to net revenues. For the year ended December 31, 2004, approximately 8% of total revenue was derived from the amortization of option fee income pertaining to the licensing of our intellectual property and 92% of total revenue was derived from customized process development services sold to third parties, sales of our catalysts and ligands, and feasibility screening reports provided to clients. For the year ended December 31, 2003 approximately 80% of total revenue was derived from sales of our ligands, feasibility screening and customized process development services sold to third parties and 20% of total revenue was derived from the amortization of option fee income pertaining to the licensing of our intellectual property. For the year ended December 31, 2002, approximately 85% of total revenue was derived from the amortization of option fee income and 15% of total revenue was comprised of sales or our ligands. The Company assumes the financial risks related to these revenues by financing the research and development of PSRF's technology as well as the defense of PSRF's patents. Deferred revenue in the accompanying consolidated balance sheets represents amounts prepaid by customers to the Company for services to be performed and products to be delivered at a subsequent date. These deferred amounts will be recognized as revenue when earned. Revenues as they relate to the sale of manufactured proprietary ligands and catalysts are recognized upon the shipment of the ligands to the customer. Revenues as they relate to feasibility screening are recognized upon the completion of project reports and investigational studies. Revenues as they relate to custom contract development are recognized upon the shipment of finished products.

Accounting for Stock-Based Compensation

The Company accounts for its employee and director stock option plans in accordance with APB 25, "Accounting For Stock Issued To Employees," and related interpretations. The Company measures compensation expense for employee and director stock options as the aggregate difference between the market value of its common stock and exercise prices of the options on the date that both the number of shares the grantee is entitled to receive and the exercise prices are known. Compensation expense associated with restricted stock grants is equal to the market value of the shares on the date of grant and is recorded pro rata over vesting period. Management has determined the estimates used for the volatility, and criteria in the Black-Scholes calculation for accounting for stock-based compensation are deemed to be reasonably accurate and the approach to estimating stock-based compensation will not materially change in the future.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

Recently Issued Accounting Standards

In July 2002, the FASB issued SFAS No. 146, "Accounting for Restructuring Costs." SFAS No. 146 applies to costs associated with an exit activity (including restructuring) or with a disposal of long-lived assets. Those activities can include eliminating or reducing product lines, terminating employees and contracts and relocating plant facilities or personnel. Under SFAS No. 146, the Company will record a liability for a cost associated with an exit or disposal activity when that liability is incurred and can be measured at fair value. SFAS No. 146 will require the Company to disclose information about its exit and disposal activities, the related costs, and changes in those costs in the notes to the interim and annual financial statements that include the period in which an exit activity is initiated and in any subsequent period until the activity is completed. SFAS No. 146 is effective prospectively for exit or disposal

activities initiated after December 31, 2002, with earlier adoption encouraged. Under SFAS No. 146, a company cannot restate its previously issued financial statements and the new statement grandfathers the accounting for liabilities that a company had previously recorded under Emerging Issues Task Force Issue 94-3.

In May 2003, the FASB issued SFAS No. 150, “Accounting For Certain Financial Instruments with Characteristics of both Liabilities and Equity.” SFAS No. 150 changes the accounting for certain financial instruments with characteristics of both liabilities and equity that, under previous pronouncements, issuers could account for as equity. The new accounting guidance contained in SFAS No. 150 requires that those instruments be classified as liabilities in the balance sheet.

SFAS No. 150 affects the issuer’s accounting for three types of freestanding financial instruments. One type is mandatorily redeemable shares, which the issuing company is obligated to buy back in exchange for cash or other assets. A second type includes put options and forward purchase contracts, which involves instruments that do or may require the issuer to buy back some of its shares in exchange for cash or other assets. The third type of instruments that are liabilities under SFAS No. 150 are obligations that can be settled with shares, the monetary value of which is fixed, tied solely or predominantly to a variable such as a market index, or varies inversely with the value of the issuers’ shares. SFAS No. 150 does not apply to features embedded in a financial instrument that is not a derivative in its entirety.

Most of the provisions of SFAS No. 150 are consistent with the existing definition of liabilities in FASB Concepts Statement No. 6, “Elements of Financial Statements.” The remaining provisions of SFAS No. 150 are consistent with the FASB’s proposal to revise that definition to encompass certain obligations that a reporting entity can or must settle by issuing its own shares. SFAS No. 150 shall be effective for financial instruments entered into or modified after May 31, 2003 and otherwise shall be effective at the beginning of the first interim period beginning after June 15, 2003.

In December 2003, the FASB issued revised FIN 46R, "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51." ("FIN 46R"). FIN 46R required the consolidation of an entity in which an enterprise absorbs a majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity (variable interest entities, or "VIEs"). Currently, entities are generally consolidated by an enterprise when it has a controlling financial interest through ownership or a majority voting interest in the entity. FIN 46R is applicable for financial statements of public entities that have interests in VIEs or potential VIEs refereed to as special-purpose entities for periods ending after December 31, 2003. Applications by public entities for all other types of entities are required in financial statements for periods ending after March 15, 2004.

In December 2004, the FASB issued SFAS No. 123R "Accounting for Stock-Based Compensation." SFAS 123R establishes standards for the accounting for transactions in which, an entity exchanges its equity instruments for goods or services. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS 123R requires that the fair value of such equity instruments, including employee stock options, be recognized as an expense in the historical financial statements as services are performed. Prior to SFAS 123R, only certain pro forma disclosures of fair value were required. SFAS 123R shall be effective for the Company as of the beginning of the first interim or annual reporting period that begins after December 15, 2005. The Company is evaluating the impact of this pronouncement and its affects on our financial statements.

ITEM 7. CONSOLIDATED FINANCIAL STATEMENTS

For a list of the consolidated financial statements filed as part of this report, see the Index to Consolidated Financial Statements beginning at Page F-1 of this annual report.

ITEM 13. EXHIBITS

Exhibit No.	Description
2.1	Merger Agreement dated November 12, 2002, by and among the Registrant, CQ Acquisition, Inc. and Chiral Quest, LLC (incorporated by reference to Exhibit 2.1 to the Registrant's Form 8-K filed November 27, 2002).
3.1	Articles of Incorporation, as amended to date (incorporated by reference to Exhibit 3.1 of Registrant's Annual Report in Form 10-KSB for the year ended December 31, 2004).
3.2	Bylaws, as amended to date (incorporated by reference to Exhibit 3.2 of Registrant's Annual Report on Form 10-KSB for the year ended December 31, 2003).
4.1	Common Stock Purchase Warrant dated as of February 18, 2003 issued to Key West Associates, LLC (incorporated by reference to Exhibit 4.1 to the Registrant's Form 10-QSB for the period ended March 31, 2003).
4.2	Option Agreement No. LL-1 dated May 6 , 2003 issued to Princeton Corporate Plaza, LLC. (incorporated by reference to Exhibit 4.1 to the Registrant's Form 10-QSB for the period ended June 30, 2003).
4.3	Form of Option Agreement dated May 6 , 2003 issued to Princeton Corporate Plaza, LLC (incorporated by reference to Exhibit 4.2 to the Registrant's Form 10-QSB for the period ended June 30, 2003).
4.4	Schedule of Options substantially identical to Exhibit 4.3 (incorporated by reference to Exhibit 4.3 to the Registrant's Form 10-QSB for the period ended June 30, 2003).
4.5	Form of Common Stock Purchase Warrant issued in connection with February 2004 private placement (incorporated by reference to the Registrant's Form SB-2 filed March 26, 2004 (File No. 333-113980)).
10.1	License Agreement dated on or about October 27, 2000, as amended, between Chiral Quest, LLC and The Penn State Research Foundation (incorporated by reference to Exhibit 10.2 to the Registrant's Form

10-QSB for the period ended March 31, 2003).

10.2 Consulting Agreement dated May 15, 2003 between the Registrant and Xumu Zhang, Ph.D. (incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-QSB for the period ended June 30, 2003).

10.3 2003 Stock Option Plan (incorporated by reference to Exhibit 10.4 to the Registrant's Form 10-KSB for the year ended December 31, 2003).

10.4 Separation Agreement dated April 2, 2004 between the Registrant and Alan D. Roth (incorporated by reference to Exhibit 10.1 to the Registrant's Form 8-K filed on April 19, 2004).

10.5 Employment Agreement dated October 6, 2003 between the Company and Ronald Brandt (incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-QSB for the period ended June 30, 2004).
10.6 Employment Agreement dated February 1, 2005 between the Company and Daniel Greenleaf (as previously filed).

16.1 Letter regarding change in independent accountants (incorporated by reference to Exhibit 16.1 to the Registrant's Form 8-K/A filed January 5, 2004).
16.2 Letter regarding change in independent accountants (incorporated by reference to Exhibit 16.1 to the Registrant's Form 8-K filed April 25, 2003).
31.1 Certification of Chief Executive Officer
31.2 Certification of Chief Financial Officer.
32.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act, VioQuest Pharmaceuticals, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on July 27, 2005.

VioQuest Pharamceuticals, Inc.

By: /s/ Daniel Greenleaf

Daniel Greenleaf
President & Chief Executive Officer

In accordance with the Securities Exchange Act, this report has been signed below by the following persons on behalf of VioQuest Pharmaceuticals, Inc. and in the capacities and on the dates indicated.

Signature	**Title**	**Date**
/s/ Daniel Greenleaf Daniel Greenleaf	President & Chief Executive Officer and Director	July 27, 2005
/s/ Brian Lenz Brian Lenz	Chief Financial Officer and Secretary	July 27, 2005
/s/ Vincent M. Aita Vincent M. Aita	Director	July 27, 2005
/s/ Kenneth W. Brimmer Kenneth W. Brimmer	Director	July 27, 2005
/s/ Stephen C. Rocamboli Stephen C. Rocamboli	Director	July 27, 2005
/s/ Stephen A. Roth Stephen A. Roth	Director	July 27, 2005
/s/ David M. Tanen David M. Tanen	Director	July 27, 2005
/s/ Michael Weiser Michael Weiser	Director	July 27, 2005
/s/ Xumu Zhang		