

NEOSE TECHNOLOGIES INC

Form 10-Q

November 09, 2007

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

**FORM 10-Q**

**(Mark One)**

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

**For the quarterly period ended September 30, 2007.**

**OR**

☐ **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: 0-27718**

**NEOSE TECHNOLOGIES, INC.**

**(Exact name of registrant as specified in its charter)**

Delaware

13-3549286

(State or other jurisdiction of  
incorporation or organization)

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

102 Rock Road  
Horsham, Pennsylvania

19044

(Address of principal executive offices)

(Zip Code)

(215) 315-9000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

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

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐

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

Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 54,468,181 shares of common stock, \$.01 par value, were outstanding as of November 01, 2007.

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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****Neose Technologies, Inc.****Balance Sheets**

(unaudited)

(in thousands, except per share amounts)

|                                                                                                                                | September<br>30,<br>2007 | December<br>31,<br>2006 |
|--------------------------------------------------------------------------------------------------------------------------------|--------------------------|-------------------------|
| <b>Assets</b>                                                                                                                  |                          |                         |
| Current assets:                                                                                                                |                          |                         |
| Cash and cash equivalents                                                                                                      | \$ 29,123                | \$ 16,388               |
| Accounts receivable, net                                                                                                       | 1,444                    | 286                     |
| Prepaid expenses and other current assets                                                                                      | 965                      | 1,284                   |
| Total current assets                                                                                                           | 31,532                   | 17,958                  |
| Property and equipment, net                                                                                                    | 13,815                   | 13,104                  |
| Intangible and other assets, net                                                                                               | 71                       | 181                     |
| Total assets                                                                                                                   | \$ 45,418                | \$ 31,243               |
| <b>Liabilities and Stockholders' Equity</b>                                                                                    |                          |                         |
| Current liabilities:                                                                                                           |                          |                         |
| Note payable                                                                                                                   | \$ 83                    | \$                      |
| Current portion of long-term debt and capital lease obligations                                                                | 968                      | 1,251                   |
| Accounts payable                                                                                                               | 644                      | 1,848                   |
| Accrued compensation                                                                                                           | 1,525                    | 1,772                   |
| Accrued expenses                                                                                                               | 6,232                    | 4,749                   |
| Deferred revenue                                                                                                               | 919                      | 645                     |
| Total current liabilities                                                                                                      | 10,371                   | 10,265                  |
| Warrant liability                                                                                                              | 7,423                    |                         |
| Long-term debt and capital lease obligations, net of current portion                                                           | 204                      | 580                     |
| Deferred revenue, net of current portion                                                                                       | 5,285                    | 4,329                   |
| Other liabilities                                                                                                              | 539                      | 510                     |
| Total liabilities                                                                                                              | 23,822                   | 15,684                  |
| Stockholders' equity:                                                                                                          |                          |                         |
| Preferred stock, par value \$.01 per share, 5,000 shares authorized, none issued                                               |                          |                         |
| Common stock, par value \$.01 per share, 150,000 and 75,000 shares authorized; 54,468 and 32,972 shares issued and outstanding | 545                      | 330                     |
| Additional paid-in capital                                                                                                     | 312,694                  | 281,556                 |
| Accumulated deficit                                                                                                            | (291,643)                | (266,327)               |
| Total stockholders' equity                                                                                                     | 21,596                   | 15,559                  |

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|                                            |    |        |    |        |
|--------------------------------------------|----|--------|----|--------|
| Total liabilities and stockholders' equity | \$ | 45,418 | \$ | 31,243 |
|--------------------------------------------|----|--------|----|--------|

The accompanying notes are an integral part of these financial statements.

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Statements of Operations**

(unaudited)

(in thousands, except per share amounts)

|                                                                                               | Three months ended<br>September 30, |            | Nine months ended<br>September 30, |             |
|-----------------------------------------------------------------------------------------------|-------------------------------------|------------|------------------------------------|-------------|
|                                                                                               | 2007                                | 2006       | 2007                               | 2006        |
| Revenue from collaborative agreements                                                         | \$ 2,631                            | \$ 1,477   | \$ 6,099                           | \$ 5,588    |
| Operating expenses:                                                                           |                                     |            |                                    |             |
| Research and development                                                                      | 10,735                              | 6,811      | 28,289                             | 21,173      |
| General and administrative                                                                    | 2,560                               | 3,028      | 8,073                              | 9,050       |
| Total operating expenses                                                                      | 13,295                              | 9,839      | 36,362                             | 30,223      |
| Gain on sale of Witmer Road Facility                                                          |                                     | 7,335      |                                    | 7,335       |
| Operating loss                                                                                | (10,664)                            | (1,027)    | (30,263)                           | (17,300)    |
| Decrease in fair value of warrant liability                                                   | 7,772                               |            | 3,342                              |             |
| Interest income                                                                               | 421                                 | 269        | 1,195                              | 943         |
| Interest expense                                                                              | (35)                                | (592)      | (123)                              | (1,225)     |
| Loss before income tax benefit                                                                | (2,506)                             | (1,350)    | (25,849)                           | (17,582)    |
| Income tax benefit                                                                            |                                     |            | 533                                |             |
| Net loss                                                                                      | \$ (2,506)                          | \$ (1,350) | \$ (25,316)                        | \$ (17,582) |
| Basic and diluted net loss per share                                                          | \$ (0.05)                           | \$ (0.04)  | \$ (0.52)                          | \$ (0.54)   |
| Weighted-average shares outstanding used in<br>computing basic and diluted net loss per share | 54,449                              | 32,866     | 48,844                             | 32,818      |

The accompanying notes are an integral part of these financial statements.

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**Neose Technologies, Inc.**  
**Statements of Cash Flows**  
(unaudited)  
(in thousands)

|                                                                             | Nine months ended<br>September 30, |             |
|-----------------------------------------------------------------------------|------------------------------------|-------------|
|                                                                             | 2007                               | 2006        |
| Cash flows from operating activities:                                       |                                    |             |
| Net loss                                                                    | \$ (25,316)                        | \$ (17,582) |
| Adjustments to reconcile net loss to net cash used in operating activities: |                                    |             |
| Decrease in fair value of warrant liability                                 | (3,342)                            |             |
| Impairment of property and equipment                                        |                                    | 121         |
| Depreciation and amortization expense                                       | 1,467                              | 1,650       |
| Non-cash compensation expense                                               | 1,681                              | 1,940       |
| Non-cash rent expense                                                       | 130                                |             |
| (Gain) loss on disposition of property and equipment                        | 4                                  | (7,335)     |
| Premiums paid on early repayment of debt                                    |                                    | 215         |
| Accelerated amortization of debt issuance costs on early repayment of debt  |                                    | 133         |
| Changes in operating assets and liabilities:                                |                                    |             |
| Accounts receivable                                                         | (1,570)                            | 915         |
| Prepaid expenses and other current assets                                   | 188                                | (122)       |
| Intangible and other assets                                                 | (13)                               |             |
| Accounts payable                                                            | (695)                              | (220)       |
| Accrued compensation                                                        | (247)                              | 274         |
| Accrued expenses                                                            | 3,117                              | 413         |
| Deferred revenue                                                            | 1,230                              | (921)       |
| Other liabilities                                                           | 29                                 | 35          |
| Net cash used in operating activities                                       | (23,337)                           | (20,484)    |
| Cash flows from investing activities:                                       |                                    |             |
| Purchases of property and equipment                                         | (3,417)                            | (499)       |
| Proceeds from sale of equipment and assets held for sale                    |                                    | 19,344      |
| Net cash provided by (used in) investing activities                         | (3,417)                            | 18,845      |
| Cash flows from financing activities:                                       |                                    |             |
| Proceeds from issuance of debt                                              | 367                                | 539         |
| Repayments of debt                                                          | (1,315)                            | (12,649)    |
| Premiums paid on early repayment of debt                                    |                                    | (215)       |
| Proceeds from issuance of common stock and warrants, net                    | 40,486                             | 12          |
| Payment of withholding taxes related to restricted stock units              | (49)                               | (174)       |

|                                                      |           |           |
|------------------------------------------------------|-----------|-----------|
| Net cash provided by (used in) financing activities  | 39,489    | (12,487)  |
| Net increase (decrease) in cash and cash equivalents | 12,735    | (14,126)  |
| Cash and cash equivalents, beginning of period       | 16,388    | 37,738    |
| Cash and cash equivalents, end of period             | \$ 29,123 | \$ 23,612 |

The accompanying notes are an integral part of these financial statements.

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**Neose Technologies, Inc.  
Notes to Financial Statements**

(unaudited)

(in thousands, except per share amounts)

**1. Background**

Neose Technologies, Inc. is a clinical-stage biopharmaceutical company focused on the development of next-generation therapeutic proteins, which we believe will be competitive with best-in-class protein drugs currently on the market. Our lead therapeutic protein candidates are GlycoPEG-EPO (NE-180) and GlycoPEG-GCSF.

NE-180 is a long-acting version of erythropoietin (EPO) produced in insect cells. EPO is prescribed to stimulate production of red blood cells, and is approved for sale in major markets around the world for treatment of chemotherapy-induced anemia and anemia associated with chronic kidney disease. NE-180 is being developed for the treatment of anemia in adult cancer patients with non-myeloid malignancies receiving chemotherapy and for the treatment of anemia associated with chronic kidney disease, including patients on dialysis and patients not on dialysis. During 2006, we completed a Phase I clinical trial for NE-180 in Switzerland. In the first quarter of 2007, we initiated a Phase II human trial to evaluate the safety, tolerability and dose response of NE-180 in cancer patients receiving platinum-based chemotherapy. In the third quarter of 2007, we initiated a Phase II human trial to evaluate the safety, tolerability and dose response of NE-180 in patients with anemia associated with chronic kidney disease.

In August 2007, we announced our decision to defer certain clinical and process development activities to reduce planned cash utilization. This deferral resulted in extending the timeline for our development of NE-180. In October 2007, we terminated an agreement with a vendor that was to produce bulk NE-180 on our behalf to reduce uncertainties associated with announced ownership changes at the vendor and to defer future process development and manufacturing costs.

GlycoPEG-GCSF is a long-acting version of granulocyte colony stimulating factor (G-CSF) that we are co-developing with BioGeneriX AG, a company of the ratiopharm Group. G-CSF is prescribed to stimulate production of neutrophils (a type of white blood cell) and is approved for sale in major markets around the world for treatment of neutropenia associated with myelosuppressive chemotherapy. In November 2006, BioGeneriX initiated the first of two planned Phase I clinical trials for GlycoPEG-GCSF. In March 2007, BioGeneriX initiated the second Phase I clinical trial for GlycoPEG-GCSF. In November 2007, we reported data from both of these Phase I clinical trials.

We also have license agreements with Novo Nordisk A/S to use our GlycoPEGylation technology to develop and commercialize next-generation versions of Factors VIIa, VIII and IX, one of which, Factor VIIa, is currently marketed by Novo Nordisk. In June 2007, Novo Nordisk initiated a Phase I clinical study for GlycoPEG-Factor VIIa. This trial will assess the safety and pharmacokinetics of GlycoPEG-Factor VIIa in healthy volunteers. Factor VIIa is used in the treatment of bleeding episodes and for the prevention of bleeding during surgery or invasive procedures in patients with congenital hemophilia with inhibitors to coagulation factors VIII or IX.

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**Neose Technologies, Inc.**  
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(in thousands, except per share amounts)

We believe that our enzymatic pegylation technology, GlycoPEGylation, can improve the drug properties of therapeutic proteins by building out, and attaching polyethylene glycol (PEG) to, carbohydrate structures on the proteins. We are using our technology to develop proprietary versions of protein drugs with proven safety and efficacy and to improve the therapeutic profiles of proteins being developed by our partners. We expect these modified proteins, such as NE-180 and GlycoPEG-GCSF, to offer significant advantages, including less frequent dosing and possibly improved efficacy, over the original versions of the drugs now on the market, as well as to meet or exceed the pharmacokinetic profile of next-generation versions of the drugs now on the market. We believe this strategy of targeting drugs with proven safety and efficacy allows us to lower the risk profile of our proprietary development portfolio as compared to *de novo* protein drug development. We intend to continue to focus our research and development resources on therapeutic proteins that we believe have the highest probability of clinically meaningful therapeutic profile improvements from our technology and are in commercially attractive categories.

We have incurred losses each year since inception. As of September 30, 2007, we had an accumulated deficit of \$291,643. We expect to spend significant amounts to expand our research and development on our proprietary drug candidates and technology, maintain and expand our intellectual property position, and expand our business development and commercialization efforts. Given our planned level of operating expenses, we expect to continue incurring losses for some time.

We believe that our existing cash and cash equivalents, expected proceeds from collaborations and license arrangements, and interest income should be sufficient to meet our operating and capital requirements at least through the third quarter of 2008, although changes in our collaborative relationships or our business, whether or not initiated by us, may cause us to deplete our cash and cash equivalents sooner than the above estimate. We will require significant amounts of additional capital in the future to fund our operations, and we do not have any assurance that funding will be available when we need it on terms that we find favorable, if at all. If we are unable to raise additional capital when required, we may need to delay, scale back, or eliminate some or all of our research and development programs.

We have not yet developed any products or commercialized any products or technologies, and we may never be able to do so. Even if we are successful in developing products that are approved for marketing, we will not be successful unless our products, and products incorporating our technology, gain market acceptance. Our operations are subject to risks and uncertainties in addition to those mentioned above, such as, among others, the uncertainty of product development, including our dependence upon third parties to conduct our clinical trials and to manufacture our product candidates and the materials used to make them, and unexpected delays or unfavorable results in our clinical trials; our limited product development and manufacturing experience; our dependence upon collaborative partners to develop and commercialize products incorporating our technology and the success of

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**Neose Technologies, Inc.**  
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collaborative relationships; the uncertainty of intellectual property rights; the possibility of development and commercialization of competitive products by others that are more effective, less costly, or otherwise gain greater market acceptance; and the uncertainty of the impact of government regulation on our operations, including achieving regulatory approvals for our products or products incorporating our technology, and changes in health care reimbursement policies.

**2. Interim Financial Information**

The accompanying unaudited financial statements have been prepared in accordance with U.S. generally accepted accounting principles for presentation of interim financial statements. Accordingly, the unaudited financial statements do not include all the information and footnotes necessary for a comprehensive presentation of the financial position, results of operations, and cash flows for the periods presented. In our opinion, however, the unaudited financial statements include all the normal recurring adjustments that are necessary for a fair presentation of the financial position, results of operations, and cash flows for the periods presented. You should not base your estimate of our results of operations for 2007 solely on our results of operations for the nine months ended September 30, 2007. You should read these unaudited financial statements in combination with the other Notes in this section; the section entitled Management's Discussion and Analysis of Financial Condition and Results of Operations appearing in Item 2 of this Form 10-Q; and the Financial Statements, including the Notes to the Financial Statements, included in our Annual Report on Form 10-K for the year ended December 31, 2006.

**3. Summary of Significant Accounting Policies**

*Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires us to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities as of the date of the financial statements, the disclosure of contingent assets and liabilities as of 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.

*Accounts Receivable*

We record accounts receivable net of an allowance for doubtful accounts. We establish an allowance for doubtful accounts that we believe is adequate to cover anticipated losses on the collection of all outstanding accounts receivable. The adequacy of the allowance for doubtful accounts is based on historical information and management's assessment of our customers' economic conditions. We recognize revenue based on proportional performance of research and development work performed on behalf of our customers, which recognition may not correspond with how our customers are billed. We review the unbilled accounts receivable from our

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customers to determine that such amounts are expected to become billable and collectible. All unbilled receivables are expected to be billed within six months.

Accounts receivable consisted of the following:

|                                      | September<br>30,<br>2007 | December<br>31,<br>2006 |
|--------------------------------------|--------------------------|-------------------------|
| Billed receivables                   | \$ 532                   | \$ 286                  |
| Unbilled receivables                 | 931                      |                         |
|                                      | 1,463                    | 286                     |
| Less allowance for doubtful accounts | (19)                     |                         |
|                                      | \$ 1,444                 | \$ 286                  |

*Warrant Liability*

We follow Emerging Issues Task Force (EITF) No. 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock* (EITF 00-19), which provides guidance for distinguishing among permanent equity, temporary equity and assets and liabilities. EITF 00-19 requires liability classification of warrants that may be settled in cash at the option of warrant holders. Our warrants issued in March 2007 permit net cash settlement in certain change of control circumstances at the option of the warrant holders, and are, therefore, classified as a liability on our Balance Sheets (see Note 10).

We record the warrant liability at its fair value using the Black-Scholes option-pricing model and revalue it at each reporting date until the warrants are exercised or expire. Changes in the fair value of the warrants are reported in our Statements of Operations as non-operating income or expense. The fair value of the warrants is subject to significant fluctuation based on changes in our stock price, expected volatility, remaining contractual life and the risk-free interest rate. The market price for our common stock has been and may continue to be volatile. Consequently, future fluctuations in the price of our common stock may cause significant increases or decreases in the fair value of the warrants.

In connection with the March 2007 equity financing, we were obligated to file a registration statement with the SEC for the registration of the total number of shares sold to the investors and shares issuable upon exercise of the warrants. We are required under an agreement to use commercially reasonable efforts to cause the registration to be declared effective by the SEC, which we accomplished in May 2007, and to remain continuously effective until such time when all of the registered shares are sold. In the event we fail to meet various legal requirements in regards to the registration statement, we will be obligated to pay the investors, as partial liquidated damages and not as a penalty, an amount in cash equal to 1% of the aggregate purchase price paid by investors for each monthly period that the registration statement is not effective, up to 24%. We follow Financial Accounting Standards Board (FASB) Staff Position

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No. EITF 00-19-2, *Accounting for Registration Payment Arrangements* (EITF 00-19-2), which specifies that registration payment arrangements should play no part in determining the initial classification of, and subsequent accounting for, securities to which the payments relate. Contingent obligations in a registration payment arrangement are separately analyzed under Statement of Financial Accounting Standards (SFAS) No. 5, *Accounting for Contingencies*, and FASB Interpretation No. 14, *Reasonable Estimation of the Amount of a Loss*. If we determine a registration payment arrangement in connection with the securities issued in March 2007 is probable and can be reasonably estimated, a liability will be recorded. As of September 30, 2007, we concluded the likelihood of having to make any payments under the arrangements was remote, and therefore did not record any related liability.

*Net Loss Per Share*

Basic net loss per share is computed by dividing net loss by the weighted-average number of common shares outstanding for the period. Diluted net loss per share is computed by dividing net loss by the sum of the weighted-average number of common shares outstanding for the period and the number of additional shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares are excluded from the calculation of diluted net loss per share if the effect on net loss per share is antidilutive. Our diluted net loss per share is equal to basic net loss per share for all reporting periods presented because giving effect in the computation of diluted net loss per share to the exercise of outstanding stock options and warrants or settlement of Restricted Stock Units (RSUs) would have been antidilutive.

*Comprehensive Loss*

SFAS No. 130, *Reporting Comprehensive Income*, requires disclosure of comprehensive income (loss) in the financial statements. Comprehensive income (loss) is comprised of net income (loss) and other comprehensive income (loss). Other comprehensive income (loss) includes changes to equity that are not included in net income (loss). Our comprehensive loss for the three and nine months ended September 30, 2007 was comprised only of our net loss, and was \$2,506 and \$25,316, respectively. Our comprehensive loss for the three and nine months ended September 30, 2006 was comprised only of our net loss, and was \$1,350 and \$17,582, respectively.

*Fair Value of Financial Instruments*

The fair value of financial instruments is the amount for which instruments could be exchanged in a current transaction between willing parties. As of September 30, 2007, the carrying values of cash and cash equivalents, accounts receivable, prepaid expenses and other current assets, accounts payable, accrued expenses, and accrued compensation equaled or approximated their respective fair values because of the short duration of these instruments. The fair value of our debt and capital lease obligations was estimated by discounting the future cash flows of each instrument at rates recently offered to us for similar debt instruments offered by

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our lenders. As of September 30, 2007, the fair and carrying values of our debt and capital lease obligations were \$1,267 and \$1,255 respectively.

*Recent Accounting Pronouncements*

In June 2007, the FASB issued EITF 07-03, *Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities*-(EITF 07-03). EITF 07-03 specifies that nonrefundable advance payments for future research and development activities should be deferred and capitalized and should be recognized as an expense as the related goods are delivered or the related services are performed. If, subsequent to an advance payment, an entity no longer expects the goods to be delivered or services to be rendered, the capitalized advance payment should be charged to expense. EITF 07-03 is effective for fiscal years beginning after December 15, 2007. As the guidance in EITF 07-03 is consistent with our existing policy we do not believe EITF 07-03 will have any impact on our financial statements or related disclosures.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (SFAS No. 159), which allows companies to choose, at specific election dates, to measure eligible financial assets and liabilities at fair value that are not otherwise required to be measured at fair value. If a company elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in current earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact of SFAS No. 159 on our financial statements and related disclosures.

In December 2006, the FASB issued EITF 00-19-2, which addresses an issuer's accounting for registration payment arrangements. EITF 00-19-2 specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement, whether issued as a separate agreement or included as a provision of a financial instrument or other agreement, should be separately recognized and measured in accordance with SFAS No. 5, *Accounting for Contingencies*. EITF 00-19-2 further clarifies that a financial instrument subject to a registration payment arrangement should be accounted for in accordance with other applicable accounting literature without regard to the contingent obligation to transfer consideration pursuant to the registration arrangement. EITF 00-19-2 was effective immediately for new and modified registration payment arrangements. The adoption of EITF 00-19-2 did not have any impact on our financial statements and related disclosures.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157), which is applicable for fiscal years beginning after November 15, 2007. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant

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(unaudited)

(in thousands, except per share amounts)

measurement attribute. Although SFAS No. 157 does not require any new fair value measurements, its application may, for some entities, change current practices related to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. We are currently evaluating the impact of the adoption of SFAS No. 157 on our financial statements and related disclosures.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109 (FIN 48), which is applicable for fiscal years beginning after December 15, 2006. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position reported or expected to be reported on a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. We adopted the provisions of FIN 48 on January 1, 2007. Upon adoption of FIN 48 and through September 30, 2007, we determined that we had no liability for uncertain income taxes as prescribed by FIN 48. Our policy is to recognize potential accrued interest and penalties related to the liability for uncertain tax benefits, if applicable, in income tax expense. The tax years back to 2003 remain open to examination by the major taxing jurisdictions where we file. Net operating loss and credit carryforwards from earlier periods also remain open to examination by taxing authorities, and will for a period post utilization. We do not anticipate any events during 2007 that would require us to record a liability related to any uncertain income taxes.

#### **4. Supplemental Disclosure of Cash Flow Information**

The following table contains additional cash flow information for the periods reported:

|                                                                                                                   | Nine months ended<br>September 30, |          |
|-------------------------------------------------------------------------------------------------------------------|------------------------------------|----------|
|                                                                                                                   | 2007                               | 2006     |
| Supplemental disclosure of cash flow information:                                                                 |                                    |          |
| Cash paid for interest, net of amounts capitalized                                                                | \$ 124                             | \$ 1,109 |
| Non-cash investing activities:                                                                                    |                                    |          |
| (Decrease) increase in accrued property and equipment included in accounts payable and accrued expenses           | \$ (1,730)                         | \$ 24    |
| Assets acquired under capital leases                                                                              | \$ 373                             | \$       |
| Non-cash financing activities:                                                                                    |                                    |          |
| Initial measurement of warrant liability (see Note 10)                                                            | \$ 10,765                          | \$       |
| Conversion of accrued compensation from liability to equity-classified award upon grant of restricted stock units | \$                                 | \$ 129   |

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(in thousands, except per share amounts)

**5. Prepaid Expenses and Other Current Assets**

Prepaid expenses and other current assets consisted of the following:

|                                                    | September<br>30,<br>2007 | December<br>31,<br>2006 |
|----------------------------------------------------|--------------------------|-------------------------|
| Prepaid maintenance agreements                     | \$ 217                   | \$ 162                  |
| Prepaid insurance (see Note 8)                     | 172                      | 86                      |
| Prepaid contract research and development services | 170                      | 228                     |
| Prepaid clinical trials and non-clinical studies   | 86                       | 124                     |
| Prepaid rent                                       | 65                       | 195                     |
| Other prepaid expenses and current assets          | 255                      | 489                     |
|                                                    | \$ 965                   | \$ 1,284                |

**6. Property and Equipment**

Property and equipment consisted of the following:

|                                                 | September<br>30,<br>2007 | December<br>31,<br>2006 |
|-------------------------------------------------|--------------------------|-------------------------|
| Leasehold improvements                          | \$ 12,985                | \$ 9,817                |
| Laboratory, manufacturing, and office equipment | 6,874                    | 5,874                   |
| Construction-in-progress                        |                          | 2,142                   |
|                                                 | 19,859                   | 17,833                  |
| Less accumulated depreciation and amortization  | (6,044)                  | (4,729)                 |
|                                                 | \$ 13,815                | \$ 13,104               |

In February 2007, we completed construction of leasehold improvements to a facility that we currently lease in Horsham, Pennsylvania. We spent \$3,160 for these improvements, of which \$2,111 was included in construction-in-progress as of December 31, 2006.

In May 2007, we completed construction of leasehold improvements to warehouse space that we currently lease in Horsham, Pennsylvania. We spent \$104 for these improvements, of which \$31 was included in construction-in-progress as of December 31, 2006.

Laboratory, manufacturing, and office equipment as of September 30, 2007 and December 31, 2006 included \$495 and \$122, respectively, of assets acquired under capital leases. Accumulated depreciation and amortization as of September 30, 2007 and December 31, 2006 included \$120 and \$47, respectively, related to assets acquired under capital leases. Depreciation expense, which includes amortization of assets acquired under capital leases, was

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\$1,344 and \$1,190 during the nine months ended September 30, 2007 and 2006, respectively. During the nine months ended September 30, 2007, we capitalized \$9 of interest expense in connection with our facility improvement projects. We did not capitalize any interest incurred during the nine months ended September 30, 2006.

In September 2006, we sold our former headquarters and pilot manufacturing facility (Witmer Road Facility) for \$21,043. After payment of selling fees and expenses, we received net proceeds of approximately \$19,322. The carrying value of the property and equipment sold was \$12,379. We were permitted to occupy a portion of the facility on a rent-free basis for up to six months after closing. We estimated the rental fair value for the space we occupied to be \$390, which was included in the calculation of the \$7,335 gain on the sale of the Witmer Road Facility and amortized as rent expense to our Statements of Operations over the period of our occupancy.

**7. Intangible and Other Assets**

*Acquired Intellectual Property*

During the nine months ended September 30, 2007, we completed the scheduled amortization of the carrying value of acquired intellectual property. As of December 31, 2006, the carrying value of intellectual property was \$123.

*Deposits*

As of September 30, 2007 and December 31, 2006, deposits were \$71 and \$58, respectively.

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**8. Debt and Capital Lease Obligations**

Debt and capital lease obligations consisted of the following:

|                                                                                                                                       | September<br>30,<br>2007 | December<br>31,<br>2006 |
|---------------------------------------------------------------------------------------------------------------------------------------|--------------------------|-------------------------|
| Notes payable to equipment lender, secured by equipment and facility improvements, interest rates from 8.1% to 9.5%, due 2007 to 2008 | \$ 501                   | \$ 1,101                |
| Term loan from landlord (unsecured), annual interest at 13.0%, due June 2008                                                          | 307                      | 622                     |
| Note payable, secured by insurance policies, annual interest at 5.7%, due November 2007                                               | 83                       |                         |
| Subtotal                                                                                                                              | 891                      | 1,723                   |
| Capital lease obligations                                                                                                             | 364                      | 108                     |
| Total debt                                                                                                                            | 1,255                    | 1,831                   |
| Less note payable, secured by insurance policies                                                                                      | (83)                     |                         |
| Less current portion                                                                                                                  | (968)                    | (1,251)                 |
| Total debt, net of current portion                                                                                                    | \$ 204                   | \$ 580                  |

*Note Payable Secured by Insurance Policies*

In March 2007, we borrowed \$367 to finance insurance policy premiums due on certain insurance policies. The insurance policy premiums, net of amortization, are included in prepaid expenses and other current assets on our Balance Sheets at September 30, 2007 (see Note 5). We are required to pay \$42 of principal and interest during each of the nine months beginning on March 15, 2007 and ending on November 15, 2007. To secure payment of the amounts financed, we granted the lender a security interest in (a) all unearned premiums or dividends payable under the policies, (b) loss payments which may reduce the unearned premiums, subject to any mortgagee or loss payee interests, and (c) any interest in any state guarantee fund relating to the policies.

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**9. Accrued Expenses**

Accrued expenses consisted of the following:

|                                            | September<br>30,<br>2007 | December<br>31,<br>2006 |
|--------------------------------------------|--------------------------|-------------------------|
| Clinical trials and non-clinical studies   | \$ 3,720                 | \$ 625                  |
| Non-refundable contract fee                | 1,400                    |                         |
| Professional fees                          | 663                      | 1,469                   |
| Contract research and development services | 321                      | 1,283                   |
| Property and equipment                     | 22                       | 1,244                   |
| Other expenses                             | 106                      | 128                     |
|                                            | \$ 6,232                 | \$ 4,749                |

Pursuant to an agreement with a vendor that was to produce bulk NE-180 on our behalf, we had the option to, on or before October 9, 2007, either terminate the agreement or execute an amendment to amend the scope of services. Under an August 2007 change order contemplating an amendment or termination of the agreement, we agreed to pay the vendor a non-refundable fee of \$2,800, of which \$1,400 was due and paid in August 2007. The remaining \$1,400 was due and paid on October 9, 2007.

On October 9, 2007, we terminated this agreement to reduce uncertainties associated with announced ownership changes at the vendor and to defer future process development and manufacturing costs. As of September 30, 2007, we determined we would receive no future benefit from the \$2,800. Therefore, all of the \$2,800 was included in research and development expense for the three and nine months ended September 30, 2007, and the \$1,400 due in October 2007 was included in accrued expenses on our Balance Sheets as of September 30, 2007.

**10. Warrant Liability**

In March 2007, we sold, through a private placement, 21,415 shares of our common stock and warrants to purchase 9,637 shares of our common stock with an exercise price of \$1.96 (see Note 11). The warrants have a five-year term and are immediately exercisable. The warrant agreement contains a net cash settlement feature, which is available to the warrant holders at their option, in certain change of control circumstances. As a result, under EITF 00-19, the warrants are required to be classified as a liability at their current fair value in our Balance Sheets, estimated using the Black-Scholes option-pricing model. Warrants that are classified as a liability are revalued at each reporting date until the warrants are exercised or expire with changes in the fair value reported in our Statements of Operations as non-operating income or expense. Accordingly, we recorded non-operating income of \$7,772 and \$3,342 during the three and nine months ended September 30, 2007, respectively. The aggregate fair value and the

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assumptions used for the Black-Scholes option-pricing models as of March 13, 2007, June 30, 2007 and September 30, 2007 are as follows:

|                                    | March 13,<br>2007 | June 30,<br>2007 | September<br>30,<br>2007 |
|------------------------------------|-------------------|------------------|--------------------------|
| Aggregate fair value               | \$ 10,765         | \$ 15,195        | \$ 7,423                 |
| Expected volatility                | 75%               | 68%              | 66%                      |
| Remaining contractual term (years) | 5.0               | 4.7              | 4.4                      |
| Risk-free interest rate            | 4.4%              | 4.9%             | 4.2%                     |
| Expected dividend yield            | 0%                | 0%               | 0%                       |
| Common stock price                 | \$ 1.79           | \$ 2.46          | \$ 1.54                  |

**11. Stockholders' Equity**

In March 2007, we sold, through a private placement, 21,415 shares of our common stock and warrants to purchase 9,637 shares of our common stock, including 4,950 shares of our common stock and warrants to purchase 2,228 shares of our common stock to investment funds affiliated with certain members of our board of directors, at a price of \$2.02 per unit, generating net proceeds of \$40,459. Each unit consisted of one share of common stock and a warrant to purchase 0.45 shares of our common stock. The warrants have a five-year term and an exercise price of \$1.96 per share.

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**12. Equity-based Compensation**

The following table summarizes the status of stock options as of September 30, 2007 and changes during the nine months then ended:

|                                                   | Shares  | Weighted-<br>average<br>exercise<br>price | Aggregate<br>intrinsic<br>value | Weighted-<br>average<br>remaining<br>contractual<br>life<br>(years) |
|---------------------------------------------------|---------|-------------------------------------------|---------------------------------|---------------------------------------------------------------------|
| Outstanding at January 1, 2007                    | 5,281   | \$ 11.61                                  |                                 |                                                                     |
| Granted                                           | 1,340   | 2.39                                      |                                 |                                                                     |
| Exercised                                         | (11)    | 2.55                                      |                                 |                                                                     |
| Forfeited                                         | (379)   | 4.41                                      |                                 |                                                                     |
| Expired                                           | (1,430) | 16.20                                     |                                 |                                                                     |
| Outstanding at September 30, 2007                 | 4,801   | \$ 8.26                                   | \$                              | 6.8                                                                 |
| Vested at September 30, 2007 and expected to vest | 4,262   | \$ 8.94                                   | \$                              | 6.8                                                                 |
| Exercisable at September 30, 2007                 | 3,131   | \$ 11.05                                  | \$                              | 5.7                                                                 |

*Fair Value Disclosures*

During the three and nine months ended September 30, 2007, we recorded \$574 and \$1,681 of compensation cost for share-based payments in our Statements of Operations, respectively, all of which related to equity-classified awards. During the three months ended September 30, 2006, we recorded \$477 of compensation cost for share-based payment arrangements in our Statements of Operations, all of which related to equity-classified awards. During the nine months ended September 30, 2006, we recorded \$1,961 of compensation costs for share-based payment arrangements in our Statements of Operations, of which \$21 related to liability-classified awards. The weighted-average fair value of stock options granted during the three months ended September 30, 2007 and 2006 was \$1.16 and \$1.82, respectively. The weighted-average fair value of stock options granted during the nine months ended September 30, 2007 and 2006 was \$1.63 and \$1.83, respectively. The total intrinsic value of stock options exercised during the nine months ended September 30, 2007 was \$4. The total intrinsic value of stock options exercised during the three and nine months ended September 30, 2006 was \$1 and \$4, respectively.

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As of September 30, 2007, there was \$1,667 of total unrecognized compensation cost, which includes the impact of expected forfeitures, related to unvested share-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 1.9 years.

*Non-employee Stock Options*

During the three months ended September 30, 2007 and 2006, we recognized \$25 and \$33, respectively, of compensation expense in connection with the vesting of stock options granted to non-employees. During the nine months ended September 30, 2007 and 2006, we recognized \$100 and \$107 of compensation expense in connection with the vesting of stock options granted to non-employees, respectively.

*Restricted Stock Units*

A summary of the status of RSUs as of September 30, 2007, and changes during the nine months then ended, is presented in the following table:

|                                                   | Shares | Weighted-<br>average<br>grant-date<br>fair value | Aggregate<br>intrinsic<br>value |
|---------------------------------------------------|--------|--------------------------------------------------|---------------------------------|
| Outstanding at January 1, 2007                    | 128    | \$ 2.34                                          |                                 |
| Awarded                                           |        |                                                  |                                 |
| Settled                                           | (94)   | 2.31                                             |                                 |
| Forfeited                                         |        |                                                  |                                 |
| Outstanding at September 30, 2007                 | 34     | \$ 2.44                                          | \$ 52                           |
| Vested at September 30, 2007 and expected to vest | 34     | \$ 2.44                                          | \$ 52                           |

During the nine months ended September 30, 2007, we recorded \$6 of expense for RSUs, all of which related to equity-classified RSUs. During the three months ended September 30, 2006, we recorded \$16 of expense for RSUs, all of which related to equity classified RSUs. During the nine months ended September 30, 2006, we recorded \$134 of expense for RSUs, of which \$113 related to equity-classified RSUs. The number of shares and aggregate fair value of RSUs that vested during the nine months ended September 30, 2007 were 19 and \$44, respectively.

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**13. Collaborative Agreements and Significant Customer Concentration**

A summary of revenue recognized under our collaborative agreements during the three and nine months ended September 30, 2007 and 2006 is presented in the following table:

|                                  | Three months ended<br>September 30, |          | Nine months ended<br>September 30, |          |
|----------------------------------|-------------------------------------|----------|------------------------------------|----------|
|                                  | 2007                                | 2006     | 2007                               | 2006     |
| Novo Nordisk                     |                                     |          |                                    |          |
| Research and development funding | \$ 1,740                            | \$ 1,244 | \$ 3,874                           | \$ 3,323 |
| Substantive milestones           |                                     |          |                                    | 750      |
| License fees                     | 216                                 | 115      | 529                                | 323      |
|                                  | 1,956                               | 1,359    | 4,403                              | 4,396    |
| BioGeneriX                       |                                     |          |                                    |          |
| Research and development funding | 661                                 | 104      | 1,654                              | 997      |
| License fees                     | 14                                  | 14       | 42                                 | 195      |
|                                  | 675                                 | 118      | 1,696                              | 1,192    |
|                                  | \$ 2,631                            | \$ 1,477 | \$ 6,099                           | \$ 5,588 |

*Novo Nordisk A/S Agreements*

We have agreements with Novo Nordisk A/S to use our GlycoPEGylation technology to develop and commercialize next-generation versions of Factors VIIa, VIII and IX, one of which, Factor VIIa, is currently marketed by Novo Nordisk. Under these agreements, we received a non-refundable, upfront fee of \$4,300, which is being amortized to revenue over the expected performance period. Novo Nordisk is responsible for funding our research and development activities under the agreements, and we may receive up to \$52,200 in milestone payments based on the progress of the programs.

In December 2005, we amended one of our agreements with Novo Nordisk to provide for an additional project related to one protein and two additional milestone payments to be made to us upon the occurrence of certain events related to the additional project. During the nine months ended September 30, 2006, we received both of the additional milestone payments upon the occurrence of substantive events related to the additional project.

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*BioGeneriX AG Agreements*

We have an agreement with BioGeneriX AG to use our proprietary GlycoPEGylation technology to develop a long-acting version of G-CSF. In connection with the agreement, we received from BioGeneriX a non-refundable, upfront fee, which is being recognized to revenue over the expected performance period of 18 years. In October 2006, we entered into an amendment of this agreement. Under the agreement, as amended, we and BioGeneriX shared the expenses of preclinical development, BioGeneriX is responsible for supplying the protein and funding the clinical development program and we are responsible for supplying enzyme reagents and sugar nucleotides. As of January 1, 2007, BioGeneriX became responsible for the cost of reagent supply.

In April 2005, we entered into a research, co-development and commercialization agreement with BioGeneriX for a GlycoPEGylated erythropoietin made in CHO cells (GlycoPEG-CHO-EPO). We received a non-refundable payment in connection with the execution of this agreement. The agreement provided for us to conduct research on behalf of BioGeneriX for up to 12 months and granted to BioGeneriX the right to obtain an exclusive, worldwide license to use our enzymatic technologies to develop and commercialize a long-acting version of GlycoPEG-CHO-EPO. During the three and nine months ended September 30, 2006, we recorded \$83 and \$667, respectively, of research and development funding revenue pursuant to this agreement. Under an amendment to the agreement entered into in October 2006, BioGeneriX had until December 31, 2006 to exercise the option. BioGeneriX did not exercise the option and all rights to Neose's GlycoPEGylation technology as it applies to GlycoPEG-CHO-EPO reverted to Neose.

**14. Restructurings and Employee Severance Costs**

*2007 Restructuring*

In March 2007, we implemented a restructuring of operations (2007 Restructuring), which included a workforce reduction of approximately 40%. The employee severance costs incurred for the 2007 Restructuring were payable pursuant to an employee severance plan established in August 2005. Our net loss for the nine months ended September 30, 2007 included \$619 of employee severance costs related to the 2007 Restructuring, of which \$543 was included in research and development expenses and \$76 was included in general and administrative expenses. All employee severance costs related to the 2007 Restructuring were paid by September 30, 2007.

In connection with the 2007 Restructuring, we committed to pay future cash retention bonuses to certain employees who were not given notice of termination in March 2007, contingent on their not voluntarily terminating their employment prior to December 31, 2007. In connection with this commitment, we expect to pay \$345 of retention bonuses, of which \$230 was included in accrued compensation on our Balance Sheets as of September 30, 2007. We also granted stock options to all employees as part of an employee retention program. These options

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vested 50% on September 27, 2007 for all holders who had not voluntarily terminated their employment prior to that date, and will vest 50% on March 27, 2008 for all holders who have not voluntarily terminated their employment prior to that date. The aggregate fair market value of the options was \$1,332, which is being recognized ratably as compensation expense over the vesting period.

*2006 Restructuring*

In September 2006, we implemented a restructuring of operations in connection with the sale of the Witmer Road Facility (2006 Restructuring). The employee severance costs incurred for the 2006 Restructuring were payable pursuant to an employee severance plan established in August 2005. All of these employee severance costs were paid by March 31, 2007.

In connection with the 2006 Restructuring, we committed to pay future cash retention bonuses to certain employees who were not given notice of termination in September 2006, contingent on their not voluntarily terminating their employment prior to April 1, 2007. In connection with this commitment, we paid \$272 of retention bonuses during the nine months ended September 30, 2007. Our net loss for the nine months ended September 30, 2007 included \$104 of expense related to these cash retention bonuses, of which \$94 was included in research and development expenses and \$10 was included in general and administrative expenses. We also granted stock options to certain employees as part of an employee retention program. These options vested in full either on July 1, 2007 for all holders who had not voluntarily terminated their employment prior to that date or on their termination date for those employees who were involuntarily terminated in the 2007 Restructuring. The aggregate fair market value of the options was \$605, which was recognized ratably as compensation expense over the vesting period.

**15. Income Tax Benefit**

During the nine months ended September 30, 2007, we sold Pennsylvania research and development tax credits, resulting in the recognition of \$533 of income tax benefit.

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

**CAUTIONARY STATEMENT PURSUANT TO SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION ACT OF 1995:**

*This report includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are not historical facts and include, but are not limited to, statements about our plans, objectives, representations and contentions that typically may be identified by use of terms such as anticipate, believe, estimate, plan, may, expect, intend, could, potential, and similar expressions, although some forward-looking statements are expressed differently. These forward-looking statements include, among others, statements about our:*

*estimate that our existing cash and cash equivalents, expected proceeds from collaborations and license agreements, and interest income should be sufficient to meet our operating and capital requirements at least through the third quarter of 2008;*

*expected losses;*

*expectations for future capital requirements;*

*expectations for increases in operating expenses;*

*expectations for increases in research and development, and marketing, general and administrative expenses in order to develop products, procure commercial quantities of reagents and products, and commercialize our technology;*

*expectations regarding the scope and expiration of patents;*

*expectations regarding the timing of non-clinical activities, regulatory meetings and submissions, as well as the progression of clinical trials, for NE-180, GlycoPEG-GCSF and GlycoPEG-Factor VIIa;*

*expectations for the development of long-acting versions of EPO and G-CSF, and subsequent proprietary drug candidates;*

*expectations regarding net cash utilization;*

*expectations for generating revenue; and*

*expectations regarding the timing and character of new or expanded collaborations and for the performance of our existing collaboration partners in connection with the development and commercialization of products incorporating our technology.*

*You should be aware that the forward-looking statements included in this report represent management's current judgment and expectations, but our actual results, events and*

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*performance could differ materially from those in the forward-looking statements. Potential risks and uncertainties that could affect our actual results include the following:*

*our ability to obtain the funds necessary for our operations;*

*our ability to meet forecasted timelines due to internal or external causes;*

*unfavorable non-clinical and clinical results for our product candidates or product categories;*

*regulatory developments that adversely affect our ability to market our products or obtain government approvals;*

*our ability to develop commercial-scale manufacturing processes for our products and reagents, either independently or in collaboration with others;*

*the performance of our contract research organizations and contract manufacturing organizations;*

*our ability to enter into and maintain collaborative arrangements;*

*our ability to obtain adequate sources of proteins and reagents;*

*our ability to develop and commercialize products without infringing the patent or intellectual property rights of others;*

*our ability to expand and protect our intellectual property and to operate without infringing the rights of others;*

*our ability and our collaborators' ability to develop and commercialize therapeutic proteins and our ability to commercialize our technology;*

*our ability to attract and retain key personnel;*

*our ability to compete successfully in an intensely competitive field; and*

*general economic conditions.*

*These and other risks and uncertainties that could affect our actual results are discussed in this report and in our other filings with the SEC, particularly in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2006 in the section entitled "Risk Factors" and in Item 1A of Part II of our subsequently filed Quarterly Reports on Form 10-Q.*

*Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, events, levels of activity, performance, or achievements. We do not assume responsibility for the accuracy and completeness of the forward-looking statements other than as required by applicable law. We do not undertake any duty to update any of the forward-looking statements after the date of this report to conform them to actual results, except as required by the federal securities laws.*

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*You should read this section in combination with the section entitled Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2006, included in our Annual Report on Form 10-K for the year ended December 31, 2006 and in our 2006 Annual Report to Stockholders.*

### **Overview**

Neose Technologies, Inc. is a clinical-stage biopharmaceutical company focused on the development of next-generation therapeutic proteins that we believe will be competitive with best-in-class protein drugs currently on the market. Our lead therapeutic protein candidates are NE-180 and GlycoPEG-GCSF.

NE-180 is a long-acting version of EPO produced in insect cells. EPO is prescribed to stimulate production of red blood cells, and is approved for sale in major markets around the world for treatment of chemotherapy-induced anemia and anemia associated with chronic kidney disease. NE-180 is being developed for the treatment of anemia in adult cancer patients with non-myeloid malignancies receiving chemotherapy and for the treatment of anemia associated with chronic kidney disease, including patients on dialysis and patients not on dialysis. During 2006, we completed a Phase I clinical trial for NE-180 in Switzerland. In the first quarter of 2007, we initiated a Phase II human trial to evaluate the safety, tolerability and dose response of NE-180 in cancer patients receiving platinum-based chemotherapy. In the third quarter of 2007, we initiated a Phase II human trial to evaluate the safety, tolerability and dose response of NE-180 in patients with anemia associated with chronic kidney disease.

In August 2007, we announced our decision to defer certain clinical and process development activities to reduce planned cash utilization. This deferral resulted in extending the timeline for our development of NE-180. In October 2007, we terminated an agreement with a vendor that was to produce bulk NE-180 on our behalf to reduce uncertainties associated with announced ownership changes at the vendor and to defer future process development and manufacturing costs.

GlycoPEG-GCSF is a long-acting version of G-CSF that we are co-developing with BioGeneriX AG, a company of the ratiopharm Group. G-CSF is prescribed to stimulate production of neutrophils (a type of white blood cell) and is approved for sale in major markets around the world for treatment of neutropenia associated with myelosuppressive chemotherapy. In November 2006, BioGeneriX initiated the first of two planned Phase I clinical trials for GlycoPEG-GCSF. In March 2007, BioGeneriX initiated the second Phase I clinical trial for GlycoPEG-GCSF. In November 2007, we reported data from both of these Phase I clinical trials.

We also have agreements with Novo Nordisk A/S to use our GlycoPEGylation technology to develop and commercialize next-generation versions of Factors VIIa, VIII and IX, one of which, Factor VIIa, is currently marketed by Novo Nordisk. In June 2007, Novo Nordisk initiated a Phase I clinical study for GlycoPEG-Factor VIIa. This trial will assess the safety and pharmacokinetics of GlycoPEG-Factor VIIa in healthy volunteers. Factor VIIa is used in the treatment of bleeding episodes and for the prevention of bleeding during surgery or invasive procedures in patients with congenital hemophilia with inhibitors to coagulation factors VIII or IX.

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We believe that our enzymatic pegylation technology, GlycoPEGylation, can improve the drug properties of therapeutic proteins by building out, and attaching PEG to, carbohydrate structures on the proteins. We are using our technology to develop proprietary versions of protein drugs with proven safety and efficacy and to improve the therapeutic profiles of proteins being developed by our partners. We expect these modified proteins to offer significant advantages, including less frequent dosing and possibly improved efficacy, over the original versions of the drugs now on the market, as well as to meet or exceed the pharmacokinetic profile of next-generation versions of the drugs now on the market. We believe this strategy of targeting drugs with proven safety and efficacy allows us to lower the risk profile of our proprietary development portfolio as compared to *de novo* protein drug development. We intend to continue to focus our research and development resources on therapeutic proteins that we believe have the highest probability of clinically meaningful therapeutic profile improvements from our technology and are in commercially attractive categories.

In March 2007, we sold, through a private placement, 21.4 million shares of our common stock and warrants to purchase 9.6 million shares of our common stock, including 5.0 million shares of our common stock and warrants to purchase 2.2 million shares of our common stock to investment funds affiliated with certain members of our board of directors, at a price of \$2.02 per unit, generating net proceeds of \$40.5 million. Each unit consisted of one share of our common stock and a warrant to purchase 0.45 shares of our common stock. The warrants have a five-year term and an exercise price of \$1.96 per share.

In March 2007, we initiated a restructuring of operations designed to allow for significantly higher clinical development costs for NE-180 while keeping anticipated 2007 net cash spending consistent with 2006 levels. The restructuring included a workforce reduction of approximately 40%. We incurred restructuring costs of approximately \$0.6 million for the workforce reduction, all of which was paid by September 30, 2007.

We have incurred operating losses each year since our inception. As of September 30, 2007, we had an accumulated deficit of \$291.6 million. We expect additional losses over the next several years as we continue product research and development efforts and expand our intellectual property portfolio. We have financed our operations through private and public offerings of equity securities, proceeds from debt financings, and revenues from our collaborative agreements.

We believe that our existing cash and cash equivalents, expected proceeds from collaborations and license arrangements, and interest income should be sufficient to meet our operating and capital requirements at least through the third quarter of 2008, although changes in our collaborative relationships or our business, whether or not initiated by us, may cause us to deplete our cash and cash equivalents sooner than the above estimate.

### **Liquidity and Capital Resources**

#### *Overview*

We had \$29.1 million in cash and cash equivalents as of September 30, 2007, compared to \$16.4 million as of December 31, 2006. The increase was primarily due to the sale, through a private placement, of 21.4 million shares of our common stock and warrants to purchase 9.6 million shares of our common stock, generating net proceeds of \$40.5 million. These additional funds were

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partially offset by the continued funding of our operating activities, capital expenditures, and debt repayments. We anticipate spending approximately \$10.0 million during the fourth quarter of 2007 to fund our operating activities, including clinical trial, process development and manufacturing costs associated with the development of NE-180, and capital expenditures and debt repayments.

The development of next-generation proprietary protein therapeutics, which we are pursuing both independently and in collaboration with selected partners, will require substantial expenditures by us and our collaborators. We plan to continue financing our operations through private and public offerings of equity securities, proceeds from debt financings, and proceeds from existing and future collaborative agreements. Other than proceeds from our collaborations with Novo Nordisk and BioGeneriX, and any future collaborations with others, we do not expect to generate significant revenues until such time as products using our technologies are commercialized, which is not expected during the next several years. We expect an additional several years to elapse before we can expect to generate sufficient cash flow from operations to fund our operating and investing requirements. We believe that our existing cash and cash equivalents, expected revenue from collaborations and license arrangements, and interest income should be sufficient to meet our operating and capital requirements at least through the third quarter of 2008. We will need to raise substantial additional funds to continue our business activities and fund our operations until we are generating sufficient cash flow from operations. If we are unable to raise additional capital when required, we may need to delay, scale back, or eliminate some or all of our research and development programs.

### *Operating Activities*

Net cash used in operating activities was \$23.3 million and \$20.5 million during the nine months ended September 30, 2007 and 2006, respectively. The increase for the 2007 period was primarily due to higher clinical and process development costs for NE-180 and the payment of a \$1.4 million non-refundable fee to a vendor, and was partially offset by lower payroll and facility-related costs resulting from the restructurings we implemented in 2006 and 2007. Fluctuations in operating items vary period-to-period due to, among other factors, the timing of research and development activities, such as the initiation and progress of clinical trials and non-clinical studies.

### *Investing Activities*

During the nine months ended September 30, 2007 we invested \$3.4 million in property and equipment. In February 2007, we completed construction of leasehold improvements to a facility that we currently lease in Horsham, Pennsylvania. We spent \$3.2 million for these improvements, of which \$2.1 million was included in construction-in-progress as of December 31, 2006. In May 2007, we completed construction of leasehold improvements to our warehouse space that we currently lease in Horsham. We spent \$0.1 million for these improvements, of which \$31,000 was included in construction-in-progress as of December 31, 2006. We anticipate additional capital expenditures during the remainder of 2007 of approximately \$0.9 million. We may finance some or all of these capital expenditures through capital leases or the issuance of new debt or equity. The terms of any new debt could require us to maintain a minimum cash and investments balance, or to transfer cash into an escrow account to collateralize some portion of the debt, or both. During the nine months ended September 30, 2006, we received net proceeds

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of \$19.3 million from the sale of our Witmer Road Facility. During the nine months ended September 30, 2006 we invested \$0.5 million in property and equipment.

### *Financing Activities*

#### *Equity Financing Activities*

In March 2007, we sold, through a private placement, 21.4 million shares of our common stock and warrants to purchase 9.6 million shares of our common stock, including 5.0 million shares of our common stock and warrants to purchase 2.2 million shares of our common stock to investment funds affiliated with certain members of our board of directors, at a price of \$2.02 per unit, generating net proceeds of \$40.5 million. Each unit consisted of one share of our common stock and a warrant to purchase 0.45 shares of our common stock. The warrants have a five-year term and an exercise price of \$1.96 per share.

#### *Debt Financing Activities*

Our total debt decreased to \$1.3 million as of September 30, 2007, compared to \$1.8 million as of December 31, 2006. This decrease primarily resulted from planned debt principal repayments of \$1.3 million, and was partially offset by \$0.4 million in proceeds from the issuance of debt to finance insurance policy premiums as well as \$0.4 million in assets purchased under capital leases.

#### *Note Payable Secured by Insurance Policies*

In March 2007, we borrowed \$0.4 million to finance insurance policy premiums due on certain insurance policies. The insurance policy premiums, net of amortization, are included in prepaid expenses and other current assets on our Balance Sheets as of September 30, 2007. We are required to pay \$42,000 of principal and interest during each of the nine months beginning on March 15, 2007 and ending on November 15, 2007. The interest is calculated based on an annual percentage rate of 5.7%. To secure payment of the amounts financed, we granted the lender a security interest in (a) all unearned premiums or dividends payable under the policies, (b) loss payments which may reduce the unearned premiums, subject to any mortgagee or loss payee interests, and (c) any interest in any state guarantee fund relating to the policies.

#### *Term Loan from Landlord*

In May 2004, we borrowed \$1.5 million from the landlord of our leased facilities in Horsham, Pennsylvania. As of September 30, 2007, the outstanding principal balance under this agreement was \$0.3 million. The terms of the financing require us to pay monthly principal and interest payments over 48 months at an interest rate of 13%. During the twelve months ending September 30, 2008, we will be required to make principal and interest payments totaling \$0.3 million under this agreement.

#### *Equipment Loans*

As of September 30, 2007, we owed \$0.5 million to an equipment lender that financed the purchase of certain equipment and facility improvements, which collateralize the amounts borrowed. Our last payment is scheduled for September 2008, and interest rates applicable to the

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equipment loans range from 8.1% to 9.5%. During the twelve months ending September 30, 2008, we will make principal and interest payments totaling \$0.5 million under these agreements.

*Capital Lease Obligations*

The terms of our capital leases require us to make monthly payments through February 2012. As of September 30, 2007, the present value of aggregate minimum lease payments under these agreements was \$0.4 million. Under these agreements, we will be required to make lease payments totaling \$0.2 million during the twelve months ending September 30, 2008.

*Operating Leases*

We lease laboratory, office, warehouse facilities, and equipment under operating lease agreements. In 2002, we entered into a lease agreement for our laboratory and office facility in Horsham, Pennsylvania. The initial term of this lease ends 2022, at which time we have an option to extend the lease for an additional five years, followed by another option to extend the lease for an additional four and one-half years. This lease contains escalation clauses, under which the base rent increases annually by 2%. In January 2007, we entered into a five-year lease agreement for approximately 6,800 square feet of office and warehouse space in Horsham, Pennsylvania.

**Summary of Contractual Obligations**

A summary of our obligations to make future payments under contracts existing as of December 31, 2006 is included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of our Annual Report on Form 10-K for the year ended December 31, 2006. The Liquidity and Capital Resources section of this Form 10-Q describes obligations from any material contracts entered into during the nine months ended September 30, 2007.

**Off-Balance Sheet Arrangements**

We are not involved in any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect that is material to investors on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources.

**Critical Accounting Policies and Estimates**

A discussion of our critical accounting policies and estimates is included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of our Annual Report on Form 10-K for the year ended December 31, 2006. Except as described below, there have not been any changes or additions to our critical accounting policies during the nine months ended September 30, 2007.

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### *Warrant Liability*

We follow Emerging Issues Task Force (EITF) No. 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock* (EITF 00-19), which provides guidance for distinguishing among permanent equity, temporary equity and assets and liabilities. EITF 00-19 requires liability classification of warrants that may be settled in cash at the option of warrant holders. The warrants issued in our March 2007 equity financing permit net cash settlement in certain change of control circumstances at the option of the warrant holders, and, therefore, are classified as a liability on our Balance Sheets.

We record the warrant liability at its fair value using the Black-Scholes option-pricing model and revalue it at each reporting date until the warrants are exercised or expire. Changes in the fair value of the warrants are reported in our Statements of Operations as non-operating income or expense. The fair value of the warrants is subject to significant fluctuation based on changes in our stock price, expected volatility, remaining contractual life and the risk-free interest rate. The market price for our common stock has been and may continue to be volatile. Consequently, future fluctuations in the price of our common stock may cause significant increases or decreases in the fair value of the warrants.

### **Results of Operations**

We recorded a net loss of \$2.5 million and \$25.3 million during the three and nine months ended September 30, 2007, respectively, compared to net losses of \$1.4 million and \$17.6 million for the corresponding periods in 2006. The following sections explain the changes between the reporting periods in each component of net loss.

#### *Revenue from Collaborative Agreements*

Our revenue from collaborative agreements has historically been derived from a few major collaborators. Our collaborative agreements provide for some or all of the following elements: license fees, research and development funding, milestone revenues, and royalties on product sales. A summary of revenue recognized under our collaborative agreements during the three and nine months ended September 30, 2007 and 2006 is presented in the following table (in thousands):

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|                                  | Three months ended<br>September 30, |          | Nine months ended<br>September 30, |          |
|----------------------------------|-------------------------------------|----------|------------------------------------|----------|
|                                  | 2007                                | 2006     | 2007                               | 2006     |
| Novo Nordisk                     |                                     |          |                                    |          |
| Research and development funding | \$ 1,740                            | \$ 1,244 | \$ 3,874                           | \$ 3,323 |
| Substantive milestones           |                                     |          |                                    | 750      |
| License fees                     | 216                                 | 115      | 529                                | 323      |
|                                  | 1,956                               | 1,359    | 4,403                              | 4,396    |
| BioGeneriX                       |                                     |          |                                    |          |
| Research and development funding | 661                                 | 104      | 1,654                              | 997      |
| License fees                     | 14                                  | 14       | 42                                 | 195      |
|                                  | 675                                 | 118      | 1,696                              | 1,192    |
|                                  | \$ 2,631                            | \$ 1,477 | \$ 6,099                           | \$ 5,588 |

Revenue from collaborative agreements during the three and nine months ended September 30, 2007 was \$2.6 million and \$6.1 million, respectively, compared to \$1.5 million and \$5.6 million for the corresponding periods in 2006. The increase in revenue for the three-month period ended September 30, 2007 compared to the 2006 period was primarily due to increased research and development funding from both Novo Nordisk and BioGeneriX. The increase in revenue for the nine-month period ended September 30, 2007 compared to the 2006 period was primarily due to increased research and development funding from both Novo Nordisk and BioGeneriX and was partially offset by the recognition of revenue for a substantive milestone under our collaborations with Novo Nordisk in 2006.

Material cash inflows from proprietary drug development projects are highly uncertain, and we cannot reasonably estimate the period in which we will begin to receive, if ever, material net cash inflows from our major research and development projects. Cash inflows from development-stage products are dependent on several factors, including entering into collaborative agreements, the achievement of certain milestones, and regulatory approvals. We may not receive milestone payments from any existing or future collaborations if a development-stage product fails to meet technical or performance targets or fails to obtain the required regulatory approvals. Further, our revenue from collaborations will be affected by the levels of effort committed and made by our collaborative partners. Even if we achieve technical success in developing drug candidates, our collaborative partners may discontinue development, may not devote the resources necessary to complete development and commence marketing of these products, or they may not successfully market potential products.

*Research and Development Expense*

Our lead therapeutic protein candidates are NE-180 and GlycoPEG-GCSF. NE-180 is a long-acting version of EPO produced in insect cells. EPO is prescribed to stimulate production of red blood cells, and is approved for sale in major markets around the world for treatment of

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chemotherapy-induced anemia and anemia associated with chronic kidney disease. NE-180 is being developed for the treatment of anemia in adult cancer patients with non-myeloid malignancies receiving chemotherapy and for the treatment of anemia associated with chronic kidney disease, including patients on dialysis and patients not on dialysis. During 2006, we completed a Phase I clinical trial for NE-180 in Switzerland. In the first quarter of 2007, we initiated a Phase II human trial to evaluate the safety, tolerability and dose response of NE-180 in cancer patients receiving platinum-based chemotherapy. In the third quarter of 2007, we initiated a Phase II human trial to evaluate the safety, tolerability and dose response of NE-180 in patients with anemia associated with chronic kidney disease.

Pursuant to an agreement with a vendor that was to produce bulk NE-180 on our behalf, we had the option to, on or before October 9, 2007, either terminate the agreement or execute an amendment to amend the scope of services. Under an August 2007 change order contemplating an amendment or termination of the agreement, we agreed to pay the vendor a non-refundable fee of \$2,800, of which \$1,400 was due and paid in August 2007. The remaining \$1,400 was due and paid on October 9, 2007.

On October 9, 2007, we terminated this agreement to reduce uncertainties associated with announced ownership changes at the vendor and to defer future process development and manufacturing costs. As of September 30, 2007, we determined that we would receive no future benefit from the \$2,800. Therefore, all of the \$2,800 was included in research and development expense for the three and nine months ended September 30, 2007, and the \$1,400 due in October 2007 was included in accrued expenses on our Balance Sheets as of September 30, 2007.

GlycoPEG-GCSF is a long-acting version of G-CSF that we are co-developing with BioGeneriX AG, a company of the ratiopharm Group. G-CSF is prescribed to stimulate production of neutrophils (a type of white blood cell) and is approved for sale in major markets around the world for treatment of neutropenia associated with myelosuppressive chemotherapy. In November 2006, BioGeneriX initiated the first of two planned Phase I clinical trials for GlycoPEG-GCSF. In March 2007, BioGeneriX initiated the second Phase I clinical trial for GlycoPEG-GCSF. In November 2007, we reported data from both of these Phase I clinical trials.

We have also entered into agreements with Novo Nordisk A/S to use our GlycoPEGylation technology to develop and commercialize next-generation versions of Factors VIIa, VIII and IX, one of which, Factor VIIa, is currently marketed by Novo Nordisk. In June 2007, Novo Nordisk initiated a Phase I clinical study for GlycoPEG-Factor VIIa. This trial will assess the safety and pharmacokinetics of GlycoPEG-Factor VIIa in healthy volunteers. Factor VIIa is used in the treatment of bleeding episodes and for the prevention of bleeding during surgery or invasive procedures in patients with congenital hemophilia with inhibitors to coagulation factors VIII or IX.

We conduct exploratory research, both independently and with collaborators, on therapeutic candidates, primarily proteins, for development using our enzymatic technology. Successful candidates may be advanced for development through our own proprietary drug program or through our partnering and licensing program, or a combination of the two. Although our primary focus is the development of long-acting proteins (GlycoPEGylation), we are also conducting research to assess opportunities to use our enzymatic technology in other areas (Other Glycotechnology Programs), such as glycopeptides and glycolipids. The following chart

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sets forth our projects in each of these categories and the stage to which each has been developed:

|                         | <i>Development Stage</i> | <i>Status</i> |
|-------------------------|--------------------------|---------------|
| <b>GlycoPEGylation:</b> |                          |               |
| NE-180                  | Clinical (Phase II)      | Active        |
| GlycoPEG-GCSF           | Clinical (Phase I)       | Active        |
| GlycoPEG-Factor VIIa    | Clinical (Phase I)       | Active        |
| Other protein projects  | Research/Preclinical     | Active        |

**Other Glycotechnology Programs:**

|                                      |          |        |
|--------------------------------------|----------|--------|
| Non-protein therapeutic applications | Research | Active |
|--------------------------------------|----------|--------|

The process of bringing drugs from the preclinical research and development stage through Phase I, Phase II, and Phase III clinical trials to FDA or other regulatory approval is time consuming and expensive. Because our announced product candidates are currently in the early clinical and preclinical stages, and there are a variety of potential intermediate clinical and non-clinical outcomes that are inherent in drug development, we cannot reasonably estimate either the timing or costs we will incur to complete these research and development projects. In addition, the timing and costs to complete our research and development projects will be affected by the timing and nature of any collaboration agreements we may enter into with a third party, neither of which we can currently estimate.

For each of our research and development projects, we incur both direct and indirect expenses. Direct expenses include salaries and other costs of personnel, raw materials, and supplies for each project. We may also incur third-party costs related to these projects, such as contract research, consulting and non-clinical and clinical development costs. Indirect expenses include depreciation expense and the costs of operating and maintaining our facilities, property, and equipment, to the extent used for our research and development projects, as well as the costs of general management of our research and development projects.

Our research and development expenses during the three and nine months ended September 30, 2007 were \$10.7 million and \$28.3 million, respectively, compared to \$6.8 million and \$21.2 million for the corresponding periods in 2006. These increases were primarily due to higher clinical and process development costs for NE-180, including a \$2.8 million non-refundable fee to the vendor that was contracted to produce bulk NE-180 on our behalf, as well as higher costs associated with our collaborations with Novo Nordisk and BioGeneriX. The following table illustrates research and development expenses incurred during the three and nine months ended September 30, 2007 and 2006 for our significant groups of research and development projects (in thousands):

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|                                | Three months ended<br>September 30, |          | Nine months ended<br>September 30, |           |
|--------------------------------|-------------------------------------|----------|------------------------------------|-----------|
|                                | 2007                                | 2006     | 2007                               | 2006      |
| GlycoPEGylation                | \$ 9,046                            | \$ 3,495 | \$ 21,418                          | \$ 12,379 |
| Other Glycotechnology Programs | 9                                   | 102      | 47                                 | 434       |
| Indirect expenses              | 1,680                               | 3,214    | 6,824                              | 8,360     |
|                                | \$ 10,735                           | \$ 6,811 | \$ 28,289                          | \$ 21,173 |

*GlycoPEGylation*

Our GlycoPEGylation expenses result primarily from development activities, including process, non-clinical and clinical development, associated with our proprietary drug development programs. These expenses increased during the 2007 periods primarily due to the initiation of two Phase II clinical trials for NE-180, the outside manufacturing of NE-180, and a \$2.8 million non-refundable fee to a vendor that was contracted to produce bulk NE-180 on our behalf.

*Other Glycotechnology Programs*

Research and development expenses related to our Other Glycotechnology Programs decreased during the 2007 periods compared to the 2006 periods due to lower payroll and decreased supplies for early stage research.

*Indirect expenses*

Indirect research and development expenses decreased for the 2007 periods compared to the 2006 periods. Increased costs during the first quarter of 2007 related to the consolidation of our laboratories and offices in February 2007 were offset by lower payroll and supplies expenses for the second and third quarters of 2007 compared to the same 2006 periods.

*General and Administrative Expense*

General and administrative expenses decreased during the three and nine months ended September 30, 2007 to \$2.6 million and \$8.1 million, respectively, from \$3.0 and \$9.0 million for the corresponding periods in 2006. These decreases were primarily due to lower legal costs associated with our intellectual property, payroll expenses, and stock-based compensation costs.

*Other Income and Expense*

In connection with the sale of our common stock and warrants to purchase shares of our common stock in March 2007, we recorded the warrants as a liability at their initial fair value using the Black-Scholes option-pricing model and revalue them at each reporting date until they are exercised or expire. Changes in the fair value of the warrants are reported in our Statements of Operations as non-operating income or expense. During the three and nine months ended September 30, 2007, we recorded non-operating income of \$7.7 million and \$3.3 million, respectively, related to the change in fair value of these warrants. The market price for our

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common stock has been and may continue to be volatile. Consequently, future fluctuations in the price of our common stock may cause significant increases or decreases in the fair value of these warrants.

Interest income during the three and nine months ended September 30, 2007 increased to \$0.4 million and \$1.2 million, respectively, from \$0.3 million and \$0.9 million for the corresponding periods in 2006. The increase during the 2007 periods compared to the 2006 periods was primarily due to higher cash balances during the second and third quarters of 2007.

Interest expense during the three and nine months ended September 30, 2007 decreased to \$35,000 and \$123,000, respectively, from \$592,000 and \$1,225,000 for the corresponding periods in 2006. Lower average debt balances in the 2007 period accounted for the decrease. See **Financing Activities** **Debt Financing Activities** in the **Liquidity and Capital Resources** section of this Form 10-Q for a description of the material features of our debt financings.

During the nine months ended September 30, 2007, we sold Pennsylvania research and development tax credits, resulting in the recognition of \$0.5 million of income tax benefit.

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

*Equity Price Risk*

We are exposed to certain risks arising from changes in the price of our common stock, primarily due to the potential effect of changes in fair value of the warrant liability related to the warrants issued in March 2007. The warrant liability is revalued at its current fair value using the Black-Scholes option-pricing model at each reporting date until the warrants are exercised or expire, and is subject to significant increases or decreases in value due to the effects of changes in the price of our common stock at period end and the related calculation of volatility. Changes in the fair value of warrants are reported in our Statements of Operations as non-operating income or expense.

*Foreign Exchange Risk*

We have entered into some agreements denominated, wholly or partly, in Euros or other foreign currencies, and, in the future, we may enter into additional, significant agreements denominated in foreign currencies. If the values of these currencies increase against the dollar, our costs would increase. To date, we have not entered into any contracts to reduce the risk of fluctuations in currency exchange rates. In the future, depending upon the amounts payable under any such agreements, we may enter into forward foreign exchange contracts to reduce the risk of unpredictable changes in these costs. However, due to the variability of timing and amount of payments under any such agreements, foreign exchange contracts may not mitigate the potential adverse impact on our financial results.

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**Item 4. Controls and Procedures**

*Evaluation of disclosure controls and procedures*

We carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such phrase is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934 (Exchange Act), as of the end of the period covered by this report on Form 10-Q. Based on that evaluation, our management concluded that these controls and procedures are effective as of the end of the period covered by this report to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act, as amended, is recorded, processed, summarized and reported as specified in SEC rules and forms. There were no changes during our last fiscal quarter in these controls or procedures identified in connection with the evaluation, or in other factors that have materially affected, or are reasonable likely to materially affect, these controls or procedures.

*Changes in internal control over financial reporting*

There were no changes in our internal control over financial reporting that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**PART II. OTHER INFORMATION**

**Item 1A. Risk Factors**

In addition to the other information set forth in this Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A Risk Factors of our Form 10-K for the year ended December 31, 2006 and in Part II, Item 1A Risk Factors of our Form 10-Q for the quarter ended June 30, 2007. The risks described in our Form 10-K and Form 10-Q are not the only risks that we face. Additional risks not presently known to us or that we do not currently consider significant may also have an adverse effect on us. If any of the risks actually occur, our business, results of operations, cash flows or financial condition could suffer.

**Item 6. Exhibits**

- |       |                                                                                                                                                          |
|-------|----------------------------------------------------------------------------------------------------------------------------------------------------------|
| 31.1* | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2* | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1* | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.       |
| 32.2* | Certification of Chief 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.

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**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 thereunto duly authorized.

NEOSE TECHNOLOGIES, INC.

Date: November 9, 2007

By: /s/ A. Brian Davis  
A. Brian Davis  
Senior Vice President and Chief  
Financial Officer (Principal Financial  
and Accounting Officer and Duly  
Authorized Signatory)

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**Exhibit Index**

| Exhibit | Description                                                                                                                                              |
|---------|----------------------------------------------------------------------------------------------------------------------------------------------------------|
| 31.1    | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
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