BOSTON BEER CO INC
Form 8-K
October 30, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): October 30, 2013

The Boston Beer Company, Inc.

(Exact name of registrant as specified in its charter)

Massachusetts	**001-14092**	**04-3284048**
(State or other jurisdiction of incorporation)	**(Commission File Number)**	**(IRS Employer Identification No.)**

One Design Center Place, Suite 850, Boston, MA **02210**
(Address of principal executive offices) **(Zip Code)**
Registrant s telephone number, including area code (617) 368-5000

Check the appropriate box below if the Form 8-K is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2 below):

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4c under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02 Results of Operations and Financial Condition

On October 30, 2013, The Boston Beer Company, Inc. disclosed financial information for the third quarter of 2013 in an earnings release, a copy of which is set forth in the attached Exhibit 99.

The information in this Form 8-K and the Exhibit 99 attached hereto is being furnished and shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 (the Exchange Act) or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act, regardless of any general incorporation language in such filing, unless expressly incorporated by specific reference in such filing.

Item 9.01 Financial Statements and Exhibits

Exhibit 99 Earnings Release of The Boston Beer Company, Inc. dated October 30, 2013.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

The Boston Beer Company, Inc.

(Registrant)

Date: October 30, 2013

/s/ William F. Urich
William F. Urich

Chief Financial Officer

garding exercisable and unexercisable stock options held by the Named Executive Officers as of December 31, 2003:

FISCAL YEAR-END OPTION VALUES

Name and Principal Position	**Shares Acquired on Exercise (#)**	**Value Realized ($)**	**Fiscal Year-End (#) Exercisable/ Unexercisable**	**Value of Unexercised In-the-Money Options at Fiscal Year-End ($) Exercisable/ Unexercisable(1)**
Salvatore A. Bucci	0	0	243,750/81,250	0/0

(1) Based on the difference between the option exercise price and the closing price of the underlying Common Stock on December 31, 2003, which closing price was $0.09.

Compensation of Directors

Certain members of the Company's Board of Directors received fees in connection with their service to the Company as members of the Board of Directors and, in certain cases, were also compensated as consultants by the Company. Mr. Vernon was paid $833 for his services as a director during the year ended December 31, 2003. In addition, Mr. Vernon was paid $4,167 for his consulting services to the Company during the year ended December 31, 2003. There are presently no arrangements providing for payments to directors for director or consulting services.

Executive Employment Contract

Provided below is information concerning the employment arrangement that the Company has entered into with its executive officer.

Salvatore A. Bucci. On May 25, 2000, the Company and Mr. Bucci entered into an employment agreement (the "Original Agreement") providing for Mr. Bucci to serve as Senior Vice President and Chief Financial Officer of the Company for a period of two years. On October 6, 2000, Mr. Bucci was appointed Executive Vice President and Chief Financial Officer and on February 9, 2001, Mr. Bucci was named President and Chief Executive Officer. The Original Agreement entitled Mr. Bucci to receive a minimum annual base salary of $150,000 and a minimum annual bonus of $25,000, which minimum annual bonus was required to be paid to Mr. Bucci in quarterly installments over the term of the Original Agreement. The amount of Mr. Bucci's actual bonus is determined annually by the Compensation Committee in light of his and the Company's performance over the prior year. Mr. Bucci also received an option to purchase 325,000 shares of Common Stock, with vesting to occur in equal annual installments over a four year period. If the company terminates Mr. Bucci's employment without cause, or if Mr. Bucci terminates his employment because there has been a change of control of the Company, then Mr. Bucci is entitled to receive (i) severance payments in a lump sum equal to one-half of his most recent base salary plus one-half of the amount of cash bonus most recently awarded, and (ii) immediate vesting and exercisability of any unvested options then held by Mr. Bucci. Effective with Mr. Bucci's appointment as President and Chief Executive Officer, the Company and Mr. Bucci amended the terms of the Original Agreement (the "Amended Agreement"). The Amended Agreement provided for (i) a minimum annual base salary of $200,000, effective January 1, 2001; (ii) a bonus of $25,000, which was paid upon execution of the Amended Agreement; and (iii) the elimination of the minimum annual bonus. The Amended Agreement expired on May 25, 2002. At a meeting of the Board of Directors on May 10, 2002, the Board of Directors determined to continue the employment of Mr. Bucci as the Company's President and Chief Executive Officer upon the salary and with the health benefits and other perquisites as were provided in the Amended Agreement.

During 2003, no options or other equity-based awards were granted and the Chief Executive Officer's compensation was not adjusted.

Compensation Committee Report on Executive Compensation

During fiscal 2003, the Compensation Committee of the Board of Directors ("Compensation Committee") consisted of Zola P. Horovitz, Ph.D. and Elliott H. Vernon. The Compensation Committee's responsibilities include: (i) reviewing the performance of the Chief Executive Officer and the other executive officers of the Company and making determinations as to their cash and equity-based compensation and benefits, and (ii) administration of employee stock option grants and stock awards. During fiscal 2003, the Compensation Committee did not meet.

Compensation Philosophy

The Company's executive compensation policy comprises three principal elements: base salary, cash or stock bonuses based on performance and stock option grants, and is designed to attract, retain and reward executive officers who contribute to the long term success of the Company. Through its compensation policy, the Company strives to provide total compensation that is competitive with other companies in comparable lines of business.

The Company endeavors to reward each executive's achievement of goals related to the Company's annual and long-term performances and individual fulfillment of responsibilities. While compensation survey data provide useful guides for comparative purposes, the Compensation Committee believes that an effective compensation program also requires the application of judgment and subjective determinations of individual performance. Accordingly, the Compensation Committee members apply their judgment to reconcile the program's objectives with the realities of retaining valued employees.

Chief Executive Officer Compensation

Salvatore A. Bucci has served as the Chief Executive Officer since February 2001. Pursuant to his amended employment agreement, which expired on May 25, 2002, Mr. Bucci was entitled to receive a base salary of $200,000 per annum. Mr. Bucci was also eligible to receive bonus compensation, which amount and form are determinable and at the discretion of the Compensation Committee or the Board of Directors of the Company. At a meeting of the Board of Directors on May 10, 2002, the Board determined to continue the employment of Mr. Bucci as the Company's Chief Executive Officer upon the salary and with the health benefits and other perquisites as were provided in the amended employment agreement.

Compensation of Other Executive Officers

Mr. Bucci was the sole executive officer of the Company during fiscal 2003.

Stock Options

Stock options generally are granted to the Company's executive officers at the time of their hire and at such other times as the Compensation Committee may deem appropriate, such as in connection with a promotion or upon nearing full vesting of prior options. In determining option grants, the Compensation Committee considers the same industry survey data as used in its analysis of base salaries and bonuses, and strives to make awards that are in line with its competitors. In general, the number of shares of Common Stock underlying the stock options granted to each executive reflects the significance of that executive's current and anticipated contributions to the Company.

In addition, the stock option grants made by the Compensation Committee are designed to align the interests of management with those of the stockholders. In order to maintain the incentive and retention aspects of these grants, the Compensation Committee has determined that a significant percentage of any officer's stock options should be unvested option shares.

The value that may be realized from exercisable options depends on whether the price of the Common Stock at any particular point in time accurately reflects the Company's performance. However, each individual optionholder, and not the Compensation Committee, makes the determination as to whether to exercise options that have vested in any particular year.

Compliance With Internal Revenue Code Section 162(m)

Section 162(m) of the Internal Revenue Code generally disallows a tax deduction to a public company for compensation over $1 million paid to its Chief Executive Officer and its four other most highly compensated executive officers. However, if certain performance-based requirements are met, qualifying compensation will not be subject to this deduction limit.

By the Compensation Committee,
Zola P. Horovitz, Ph.D.
Elliott H. Vernon

Compensation Committee Interlocks and Insider Participation

All of the members of the Compensation Committee are non-employee directors of the Company and are not former officers of the Company.

STOCK PERFORMANCE GRAPH

The following graph compares the cumulative stockholder returns on the Common Stock over the five year period from December 31, 1998 to December 31, 2003, as compared with that of the Media General ("MG") Biotechnology Index and the S&P 500 Composite Index during the same period. The graph assumes an initial investment of $100 on December 31, 1998 in the Common Stock, the MG Biotechnology Index and the S&P 500 Composite Index, with all dividends, if any, being reinvested.

COMPARE 5-YEAR CUMULATIVE TOTAL RETURN
AMONG PALIGENT INC., MG BIOTECHNOLOGY INDEX
AND S&P COMPOSITE INDEX

ASSUMES $100 INVESTED ON DECEMBER 31, 1998
ASSUMES DIVIDENDS, IF ANY, REINVESTED
FISCAL YEAR ENDING DECEMBER 31, 2003

	12/31/1998	12/31/1999	12/31/2000	12/31/2001	12/31/2002	12/31/2003
PALIGENT INC.	$ 100.00	$ 147.50	$ 2.52	$ 1.24	$ 1.00	$ 3.40
MG BIOTECHNOLGY INDEX	$ 100.00	$ 217.84	$ 254.92	$ 213.36	$ 137.60	$ 210.12
S&P COMPOSITE INDEX	$ 100.00	$ 121.04	$ 110.02	$ 96.95	$ 75.52	$ 97.18

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Beneficial Ownership

The following table and footnotes set forth certain information regarding the beneficial ownership of Common Stock as of March 1, 2004 by (i) the only persons known to the Company to be beneficial owners of more than 5% of Common Stock, (ii) the Named Executive Officers, (iii) each director, and (iv) all current executive officers and directors as a group.

	Common Stock Beneficially Owned(2)	
Beneficial Owner(1)	**Shares**	**Percent**
Richard J. Kurtz	18,557,070(3)	55.44
Lindsay A. Rosenwald, M.D.	2,261,884(4)	6.60
Elliott H. Vernon	338,191(5)	1.03
Zola P. Horovitz, Ph.D.	239,978(6)	*
Salvatore A. Bucci	243,750(7)	*
All current executive officers and directors as a group (4 persons)	19,378,989(8)	56.69

*
Indicates less than 1%

(1)
The business address for Messrs. Kurtz, Vernon and Bucci and Dr. Horovitz is c/o Paligent Inc., 10 East 53rd Street, 33rd Floor, New York, New York 10022. The business address for Dr. Rosenwald is c/o Paramount Capital, Incorporated, 787 Seventh Avenue, New York, New York 10019.

(2)
Unless otherwise indicated in these footnotes, each stockholder has sole voting and investment power with respect to the shares of Common Stock shown as beneficially owned by such stockholder, subject to community property laws where applicable. Shares of Common Stock issuable upon the exercise of options or warrants currently exercisable or exercisable within 60 days of March 1, 2004 are treated as outstanding solely for the purpose of calculating the amount and percentage of shares beneficially owned by the holder of such options or warrants.

(3)
Reported ownership consists of: (i) 17,575,247 outstanding shares of Common Stock; (ii) 134,222 shares issuable upon exercise of 1997 Unit Purchase Options originally issued by Procept; (iii) 13,732 shares issuable upon exercise of Class A Warrants issuable upon exercise of 1997 Unit Purchase Options originally issued by Procept; (iv) 5,432 shares issuable upon exercise of 1995 Unit Purchase Options originally issued by Procept; (v) 6,790 shares issuable upon exercise of Class A Warrants issuable upon exercise of 1995 Unit Purchase Options originally issued by Procept; (vi) 191,647 shares issuable upon exercise of Class A Warrants originally issued by Procept; and (vii) 630,000 shares issuable upon exercise of Class D Warrants.

(4)
Reported ownership consists of: (i) 436,418 shares of Common Stock; (ii) 843,445 shares issuable upon exercise of 1997 Unit Purchase Options originally issued by Procept; (iii) 86,292 shares issuable upon exercise of Class A Warrants issuable upon exercise of 1997 Unit Purchase Options originally issued by Procept; (iv) 20,879 shares issuable upon exercise of 1995 Unit Purchase Options originally issued by Procept; (v) 26,099 issuable upon exercise of Class A Warrants issuable upon exercise of 1995 Unit Purchase Options originally issued by Procept; (vi) 781,758 shares issuable upon exercise of Class E Warrants; and (vii) 66,993 shares of Common Stock held by Paramount Capital Investments, LLC, of which Dr. Rosenwald is sole and managing member.

(5)
Includes 228,991 shares issuable to Mr. Vernon upon the exercise of options currently exercisable.

(6)
Represents shares issuable to Dr. Horovitz upon the exercise of options currently exercisable.

(7)
Represents shares issuable to Mr. Bucci upon the exercise of options currently exercisable.

(8)
Includes 712,719 shares issuable to directors and executive officers upon the exercise of options currently exercisable or exercisable within 60 days of March 1, 2004.

Equity Compensation Plans

The following table sets forth information as of December 31, 2003 with respect to the Company's equity compensation plan, for which common stock of the Company is authorized for issuance. The Company's equity compensation plan has been approved by the Company's security holders (see Note 5 in the Notes to Consolidated Financial Statements for a description of the Company's plan).

Plan	**Number of Securities to be Issued Upon Exercise of Outstanding Options**	**Weighted-Average Exercise Price per Share of Outstanding Options**	**Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans**
	5,325,858	$ 2.10	5,377,605

Plan	Number of Securities to be Issued Upon Exercise of Outstanding Options	Weighted-Average Exercise Price per Share of Outstanding Options	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity compensation plans approved by security holders			

Item 13. Certain Relationships and Related Transactions.

Transactions with Directors and Officers

On June 14, 2000, the Company licensed to Indevus Pharmaceuticals, Inc., formerly Interneuron Pharmaceuticals, Inc. ("Indevus"), the exclusive, worldwide rights to develop and market PRO 2000 Gel (the "PRO 2000 License"). Glenn L. Cooper, M.D., a director of the Company at the time of the agreement, is the President and Chief Executive Officer of Indevus. In addition, the former principal stockholder of the Company is a stockholder of Indevus. Pursuant to the terms of the PRO 2000 License, the Company received an up-front payment of $500,000, which is included in other income for the year ended December 31, 2000. The Company retains certain future rights to PRO 2000 Gel under the PRO 2000 License, including (i) provisions for the receipt of additional payments based upon the achievement of certain milestones; and (ii) royalties from future commercial sales of PRO 2000 Gel, if any. Under the terms of the PRO 2000 License, Indevus is responsible for all remaining development and commercialization activities for PRO 2000 Gel and has an option, for a limited period of time following the completion of the Phase III efficacy trial, to purchase the future royalty rights relating to PRO 2000 Gel. The Company, however, has no further obligation to fund research and development for PRO 2000 Gel. On April 11, 2003, the Company and Indevus executed an amendment to the PRO 2000 License (the "PRO 2000 Amendment"). Upon execution of the PRO 2000 Amendment, the Company received $500,000 from Indevus in exchange for (i) the elimination of the $500,000 milestone payment that was to be paid under the PRO 2000 License upon the initiation of a Phase II safety trial (planned to begin later in 2003); and (ii) a second option, upon which exercise the Company would receive an additional payment of $500,000, to acquire all of the Company's rights, title and interest to PRO 2000 Gel as set forth in the PRO 2000 License, provided that such second option is exercised prior to September 30, 2004.

On October 13, 2000, Procept entered into an agreement with AOI Pharmaceuticals Inc. ("AOI") to sublicense its exclusive worldwide patent rights and know-how relating to O6-BG (the "Sublicense Agreement"). Michael A. Weiss, then a director of the Company, is the Chairman of the Board of AOI. In addition, the former principal stockholder of the Company is a stockholder of an affiliate of AOI. Pursuant to the Sublicense Agreement, Procept sublicensed all development and licensing rights to AOI in exchange for future royalties on net sales of O6-BG. The agreement also provides for cash payments to Procept based upon the achievement of certain developmental milestones. In addition, AOI assumed all financial obligations of Procept relating to its licensing of worldwide patent rights as of the effective date of the agreement. On February 28, 2002, Procept and the United States Public Health Service ("PHS") executed an exclusive Patent License Agreement (the "New License Agreement"), which superceded the license agreement dated February 6, 1998 between Procept and The Penn State Research Foundation ("PSRF") (the "Original License Agreement"). The New License

Agreement affirms Procept's worldwide patent rights to O6-Benzylguanine ("O6-BG") and related compounds, and acknowledges the Sublicense Agreement, as of the date executed by Procept and AOI. At the time of executing the New License Agreement, Procept paid to PHS a one-time license issue royalty fee of $86,000 for outstanding patent prosecution costs accrued at December 31, 2001. In connection with the execution of the New License Agreement, Procept, together with the National Cancer Institute ("NCI") and AOI, also executed an amendment to the Cooperative Research and Development Agreement ("CRADA"), originally executed with the NCI in August 1998 (the "Amended CRADA"), pursuant to which AOI replaced Procept as Collaborator *(i.e.,* the research and development partner). Under terms of the Amended CRADA, AOI assumed direct responsibility for all remaining research and payment obligations, effective as of February 28, 2002. As part of the Amended CRADA, Procept made a final payment of $200,000 to NCI for production and clinical distribution costs relating to O6-BG, which costs were accrued at December 31, 2001. Prior to executing the Amended CRADA, AOI was obligated to reimburse Procept for costs that Procept paid, pursuant to, and subsequent to the effective date of, the Sublicense Agreement. Shortly thereafter, Procept and AOI agreed that AOI would defer its reimbursement to Procept for costs that Procept had paid relating to its maintenance of patent rights and CRADA obligations until the execution of the New License Agreement and the Amended CRADA. As of December 31, 2001, such reimbursable costs amounted to $137,000. On February 28, 2002, AOI paid to the Company the total balance of deferred reimbursable costs. In May 2002, Procept executed an amendment to the New License Agreement (the "Amendment"). The Amendment clarified language in the New License Agreement pertaining to future sublicensing agreements, in the event that such agreements were to be executed. In addition, the Company, together with PHS, PSRF, AOI and the University of Chicago ("UC"), also executed, in May 2002, a Comprehensive Release Agreement (the "Release

Agreement"). The Release Agreement provides for the irrevocable and absolute release of the Company by PHS, PSRF and UC from any and all claims or obligations arising out of, or related to the Original License Agreement. The Release Agreement was made part of the New License Agreement.

On March 3, 2003, Richard J. Kurtz, a director and shareholder of the Company, loaned $30,000 to the Company to fund its current operations. In April 2003, the Company's repaid this loan to Mr. Kurtz from proceeds received under the PRO 2000 Amendment.

On October 8, 2003, in anticipation of completing a business combination with Digital or another entity, the Company executed a promissory note (the "Promissory Note") with Mr. Kurtz under which the Company expects to receive loans that will enable it to meet its anticipated cash operating needs. The Promissory Note bears interest at 8% per annum and contemplates repayment upon the occurrence of (i) the first anniversary of the making of the first loan; and (ii) the first funding of debt and/or equity capital subsequent to the completion of the proposed business combination between the Company and Digital that results in aggregate net proceeds to the Company of not less than $1 million. As of December 31, 2003, Mr. Kurtz has loaned the Company an aggregate of $110,000 to fund its current operations.

In 2004, the Company sold substantially all of the office furniture and equipment that was located in the Lexington Office, certain of which was subject to a capital lease under which monthly payments were due from the Company through April 2005. The Company negotiated a settlement of the capital lease obligation and sold the furniture and equipment for the equal amounts of $10,000, recording in the financial statements for the year ended December 31, 2003, an $11,000 gain (excluding remaining interest charges) on the settlement of the capital lease and a loss on the sale of furniture and equipment of $14,000. Elliott H. Vernon, a director of the Company, is Chairman and co-manager of Metcare Rx Pharmaceutical Services Group, LLC, the purchaser of the office furniture and equipment.

PART IV

Item 14. Principal Accounting Fees and Services.

Rothstein Kass & Company, P.C. was engaged as independent accountants for the Company beginning with its review of the Company's Form 10-Q for the quarterly period ended September 30, 2003. Previously, PricewaterhouseCoopers LLP had been the Company's independent accountants for fiscal 2002 and for the quarterly reviews for the quarters ended March 31, 2003 and June 30, 2003. Rothstein, Kass & Company, P.C. and PricewaterhouseCoopers LLP have no direct or indirect financial interest in the Company.

INDEPENDENT PUBLIC ACCOUNTANTS' FEES

During the last two fiscal years, Rothstein, Kass & Company, P.C. ("RK") and PricewaterhouseCoopers LLP ("PwC") billed the Company the following fees for its services:

	Fiscal Year Ended December 31, 2003		Fiscal Year Ended December 31, 2002	
	RK	**PwC**	**RK**	**PwC**
Audit Fees	$ 21,000	$ 8,800	$	$ 80,621
Audit-Related Fees				
Tax Fees (a)				51,825
All Other Fees				
Total	$ 21,000	$ 8,800	$	$ 132,446

(a) Includes fees for tax compliance and consulting.

The Audit Committee of the Board of Directors has considered whether the provision of the above services other than audit services by PricewaterhouseCoopers LLP is compatible with maintaining such firm's independence and the Audit Committee has satisfied itself as to the auditors' independence.

POLICY ON AUDIT COMMITTEE PRE-APPROVAL OF AUDIT AND PERMISSIBLE NON-AUDIT SERVICES OF INDEPENDENT ACCOUNTANTS

Consistent with policies of the Securities and Exchange Commission regarding auditor independence and the Audit Committee charter, the Audit Committee has responsibility for appointing, setting compensation and overseeing the work of the independent auditor. The Audit Committee's policy is to pre-approve all audit and permissible non-audit services provided by the independent accountants. The Audit Committee may also pre-approve particular services on a case-by-case basis.

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a) Documents filed as part of this Form 10-K

(1) Financial Statements.

(2) Financial Statement Schedules.

All schedules are omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule, or are included in the Notes to Consolidated Financial Statements.

(3) Exhibits.

No.	Description
3.1	Amended and Restated Certificate of Incorporation of the Company, filed with the Secretary of State of Delaware on June 26, 2000. Filed as Exhibit 4.1 to the Company's Registration Statement on Form S-8, Commission File No. 333-45168, and incorporated herein by reference.
3.2	Certificate of Ownership and Merger of Paligent Inc. into HeavenlyDoor.com, Inc., filed with the Secretary of State of Delaware on December 28, 2000, to be effective as of December 31, 2000. Filed as Exhibit 3.2 to the Company's Form 10-K for the year ended December 31, 2000, Commission File No. 0-21134, and incorporated herein by reference.

No.	Description
3.3	By-laws of Paligent Inc. Filed as Exhibit 3.3 to the Registrant's Registration Statement on Form S-1, Commission File No. 33-57188, and incorporated herein by reference.
4.1	Class A Warrants (originally issued by Procept, Inc.) held by a Schedule of Holders. Filed as Exhibit 4.3 to the Company's Form 8-K filed on March 31, 1999, Commission File No. 0-21134, and incorporated herein by reference.
4.2	1995 Unit Purchase Options (originally issued by Procept, Inc.) held by a Schedule of Holders. Filed as Exhibit 4.1 to the Company's Form 8-K filed on March 31, 1999, Commission File No. 0-21134, and incorporated herein by reference.
4.3	1997 Unit Purchase Options (originally issued by Procept, Inc.) held by a Schedule of Holders. Filed as Exhibit 4.2 to the Company's Form 8-K filed on March 31, 1999, Commission File No. 0-21134, and incorporated herein by reference.

4.4	Common Stock Purchase Warrant issued in June 1999 to Wound Healing of Oklahoma. Filed as Exhibit 4.1 to the Company's Form 10-Q for the quarter ended June 30, 1999, Commission File No. 0-21134, and incorporated herein by reference.
4.5	Class D Warrants issued in June 1999 to a Schedule of Holders. Filed as Exhibit 4.2 to the Company's Form 10-Q for the quarter ended June 30, 1999, Commission File No. 0-21134, and incorporated herein by reference.
4.6	The 1998 Equity Incentive Plan, as amended through June 30, 1999. Filed as Exhibit 10.1 to the Company's Form 10-Q for the quarter ended June 30, 999, Commission File No. 0-21134, and incorporated herein by reference.
4.7	The 1994 Employee Stock Purchase Plan, as amended. Filed as Exhibit 10.2 to the Company's Form 10-Q for the quarter ended June 30, 1997, Commission File No. 0-21134, and incorporated herein by reference.
10.1	Lease for 369 Lexington Avenue, New York, New York, dated April 19, 2000 between the Company and 369 Lexington Avenue Co., L.P. Filed as Exhibit 10.1 to the Company's Form 10-K for the year ended December 31, 2000, Commission File No. 0-21134, and incorporated herein by reference.
10.2	License Agreement by and between the Company and Interneuron Pharmaceuticals, Inc., now known as Indevus Pharmaceuticals, Inc., dated June 14, 2000. Filed as Exhibit 10.21 to the Company's Form 10-Q for the quarter ended June 30, 2000, Commission File No. 0-21134, and incorporated herein by reference. (The Company submitted a confidentiality request for certain parts of this exhibit.)
10.3	Executive Employment Agreement dated as of May 25, 2000, as amended February 9, 2001, between the Company and Salvatore A. Bucci. Filed as Exhibit 10.5 to the Company's Form 10-K for the year ended December 31, 2000, Commission File No. 0-21134, and incorporated herein by reference.
10.4	Sublicense Agreement by and between Procept, Inc. and AOI Pharmaceuticals Inc., dated as of October 13, 2000. Filed as Exhibit 10.6 to the Company's Form 10-K for the year ended December 31, 2000, Commission File No. 0-21134, and incor- porated herein by reference.
10.5	Third Extension to the Consulting and Confidentiality Agreement dated May 16, 2001 between the Company and Elliott H. Vernon. Filed as Exhibit 10.9 to the Company's Form 10-K for the year ended December 31, 2001, Commission File No. 0-21134, and incorporated herein by reference.

10.6 Third Extension to the Consulting and Confidentiality Agreement dated May 16, 2001 between the Company and Zola P. Horovitz, Ph.D. Filed as Exhibit 10.10 to the Company's Form 10-K for the year ended December 31, 2001, Commission File No. 0-21134, and incorporated herein by reference.

10.7 Fourth Extension to the Consulting and Confidentiality Agreement dated January 2, 2002 between the Company and Elliott H. Vernon. Filed as Exhibit 10.12 to the Company's Form 10-K for the year ended December 31, 2001, Commission File No. 0-21134, and incorporated herein by reference.

10.8 Fourth Extension to the Consulting and Confidentiality Agreement dated January 2, 2002 between the Company and Zola P. Horovitz, Ph.D. Filed as Exhibit 10.13 to the Company's Form 10-K for the year ended December 31, 2001, Commission File No. 0-21134, and incorporated herein by reference.

10.9 Patent License Agreement dated February 28, 2002 between Procept, Inc. and the United States Public Health Service. Filed as Exhibit 10.14 to the Company's Form 10-K for the year ended December 31, 2001, Commission File No. 0-21134, and incorporated herein by reference.

10.10 Amendment No. 2 to the Cooperative Research and Development dated February 28, 2002 between Procept, Inc. and the National Cancer Institute. Filed as Exhibit 10.15 to the Company's Form 10-K for the year ended December 31, 2001, Commission File No. 0-21134, and incorporated herein by reference.

10.11 First Amendment to Exclusive License Agreement dated May 17, 2002 between Procept, Inc. and the United States Public Health Service. Filed as Exhibit 10.16 to the Company's Form 10-Q for the quarter ended June 30, 2002, Commission File No. 0-21134, and incorporated herein by reference.

10.12 Comprehensive Release Agreement dated May 29, 2002 between Procept, Inc., the United States Public Health Service, The Penn State Research Foundation, the University of Chicago and AOI Pharmaceuticals, Inc. Filed as Exhibit 10.17 to the Company's Form 10-Q for the quarter ended June 30, 2002, Commission File No. 0-21134, and incorporated herein by reference.

10.13 Amendment to the License Agreement by and between the Company and Indevus Pharmaceuticals, Inc., dated as of April 10, 2003. Filed as Exhibit 10.18 to the Company's Form 8-K, filed on April 18, 2003, Commission File No. 0-21134, and incorporated herein by reference.

21.1 Schedule of subsidiaries of the Company. Filed as Exhibit 21.1 to the Company's Form 10-K for the year ended December 31, 2001, Commission File No. 0-21134, and incorporated herein by reference.

23.1 Consent of Rothstein, Kass & Company, P.C., independent accountants to the Company. Filed herewith.

23.2 Consent of PricewaterhouseCoopers LLP, independent accountants to the Company. Filed herewith.

31.1 Certification of Chief Executive Officer and Principal Financial Officer Required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.

32.1 Certification of Chief Executive Officer and Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Filed herewith.

(b) Reports on Form 8-K

None.

SIGNATURES

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

PALIGENT INC.
(Registrant)

Dated: April 9, 2004

/s/ SALVATORE A. BUCCI

Salvatore A. Bucci
President and Chief Executive Officer

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated, on the 9th day of April, 2004:

	Capacity:
/s/ ELLIOTT H. VERNON Elliott H. Vernon	Chairman
/s/ SALVATORE A. BUCCI Salvatore A. Bucci	Director, President and Chief Executive Officer (Principal Executive, Financial and Accounting Officer)
/s/ ZOLA P. HOROVITZ, PH.D. Zola P. Horovitz, Ph.D.	Director
/s/ RICHARD J. KURTZ Richard J. Kurtz	Director

32

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and
Stockholders of Paligent Inc.

We have audited the accompanying consolidated balance sheet of Paligent Inc. and subsidiaries as of December 31, 2003, and the related consolidated statements of operations, stockholders' (deficit) equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Paligent Inc. and subsidiaries as of December 31, 2003, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has incurred losses from operations since inception, has working capital and stockholders' deficits and has limited cash to fund its operations in 2004. These circumstances raise substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding those matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Rothstein, Kass & Company, P.C.

Roseland, New Jersey
February 27, 2004

33

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of Paligent Inc.

In our opinion, the consolidated balance sheet as of December 31, 2002 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the two years in the period ended December 31, 2002 (appearing on pages 35 through 51 of the Paligent Inc. 2003 Annual Report on Form 10-K) present fairly, in all material respects, the financial position, results of operations and cash flows of Paligent Inc. at December 31, 2002 and for each of the two years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. 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 of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has incurred losses from operations since inception and has a working capital deficit. These circumstances raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

PricewaterhouseCoopers LLP

New York, New York
April 14, 2003

34

PALIGENT INC.

CONSOLIDATED BALANCE SHEETS

	December 31,

	December 31, 2003	December 31, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	$ 41,321	$ 153,046
Current portion of subtenant receivable	100,000	
Property held for sale	10,000	
Other current assets		94
Total current assets	151,321	153,140
Property and equipment, net	2,813	75,789
Security deposits	9,543	77,582
Subtenant receivable	25,000	
Deferred charges		16,442
Other assets		17,227
Total assets	$ 188,677	$ 340,180
LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 124,284	$ 95,061
Accrued compensation	9,840	10,037
Accrued professional services	34,100	75,000
Due to related party	110,000	
Current portion of capital lease obligations	10,000	20,383
Total current liabilities	288,224	200,481
Deferred rent	22,262	32,342
Security deposit payable		20,000
Capital lease obligations		20,545
Commitments and contingencies		
Stockholders' (deficit) equity:		
Common stock, $.01 par value; 75,000,000 shares authorized; 32,490,948 shares issued and outstanding at December 31, 2003 and 2002, respectively	324,910	324,910
Additional paid-in capital	154,634,974	154,634,974
Accumulated deficit	(155,081,693)	(154,893,072)
Total stockholders' (deficit) equity	(121,809)	66,812
Total liabilities and stockholders' (deficit) equity	$ 188,677	$ 340,180

The accompanying notes are an integral part of the consolidated financial statements.

PALIGENT INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the years ended December 31,		
	2003	**2002**	**2001**
Interest income	$ 660	$ 7,791	$ 72,903
Costs and expenses:			
Research and development			285,859
General and administrative	686,118	1,003,397	1,459,688
Total costs and expenses	686,118	1,003,397	1,745,547
Loss from operations	(685,458)	(995,606)	(1,672,644)
Other income (expense), net	496,837		(19,811)
Net loss	$ (188,621)	$ (995,606)	$ (1,692,455)
Basic and diluted net loss per common share	$ (0.01)	$ (0.03)	$ (0.05)
Weighted average number of common shares outstanding basic and diluted	32,490,948	32,490,948	32,490,948

The accompanying notes are an integral part of the consolidated financial statements.

PALIGENT INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' (DEFICIT) EQUITY

For the Years Ended December 31, 2003, 2002 and 2001

	Common Stock				
	Shares	**Par Value**	**Additional Paid-in Capital**	**Accumulated Deficit**	**Total Stockholders' (Deficit) Equity**
Balance at December 31, 2000	32,490,948	$ 324,910	$ 154,634,974	$ (152,205,011)	$ 2,754,873
Net loss				(1,692,455)	(1,692,455)
Balance at December 31, 2001	32,490,948	324,910	154,634,974	(153,897,466)	1,062,418

	Common Stock				
Net loss				(995,606)	(995,606)
Balance at December 31, 2002	32,490,948	324,910	154,634,974	(154,893,072)	66,812
Net loss				(188,621)	(188,621)
Balance at December 31, 2003	32,490,948	$ 324,910	$ 154,634,974	$ (155,081,693)	$ (121,809)

The accompanying notes are an integral part of the consolidated financial statements.

37

PALIGENT INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the years ended December 31,		
	2003	**2002**	**2001**
Cash flows from operating activities:			
Net loss	$ (188,621)	$ (995,606)	$ (1,692,455)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	65,940	48,166	69,010
Loss on sale of property and equipment	14,263		19,811
Write-off of security deposits	68,039		
Deferred charges	16,442	(16,442)	
Reduction in capital lease obligation	(7,225)		
Deferred rent	(10,080)	(4,154)	30,685
Changes in operating assets and liabilities, net of acquisitions:			
Due from related party		137,091	(91,892)
Prepaid expenses and other current assets	94	1,670	102,342
Subtenant receivable	(125,000)		
Other assets			(28,302)
Accounts payable	28,034	61,992	(155,518)
Accrued patent and research costs		(285,859)	
Accrued expenses and other current liabilities	(39,908)	(61,512)	(3,699)
Security deposit payable	(20,000)		20,000
Net cash used in operating activities	(198,022)	(1,114,654)	(1,730,018)
Cash flows from investing activities:			
Capital expenditures		(5,618)	
Proceeds from sales of assets			117,100
Net cash (used in) provided by investing activities		(5,618)	117,100

	For the years ended December 31,		
Cash flows from financing activities:			
Proceeds from related party loan	140,000		
Payments on related party loan	(30,000)		
Principal payments on capital lease obligations	(23,703)	(24,948)	(60,506)
Net cash provided by (used in) financing activities	86,297	(24,948)	(60,506)
Net decrease in cash and cash equivalents	(111,725)	(1,145,220)	(1,673,424)
Cash and cash equivalents at beginning of year	153,046	1,298,266	2,971,690
Cash and cash equivalents at end of year	$ 41,321	$ 153,046	$ 1,298,266
Supplemental disclosure of cash flow information:			
Interest paid	$ 7,326	$ 10,149	$ 16,056

The accompanying notes are an integral part of the consolidated financial statements.

PALIGENT INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 NATURE OF BUSINESS

Paligent Inc., together with its subsidiaries (collectively, "Paligent" or the "Company"), is presently seeking business opportunities to maximize value for its shareholders. In 2001, the Company significantly reduced its operating costs following the disposition of its Internet business and the out-licensing of its remaining biotechnology assets in 2000. Since 2001, the Company has evaluated various strategic alternatives, including acquisitions of new operating businesses and technologies as well as potential merger opportunities.

On July 1, 2003, the Company executed a non-binding letter of intent to acquire privately held Digital Products of Delaware, Inc. ("Digital"). The Company proposed to acquire all of the issued and outstanding stock of Digital in consideration of the issuance of shares of common stock of the Company such that the shareholders of Digital would own 80% of the outstanding stock of the post-acquisition company. Richard J. Kurtz, a director and the principal shareholder of the Company, is the principal shareholder of Digital. On January 16, 2004, the Company announced that the contemplated Digital acquisition was being indefinitely postponed due to Digital's need to focus on meeting certain business demands which would hinder its ability to conclude the business combination with the Company. Although the Company remains interested in a potential acquisition of Digital, it has resumed its efforts to identify an alternative business combination.

From its inception in 1985 through 1999, Paligent operated, under the name Procept, Inc., as a biotechnology company engaged in the development and commercialization of novel drugs with a product portfolio focused on infectious diseases and oncology. During 1999, the Company's principal efforts were devoted to drug development and human clinical trials focusing on two biotechnology compounds, PRO 2000 Gel and O6-Benzylguanine ("O6-BG"). During fiscal 2000, the Company closed its research facilities and out-licensed PRO 2000 Gel and O6-BG. Under the terms of the out-licensing agreements, the Company retains certain future rights, including the right to receive certain agreed-upon payments upon the achievement of certain milestones as well as royalties from commercial sales, if any. In April 2003, the Company received proceeds of $500,000 pursuant to an amendment of its sublicensing agreement for PRO 2000 Gel (see Note 8).

In January 2000, the Company acquired Heaven's Door Corporation ("HDC"), a company that provided products and services over the Internet. Effective with the acquisition of HDC, the Company's name was changed from Procept, Inc. to HeavenlyDoor.com, Inc. and the Company's subsidiary, Pacific Pharmaceuticals, Inc., was renamed Procept, Inc. (hereinafter referred to as "Procept"). Following the acquisition of HDC, the Company operated this Internet venture until the fourth quarter of 2000, at which time the Company discontinued the pursuit of its Internet strategy after a sustained period of deterioration in the Internet and technology sectors and related capital markets. Shortly thereafter, the Company entered into an agreement to sell all of its Web-based assets and Internet operations, including the name "HeavenlyDoor.com," and ceased its Internet activities. In connection with this agreement, the Company's name was again changed, on December 31, 2000, from HeavenlyDoor.com, Inc. to Paligent Inc.

Since inception, the Company has generated no revenue from product sales or services, has not been profitable, and has incurred an accumulated deficit of $155.1 million. As the Company continues to evaluate various strategic alternatives in its quest for new growth areas that will maximize value to existing stockholders, the Company expects to incur additional losses.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and all of its subsidiaries, which are wholly owned. All significant intercompany accounts and transactions have been eliminated in consolidation.

Risks and Uncertainties

The accompanying consolidated financial statements have been prepared on a going concern basis which contemplates the realization of assets and the satisfaction of liabilities in the ordinary course of business. The Company has incurred losses from operations since inception, has working capital and stockholders' deficits and has limited cash to fund operations in 2004. Since disposing of its Internet assets and related operations in December 2000, the Company has significantly reduced its operating costs. During April 2003, the Company received $500,000 in connection with the amendment of its license agreement with Indevus Pharmaceuticals, Inc. The Company is presently relying on borrowings from its principal shareholder to fund continuing operations. The shareholder has made no commitment to continue to make loans to the Company. While the Company evaluates strategic alternatives, including potential business investments and related financing, the Company's rate of spending could vary from its current estimate. No assurance can be given that the Company will be able to complete a business investment or that such financing will be available to the Company. If the Company is unable to generate significant revenue from acquired operations, obtain additional revenue from its existing out-licensing of its biotechnology assets, secure additional financing for its present operations, obtain financing from its principal shareholder or secure sufficient financing for operations resulting from acquisition or merger, the Company will experience a cash shortage in 2004, the effect of which could result in the discontinuance of operations. If additional funds are raised by issuing equity securities, further dilution to existing stockholders will result and future investors may be granted rights superior to those of existing stockholders.

These circumstances raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Company has entered into out-licensing arrangements with respect to two compounds that had been under development by the Company. Accordingly, the Company remains subject to risks common to companies in the biotechnology industries including, but not limited to, development by the Company's licensees, or its competitors, of new technological innovations, dependence on key personnel of its licensees, protection of proprietary technology and compliance by its licensees with United States Food and Drug Administration government regulations.

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 certain 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

The Company considers all short-term investments purchased with an original maturity of three months or less at the date of acquisition to be cash equivalents. The Company invests its excess cash in money market instruments. Cash and cash equivalents are, at times, maintained at financial institutions in amounts that exceed federally insured limits.

Property and Equipment

Property and equipment is recorded at cost and depreciated on a straight-line basis over the following estimated useful lives:

Furniture and fixtures	5 years
Office equipment	3-5 years
Equipment and furniture under capital lease	Estimated useful life or term of lease, if shorter
Leasehold improvements	Estimated useful life or term of lease, if shorter

Major additions and improvements are capitalized, while repairs and maintenance are expensed as incurred. Upon retirement or other disposition, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is included in the determination of net loss.

Impairment or Disposal of Long-Lived Assets

The Company accounts for long-lived assets under Statement of Financial Accounting Standards No. ("FAS") 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" which requires the Company to review for impairment of long-lived assets, whenever events or changes in circumstances indicate that the carrying amount of an asset might not be recoverable. When such an event occurs, management determines whether there has been an impairment by comparing the anticipated undiscounted future net cash flows to the related asset's carrying value. If an asset is considered impaired, the asset is written down to fair value, which is determined based either on discounted cash flows or appraised value, depending on the nature of the asset.

Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

Research and Development

Research and development costs are expensed as incurred.

Income Taxes

The Company provides for income taxes under the liability method, which requires recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

A valuation allowance is provided for net deferred tax assets if, based on the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

Revenue Recognition

Interest income is recognized as earned.

Fair Value of Financial Instruments

The fair values of the Company's assets and liabilities that qualify as financial instruments under FAS 107, "Disclosures about Fair Value of Financial Instruments," approximate their carrying amounts as presented in the accompanying consolidated balance sheets at December 31, 2003 and 2002.

Basic and Diluted Net Loss Per Common Share

Basic earnings per share ("EPS") excludes dilution and is computed by dividing (loss) income applicable to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS is based upon the weighted average number of common shares outstanding during the period plus the additional weighted average common equivalent shares during the period. Common equivalent shares are not included in the per share calculations where the effect of their inclusion would be anti-dilutive. Inherently, stock options and warrants are deemed to be anti-dilutive when the average market price of the common stock during the period exceeds the exercise price of the stock options or warrants. Common equivalent shares result from the assumed exercises of outstanding stock options and warrants, the proceeds of which are then assumed to have been used to repurchase outstanding shares of common stock (the "treasury stock method").

For the years ended December 31, 2003, 2002 and 2001, the Company had stock options and warrants outstanding that were anti-dilutive. These securities could potentially dilute basic EPS in the future and were not included in the computation of diluted EPS because to do so would have been anti-dilutive for the periods presented. Consequently, there were no differences between basic and diluted EPS for these periods.

New Accounting Standards

In December 2002, the Financial Accounting Standards Board ("FASB") issued FAS 148, "Accounting for Stock-Based Compensation Transition and Disclosure, an Amendment of FAS 123". FAS 148 provides additional transition guidance for companies that elect to voluntarily adopt the accounting provisions of FAS 123, "Accounting for Stock-Based Compensation" and is intended to encourage the adoption of the accounting provisions of FAS 123. Under the provisions of FAS 148, companies that choose to adopt the accounting provisions of FAS 123 will be permitted to select from three transition methods: the prospective method, the modified prospective method and the retroactive restatement method. FAS 148 requires certain new disclosures that are incremental to those required by FAS 123, which must also be made in interim financial statements. The transition and annual disclosure provisions of FAS 148 are effective for fiscal years ending after December 15, 2002. The adoption of FAS 148 did not have a material impact on the Company's consolidated financial statements.

In January 2003, the FASB issued FASB Interpretation No. ("FIN") 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. Pursuant to a revision of FIN 46 which was issued in December 2003, FIN 46 is effective for all reporting periods ending after December 15, 2004. The Company has no arrangements that would be subject to this interpretation.

In April 2003, the FASB issued FAS 149, "Amendment of FAS 133 on Derivative Instruments and Hedging Activities." FAS 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under FAS 133. FAS 149 is effective for contracts entered into or modified after June 30, 2003, with certain exceptions, and for hedging relationships designated after June 30, 2003. The adoption of FAS 149 did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In May 2003, the FASB issued FAS 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." FAS 150 requires that certain financial instruments, which under previous guidance were accounted for as equity, must now be accounted for as liabilities. The financial instruments affected include mandatory redeemable stock, certain financial instruments that require or may require the issuer to buy back some of its shares in exchange for cash or other assets and certain obligations that can be settled with shares of stock. FAS 150 is effective for all financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of FAS 150 did not have a material impact on the Company's consolidated financial position, results of operations or cash flows.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

NOTE 3 SUBTENANT RECEIVABLE

Effective July 1, 2001, the Company entered into a sublease for the majority of its New York City office space. Under terms of the sublease, the Company was entitled to subrental payments equal to 85% of its base rent, operating costs and property taxes throughout the remaining term of its lease. In addition, under a separate agreement with its subtenant, the Company was entitled to receive a monthly fee for the subtenant's right to utilize furniture and equipment located in the subleased space.

Beginning in July 2003, the Company's subtenant ceased making payments under the sublease and the separate agreement governing the use of furniture and equipment. Accordingly, the Company commenced a civil action against the subtenant for collection of outstanding amounts due. On December 31, 2003, the Company executed a Surrender Agreement and Promissory Note with its subtenant pursuant to which the Company received cash and a promissory note approximately equivalent to the aggregate amount due as of December 31, 2003 in exchange for the termination of the sublease and the furniture and equipment rental agreement. The Promissory Note, in the amount of $75,000 as of December 31, 2003, bears interest at the rate of 6% per annum and is payable in three

43

installments of $25,000, plus accrued interest, on June 30, 2004, December 31, 2004 and June 30, 2005. The cash portion of the settlement, in the amount of $50,000, which is included in the current portion of subtenant receivable at December 31, 2003, was received by the Company in January 2004.

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	December 31, 2003	December 31, 2002
Furniture and fixtures	$	$ 82,643
Office equipment	16,438	46,877
Leasehold improvements		47,032
	16,438	176,552
Less: accumulated depreciation and amortization	(13,625)	(100,763)
Property and equipment, net	$ 2,813	$ 75,789

In January 2004, the Company vacated its former principal executive offices (see Note 7). Accordingly, the Company charged the $14,000 balance of unamortized leasehold improvements as of December 31, 2003 to fiscal 2003 amortization expense.

In 2004, the Company sold substantially all of its office furniture and equipment for the amount of $10,000 and used the proceeds of the sale to satisfy a capital lease obligation to which certain of the furniture was encumbered. Consequently, the Company wrote down the value of the sold assets as of December 31, 2003 to $10,000 and reclassified the assets sold to property held for sale. For fiscal 2003, the Company recorded a loss of $14,000 from the disposition of fixed assets, which amount is included in other expense.

During fiscal 2001, the Company sold equipment with a net book value of $46,911 for $27,100 resulting in a loss of $19,811.

Property and equipment includes the following assets that were acquired pursuant to capital lease arrangements:

	December 31, 2003	December 31, 2002
Furniture and fixtures	$	$ 69,405
Office equipment		25,677
		95,082
Less: accumulated depreciation		(40,446)
	$	$ 54,636

Depreciation and amortization expense of property and equipment was $48,713, $40,783 and $65,318 for the years ended December 31, 2003, 2002 and 2001, respectively.

NOTE 5 STOCKHOLDERS' EQUITY

Common Stock

Years Ended December 31, 2003, 2002 and 2001

As of December 31, 2003, 2002 and 2001, there were 32,490,948 shares of common stock of the Company ("Common Stock") outstanding. During fiscal 2003, 2002 and 2001, there were no changes in Common Stock.

1998 Equity Incentive Plan

Under the Company's 1998 Equity Incentive Plan (the "Plan"), which amended and restated the 1989 Stock Plan, the Company is permitted to sell or award Common Stock or to grant stock options for the purchase of Common Stock to employees, officers and consultants up to a maximum of 4,800,000 shares. In February 2000, the Board of Directors approved an amendment to the Plan to increase the number of shares covered by the Plan by 6,000,000, to 10,800,000, which amendment was approved by the Company's stockholders at the June 19, 2000 Annual Meeting of Stockholders. At December 31, 2003, there were 5,377,605 shares available for future grants under the Plan.

The 1998 Plan provides for the granting of incentive stock options ("ISOs") and non-statutory stock options. In the case of ISOs, the exercise price shall not be less than 100% of the fair market value per share of the Company's common stock, on the date of grant. In the case of non-statutory options, the exercise price shall be determined by a committee appointed by the Board of Directors (the "Compensation Committee"). All stock options under the Plan have been granted at exercise prices at least equal to the fair market value of the Common Stock on the date of grant.

The options either are exercisable immediately on the date of grant or become exercisable in such installments as the Compensation Committee of the Board of Directors may specify, generally over a four year period. Each option expires on the date specified by the Compensation Committee, but not more than ten years from the date of grant in the case of ISOs (five years in other cases).

The Company accounts for stock-based compensation in accordance with FAS 123, "Accounting for Stock-Based Compensation." Under FAS 123, the fair value at grant date of all stock-based awards is recognized as expense over the vesting period, except that options granted to employees and directors may be accounted for under the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). Under APB 25, no compensation expense is recorded for options granted to employees or directors unless the exercise price is lower than the market value of the underlying stock at grant date. The Company has elected to apply APB 25, and to provide disclosures of net income as if the fair value method in FAS 123 had been applied. Had compensation cost for stock option grants under the Company's stock option plans been determined pursuant to FAS 123, the Company's net loss would have increased accordingly. The required disclosures under FAS 123 are made below.

Activity under all stock option plans related to all the incentive stock options and non-qualified stock options for the three years ended December 31, 2003 is listed below:

	Incentive Stock Options	Non-qualified Stock Options	Option Price	Weighted Average Exercise Price
Outstanding at December 31, 2000	3,602,103	1,761,359	$ 0.70-$138.12	$ 2.27
Cancelled		(30,000)	$ 8.75-$10.00	$ 9.17
Outstanding at December 31, 2001	3,602,103	1,731,359	$ 0.70-$138.12	$ 2.23

	Incentive Stock Options	Non-qualified Stock Options	Option Price	Weighted Average Exercise Price
Cancelled		(3,802)	$ 81.74-$138.12	$ 97.84
Outstanding at December 31, 2002	3,602,103	1,727,557	$ 0.70 $89.74	$ 2.17
Cancelled		(3,802)	$ 86.33-$89.74	$ 88.28
Outstanding at December 31, 2003	3,602,103	1,723,755	$ 0.70-$47.22	$ 2.10

Summarized information about stock options outstanding at December 31, 2003 is as follows:

				Exercisable	
Range of Exercise Prices	Number of Options Outstanding	Weighted Average Remaining Contract Life (in years)	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$0.70 $1.45	471,563	6.11	$ 1.08	390,313	$ 1.08
$1.56	3,852,561	4.92	$ 1.56	3,852,561	$ 1.56
$1.65 $3.65	338,029	5.00	$ 1.93	338,029	$ 1.93
$4.25	600,000	6.07	$ 4.25	600,000	$ 4.25
$7.93 $89.74	63,705	2.30	$ 23.27	63,705	$ 23.27

Options for the purchase of 5,244,608, 5,150,395 shares and 4,856,184 shares are exercisable at December 31, 2003, 2002 and 2001, respectively.

Had compensation cost for the Company's stock option plans been determined based on the fair value at the grant date for awards made in 2000 consistent with the provisions of FAS 123, the Company's net loss and loss per share would have been increased to the pro forma amounts shown below:

	2003	2002	2001
Net loss as reported	$ 188,621	$ 995,606	$ 1,692,455
Adjustment to net loss for proforma stock-based compensation expense	68,120	84,025	739,663
Net loss pro forma	$ 256,741	$ 1,079,631	$ 2,432,118
Basic and diluted net loss per common share as reported	$ 0.01	$ 0.03	$ 0.05
Basic and diluted net loss per common share pro forma	$ 0.01	$ 0.03	$ 0.07

Common Stock Warrants and Unit Purchase Options

The following table sets forth warrants and unit purchase options outstanding as of the dates indicated. The warrants listed are exercisable into shares of Common Stock. Unit purchase options are exercisable into shares of Common Stock plus warrants to purchase additional shares of Common Stock. The exercise prices and balances reflected in the table for unit purchase options reflect the total

46

number of shares of Common Stock of the Company issuable upon the exercise of both the unit purchase options and their underlying warrants. All outstanding warrants and unit purchase options are exercisable upon presentation.

Warrant Description		Exercise Price	Expiration Date	Balance January 1, 2002	Expired	Balance December 31, 2002	Expired	Balance December 31, 2003
Financial services	$	105.00	01/06/2002	1,071	(1,071)			
Class C	$	3.28	04/08/2003	2,859,099		2,859,099	(2,859,099)	
Class C	$	3.28	11/08/2003	2,344,929		2,344,929	(2,344,929)	
Class D	$	2.11	06/30/2004	924,525		924,525		924,525
Contractual obligation	$	2.11	06/30/2004	11,500		11,500		11,500
Contractual obligation	$	2.50	04/12/2005	5,000		5,000		5,000
Class E	$	2.11	06/30/2005	1,155,955		1,155,955		1,155,955
1995 Unit Purchase Options	$	10.74	11/26/2005	85,194		85,194		85,194
Class A	$	9.20	11/26/2005	722,274		722,274		722,274
1997 Unit Purchase Options	$	2.73	09/07/2007	1,454,143		1,454,143		1,454,143
				9,563,690	(1,071)	9,562,619	(5,204,028)	4,358,591

NOTE 6 INCOME TAXES

No federal or state income taxes have been provided for as the Company has incurred losses since its inception. At December 31, 2003, the Company had federal and state tax net operating loss ("NOL") carryforwards of $110.0 million and $73.1 million, respectively, which will expire beginning in the year 2004 through 2023. Additionally, the Company had federal research and experimentation credit carryforwards of $2.0 million, which expire through 2023. The Internal Revenue Code of 1986, as amended (the "Code"), contains provisions that limit the NOL carryforwards and tax credits available to be used in any given year upon the occurrence of certain events, including a significant change in ownership interests. Such changes in ownership, as defined in the Code, have occurred in conjunction with the initial public offering and the acquisitions of HDC and Procept. Any future acquisition may further limit the NOL carryforwards and tax credits available. In addition, some states impose substantially equivalent restrictions on the utilization of state NOL carryforwards and tax credits.

The components of the Company's net deferred tax assets were as follows at December 31:

	2003	2002
Net deferred tax assets:		
Net operating loss carryforwards	$ 49,075,000	$ 38,933,000
Tax credit carryforwards	701,000	2,691,000
Stock based compensation	195,000	177,000
Depreciation		9,000
Capitalized assets and other	13,000	16,000
Valuation allowance	(49,984,000)	(41,826,000)
Total net deferred tax assets	$	$

Management of the Company has evaluated the positive and negative evidence bearing upon the realizability of its deferred tax assets, which are comprised principally of NOL and tax credit carryforwards. Based on the Company's history of losses, management concluded that it is more likely than not that the Company will not realize the benefit of the net deferred tax assets. Accordingly, a full valuation allowance has been provided for the deferred tax assets.

NOTE 7 COMMITMENTS

Operating Leases

On April 19, 2000, the Company entered into an operating lease (the "Lexington Lease") for its office at 369 Lexington Avenue, New York, New York (the "Lexington Office"), commencing on May 1, 2000, with monthly rent payments to begin on July 1, 2000. The commitment under the Lexington Lease requires the Company to pay monthly base rent and an allocable percentage of operating costs and property taxes throughout the five-year duration of the lease.

The monthly base rent is subject to increases during the course of the lease term. Accordingly, the Company is providing for rent expense based on an amortization of the lease payments on a straight-line basis over the life of the lease. Pursuant to the aforementioned leasing arrangement, deferred rent (*i.e.,* rent expense in excess of cash expenditures for leased facilities) was $23,000 and $32,000, respectively, at December 31, 2003 and 2002.

Rent expense for leased facilities and equipment was $246,000, $220,000 and $250,000 for the years ended December 31, 2003, 2002 and 2001, respectively.

Effective July 1, 2001, the Company entered into a sublease for the majority of the Lexington Office (the "Sublease"). Under terms of the Sublease, the Company was entitled to receive from its subtenant ("Subtenant") rental payments equal to 85% of its base rent, operating costs and property taxes throughout the remaining term of the Lexington Lease. In addition, the Subtenant was paying the Company a monthly fee for the right to utilize furniture and equipment located in the Lexington Office. During fiscal 2003, 2002 and 2001, the Company billed $262,000, $212,000 and $106,000, respectively, in connection with the Sublease and furniture and equipment rental, which amounts are reflected as reductions in general and administrative expenses for the years presented.

Beginning in July 2003, the Subtenant defaulted in its payment obligations under the Sublease. Shortly thereafter, the Company initiated a civil action against the Subtenant seeking payment of rent. On December 31, 2003, the Company and its subtenant entered into a Surrender Agreement pursuant to which the Company and its subtenant agreed to release one another with respect to any and all claims under the Sublease and the Company received cash and a promissory note approximately equivalent to the aggregate amount due as of December 31, 2003 in exchange for the termination of the Sublease and the furniture and equipment rental agreement.

Prior to the Company's settlement with the Subtenant, in November 2003, the Company's landlord under the Lexington Lease (the "Lexington Landlord") brought an action against the Company and the Company's subtenant in Civil Court of the City of New York, New York County following the Company's failure to pay rent beginning in October 2003. The complaint alleged that the Company failed to pay its rent beginning in October 2003 and was in default under the Lexington Lease. The Landlord sought payment of rent as well as a final judgment of eviction. During January 2004, the Company voluntarily vacated the Lexington Office in order to facilitate a reletting of the entire premises. In February 2004, the Lexington Landlord demanded payments of amounts due under the Lexington Lease for the period of October 2003 through February 2004. The amount sought by the Lexington Landlord reflected an offset of the amount due to the Lexington Landlord of $66,000 as of December 31, 2003 against the Company's security deposit of $75,000, thus reducing the balance of the security deposit to $9,000 at December 31, 2003.

The Company has not satisfied the Lexington Landlord's demand for payment and is continuing in its effort to reach a negotiated settlement.

At December 31, 2003, the gross future minimum annual rental payments for the Lexington Office for the balance of the lease term is as follows:

2004	$ 210,000
2005	71,000
	$ 281,000

Pursuant to FAS 146, the Company recognizes January 16, 2004, the date that it vacated the Lexington Office, as the cease-use date. Accordingly, a liability for costs that continue to be incurred under the lease for the remaining term will be recognized and measured at their fair value at that time. The fair value shall be determined based on remaining lease rentals reduced by estimated sublease rentals that could be reasonably obtained for the property.

Capital Leases

During fiscal 2000, the Company entered into capital leases for the purchase of office furniture and equipment. In 2004, the Company sold substantially all of its furniture and office equipment, including furniture that was encumbered by the one capital lease obligation remaining at December 31, 2003, under which capital lease monthly payment obligations were due through April 2005. In connection with this sale of furniture and equipment, the Company reached an agreement with the lessor for a discharge from the remainder of its capital lease obligation for the amount of $10,000, which was paid in 2004. Accordingly, the Company reduced the capital lease obligation as of December 31, 2003 to the settlement amount of $10,000, recording a gain of $11,000 to other income for fiscal 2003.

NOTE 8 RELATED PARTIES

Transactions with Directors and Officers

Certain members of the Company's Board of Directors received fees in connection with their service to the Company as members of the Board of Directors and, in certain cases, were also compensated as consultants by the Company. Dr. Horovitz was paid $10,000 for his services as a director during each of the years ended December 31, 2002, and 2001. Mr. Vernon was paid $833, $10,000 and $10,000 for his services as a director during the years ended December 31, 2003, 2002 and 2001, respectively. In addition, Mr. Vernon was paid $4,167, $50,000 and $50,000 as remuneration for his consulting services to the Company during the years ended December 31, 2003, 2002 and 2001, respectively. Mr. Weiss, a director of the Company until his resignation on May 7, 2002 was paid $3,333 and $10,000 for his services as a director during the years ended December 31, 2002 and 2001, respectively. Mr. Weiss was also paid $16,667 and $50,000 as remuneration for his consulting services to the Company during fiscal 2002 and 2001, respectively.

On June 14, 2000, the Company licensed to Indevus Pharmaceuticals, Inc., formerly Interneuron Pharmaceuticals, Inc. ("Indevus"), the exclusive, worldwide rights to develop and market PRO 2000 Gel (the "PRO 2000 License"). Glenn L. Cooper, M.D., a director of the Company at the time of the agreement, is the President and Chief Executive Officer of Indevus. In addition, the former principal stockholder of the Company is a stockholder of Indevus. Pursuant to the terms of the PRO 2000 License, the Company received an up-front payment of $500,000, which is included in other income for

the year ended December 31, 2000. The Company retains certain future rights to PRO 2000 Gel under the PRO 2000 License, including (i) provisions for the receipt of additional payments based upon the achievement of certain milestones; and (ii) royalties from future commercial sales of PRO 2000 Gel, if any. Under the terms of the PRO 2000 License, Indevus is responsible for all remaining development and commercialization activities for PRO 2000 Gel and has an option, for a limited period of time following the completion of the Phase III efficacy trial, to purchase the future royalty rights relating to PRO 2000 Gel. The Company, however, has no further obligation to fund research and development for PRO 2000 Gel. On April 11, 2003, the Company and Indevus executed an amendment to the PRO 2000 License (the "PRO 2000 Amendment"). Upon execution of the PRO 2000 Amendment, the Company received $500,000 from Indevus in exchange for (i) the elimination of the $500,000 milestone payment that was to be paid under the PRO 2000 License upon the initiation of a Phase II safety trial (planned to begin later in 2003); and (ii) a second option, upon which exercise the Company would receive an additional payment of $500,000, to acquire all of the Company's rights, title and interest to PRO 2000 Gel as set forth in the PRO 2000 License, provided that such second option is exercised prior to September 30, 2004.

On October 13, 2000, Procept entered into an agreement with AOI Pharmaceuticals Inc. ("AOI") to sublicense its exclusive worldwide patent rights and know-how relating to O6-BG (the "Sublicense Agreement"). Michael A. Weiss, then a director of the Company, is the Chairman of the Board of AOI. In addition, the former principal stockholder of the Company is a stockholder of an affiliate of AOI. Pursuant to the Sublicense Agreement, Procept sublicensed all development and licensing rights to AOI in exchange for future royalties on net sales of O6-BG. The agreement also provides for cash payments to Procept based upon the achievement of certain developmental milestones. In addition, AOI assumed all financial obligations of Procept relating to its licensing of worldwide patent rights as of the effective date of the agreement. On February 28, 2002, Procept and the United States Public Health Service ("PHS") executed an exclusive Patent License Agreement (the "New License Agreement"), which superceded the license agreement dated February 6, 1998 between Procept and The Penn State Research Foundation ("PSRF") (the "Original License Agreement"). The New License Agreement affirms Procept's worldwide patent rights to O6-Benzylguanine ("O6-BG") and related compounds, and acknowledges the Sublicense Agreement, as of the date executed by Procept and AOI. At the time of executing the New License Agreement, Procept paid to PHS a one-time license issue royalty fee of $86,000 for outstanding patent prosecution costs accrued at December 31, 2001. In connection with the execution of the New License Agreement, Procept, together with the National Cancer Institute ("NCI") and AOI, also executed an amendment to the Cooperative Research and Development Agreement ("CRADA"), originally executed with the NCI in August 1998 (the "Amended CRADA"), pursuant to which AOI replaced Procept as Collaborator *(i.e.,* the research and development partner). Under terms of the Amended CRADA, AOI assumed direct responsibility for all remaining research and payment obligations, effective as of February 28, 2002. As part of the Amended CRADA, Procept made a final payment of $200,000 to NCI for production and clinical distribution costs relating to O6-BG, which costs were accrued at December 31, 2001. Prior to executing the Amended CRADA, AOI was obligated to reimburse Procept for costs that Procept paid, pursuant to, and subsequent to the effective date of, the Sublicense Agreement. Shortly thereafter, Procept and AOI agreed that AOI would defer its reimbursement to Procept for costs that Procept had paid relating to its maintenance of patent rights and CRADA obligations until the execution of the New License Agreement and the Amended CRADA. As of December 31, 2001, such reimbursable costs amounted to $137,000. On February 28, 2002, AOI paid to the Company the total balance of deferred

50

reimbursable costs. In May 2002, Procept executed an amendment to the New License Agreement (the "Amendment"). The Amendment clarified language in the New License Agreement pertaining to future sublicensing agreements, in the event that such agreements were to be executed. In addition, the Company, together with PHS, PSRF, AOI and the University of Chicago ("UC"), also executed, in May 2002, a Comprehensive Release Agreement (the "Release Agreement"). The Release Agreement provides for the irrevocable and absolute release of the Company by PHS, PSRF and UC from any and all claims or obligations arising out of, or related to the Original License Agreement. The Release Agreement was made part of the New License Agreement.

On March 3, 2003, Richard J. Kurtz, a director and shareholder of the Company, loaned $30,000 to the Company to fund its current operations. In April 2003, the Company's repaid this loan to Mr. Kurtz from proceeds received under the PRO 2000 Amendment.

On October 8, 2003, in anticipation of completing a business combination with Digital or another entity, the Company executed a promissory note (the "Promissory Note") with Mr. Kurtz under which the Company expects to receive loans that will enable it to meet its anticipated cash operating needs. The Promissory Note bears interest at 8% per annum and contemplates repayment upon the occurrence of (i) the first anniversary of the making of the first loan; and (ii) the first funding of debt and/or equity capital subsequent to the completion of the proposed business combination between the Company and Digital that results in aggregate net proceeds to the Company of not less than $1 million. As of the December 31, 2003, Mr. Kurtz has loaned the Company an aggregate of $110,000 to fund its current operations.

In 2004, the Company sold substantially all of the office furniture and equipment that was located in the Lexington Office, certain of which was subject to a capital lease under which monthly payments were due from the Company through April 2005. The Company negotiated a settlement of the capital lease obligation and sold the furniture and equipment for the equal amounts of $10,000, recording in the financial statements for the year ended December 31, 2003, an $11,000 gain (excluding remaining interest charges) on the settlement of the capital lease and a loss on the sale of furniture and equipment of $14,000. Elliott H. Vernon, a director of the Company, is Chairman and co-manager of Metcare Rx Pharmaceutical Services Group, LLC, the purchaser of the office furniture and equipment.

NOTE 9 UNAUDITED QUARTERLY FINANCIAL DATA

	2003 Quarter Ended			
	Mar. 31,	Jun. 30,	Sep. 30,	Dec. 31,
Interest income	$ 113	$ 412	$ 118	$ 17
Net loss	$ (170,600)	$ 344,773	$ (212,955)	$ (149,839)
Net loss per share basic and diluted	$ (0.01)	$ 0.01	$ (0.01)	$ (0.00)

	2002 Quarter Ended			
	Mar. 31,	Jun. 30,	Sep. 30,	Dec. 31,
Interest income	$ 3,811	$ 2,359	$ 1,156	$ 465
Net loss	$ (269,164)	$ (277,000)	$ (245,971)	$ (203,471)
Net loss per share basic and diluted	$ (0.01)	$ (0.01)	$ (0.01)	$ (0.00)

51

QuickLinks