

13 May 2008

**Lifeline Scientific, Inc**  
("Lifeline" or "the Company")

**Preliminary Results for the year ended 31 December 2007**

Lifeline Scientific, the medical technology company focused on commercialising its LifePort® Kidney Transporter, a product designed to address the global challenge of human donor organ shortages, announces its first set of preliminary results since its flotation on the AIM Market of the London Stock Exchange and commencement of trading in January 2008.

**Financial Highlights**

- Revenues of US\$6.0 million
- Gross Profit of US\$1.7 million
- Operating loss of US\$8.1 million

**Corporate Highlights during 2007**

- Positive initial data reported at first presentation of landmark clinical trial comparing LifePort to previous standard of practice

**Post Balance Sheet Events**

- Completed flotation in January to raise a total of £5.4 million (US\$10.8 million)
- Preparations initiated for global commercial launch of LifePort® Kidney Transporter on back of full landmark trial results anticipated for presentation later this year
- Secured new LifePort® Kidney Transporter contracts in March with two of the world's largest kidney transplant centres
- Further contracts signed with key centres in North America, Europe and Japan

**David Kravitz, Chief Executive of Lifeline Scientific, said:**

*"LifePort has been well received in its pilot introduction phase in the main transplant centres throughout the world. The money raised from the IPO has enabled us to start preparations for the full commercial launch of the product in the world's key markets.*

*"Trading during the first quarter was in line with management expectations and the new contract wins announced in March give the Board confidence that top line growth can be achieved in 2008."*

**Enquiries**

<b>Lifeline Scientific, Inc.</b>	<b>+ 1 847 294 0300</b>
David Kravitz, CEO	
<b>Seymour Pierce (Nomad)</b>	<b>+44 (0)20 7107 8000</b>
Mark Percy / Huaizheng Peng / Sarah Jacobs	
<b>Financial Dynamics</b>	<b>+44 (0)20 7831 3113</b>
Ben Brewerton / John Dineen	

## **Notes to Editors**

The LifePort Kidney Transporter is the Group's lead product. It is designed with the challenges of organ recovery and transport in mind, providing a sealed, sterile, protected environment where a chemical solution is gently pumped through the donated kidney at low temperatures to minimise tissue damage while the organ is outside the body.

Since receiving FDA clearance and CE Marking in 2004, over 250 LifePorts have been introduced in leading transplant programs throughout Europe and North America, preserving more than 10,000 kidneys for clinical transplantation.

Retrospective clinical outcomes studies have shown that machine preservation improves the quality of a kidney from a cadaveric donor prior to transplantation in comparison to organs statically stored in a traditional cool box. This data demonstrates that machine perfused kidneys are more likely to function immediately after transplantation and to remain healthier for longer.

## **Introduction**

Lifeline Scientific is a medical technology company that is primarily focused on the commercial launch of its LifePort® Kidney Transporter. LifePort®, marketed through the Company's Organ Recovery Systems business unit, is FDA cleared / CE marked, clinically validated and has generated over \$9 million in revenues during its pilot introduction to the marketplace.

LifePort® has also been shown to improve the utilization of donated kidneys and increase the organ recovery rate. These benefits along with data reported from other machine preservation studies suggest that reduced overall costs of kidney transplantation may also be achieved with the LifePort®.

LifePort® is thus a new tool that can help increase the number of kidneys being made available for transplant while improving the quality of those organs and potentially lowering transplant related healthcare costs.

LifePort® products for heart, liver, lung and pancreas are also in various stages of pre-clinical development.

## **Operating Review**

During 2007, over 250 LifePort® Kidney Transporters were in service within 75 centres and were employed in over 4,000 worldwide transplant operations. Total revenues for the year ended 31 December 2007 were \$6.0 million compared to \$6.8 million for the 15 months ended 31 December 2006. In 2007 LifePort® product related revenues increased approximately 34% over respective annualized 2006 revenues. In the United States LifePort® is becoming the new standard practice with LifePorts® installed in 70% of the Organ Procurement Organizations by year end.

In an effort to increase the number of kidneys available for transplant in France, the Agence de la BioMédecine launched a national pilot project for the recovery of kidneys from uncontrolled non-heart-beating donors. Ten French transplant centres purchased LifePorts® for the pilot program which mandated machine perfusion for all kidneys from this category of donor.

In October, we announced the initial results of a landmark clinical trial at the European Society of Transplantation (ESOT). The initial results showed that preserving a deceased donor kidney with the LifePort® Kidney Transporter increases the likelihood of it functioning immediately post transplantation compared with the current standard practice of static storage using ice in a cool box. When cases of delayed graft function (DGF) did occur, the impact was significantly reduced when LifePort® was used. The Machine Preservation Trial compared outcomes in 338 pairs of kidneys, one preserved with machine preservation on the LifePort® and the other by static ice box storage. The statistically significant results showed that DGF occurred in 20.8% of kidneys preserved with LifePort® compared with 26.5% in kidneys preserved with static storage, and lasted for just 8 days with machine preservation compared with 13 days for static storage.

## **Post Balance Sheet Events**

In January, Lifeline successfully completed its flotation on the AIM Market of the London Stock Exchange. The Company raised a total of £5.4 million from the placing of new common shares with institutional and other investors at a price of 150p per share. The proceeds have enabled Lifeline to begin the full commercial launch of LifePort®.

In March, LifePort® Kidney Transporter contracts were secured with two of the world's largest kidney transplant centres: the Alabama Organ Center and the University Hospital of Wisconsin. These contracts involve the sale of 14 units as well as a significant volume of consumables each year as the centres are reported to undertake, on average, 500 kidney transplantations annually. The contracts also cover ongoing warranty and maintenance services. The adoption of LifePort® Kidney Transporter as standard practice in such prominent kidney transplant centres is a strong vote of confidence for the product.

In addition to Alabama and Wisconsin, 14 LifePorts were sold to transplant centres in North America and Europe for clinical application and two LifePorts were sold to university based research programs in Japan.

### **Outlook**

With a continuing global shortage of organs for transplantation, it is important to find ways of increasing not only the number of kidneys available but also the quality of those organs as this improves post transplant outcomes for patients.

LifePort® has been well received in its pilot introduction phase in the main transplant centres throughout the world. The money raised from the IPO has enabled us to prepare for full commercial launch of the product in the world's key markets. The much anticipated one year outcomes data of the landmark LifePort Machine Preservation Trial is expected to be presented at major transplant industry symposiums beginning in June 2008.

Trading during January and February was in line with management expectations and sales of disposable items for the first three months of 2008 showed strong growth with a 28% increase in revenue over the same period in 2007. This, combined with the new contract wins announced in March, gives the Board confidence that top line growth can be achieved in 2008.

The following consolidated financial information is for the twelve month period ended December 31, 2007 and fifteen months ended December 31, 2006. These consolidated financial statements have been audited in accordance with auditing standards generally accepted in the United States of America and the auditor's report was issued with an unqualified opinion.

## Consolidated Balance Sheets

	December 31, 2007	December 31, 2006
	Audited	Audited
Current Assets		
Cash and cash equivalents	\$ 231,992	\$ 2,248,374
Receivables		
Customers - Billed (Net of allowance for doubtful accounts of \$15,346 and \$7,062 in 2007 and 2006)	803,244	829,858
Customers - Unbilled	-	134,576
Related party	503	54,775
Grant	60,047	64,806
Common stock subscription	9,616,001	-
Inventories	416,640	463,590
Prepaid expenses and deposits	173,045	136,378
Total Current Assets	11,301,472	3,932,357
Property and Equipment (Net of accumulated depreciation and amortization)	1,086,492	1,464,520
Deferred charges (Net of accumulated amortization)	-	315,286
Intangibles (Net of accumulated amortization)	1,216,459	1,147,896
Goodwill	64,710	64,710
Total Other Assets	1,281,169	1,527,892
	\$ 13,669,133	\$ 6,924,769

	December 31, 2007 Audited	December 31, 2006 Audited
<b>Current liabilities</b>		
Accounts payable	\$ 4,887,223	\$ 1,954,084
Long-term debt due within one year	35,175	6,546,829
Capital lease obligations due within one year	24,505	21,738
Accrued expenses		
Salaries and other compensation	35,323	134,240
Other	1,272,380	546,516
Accrued interest - Convertible notes	-	1,951,007
Deferred revenue	122,115	83,541
<b>Total Current Liabilities</b>	<b>6,376,721</b>	<b>11,237,955</b>
<b>Noncurrent Liabilities</b>		
Long-term debt (Net of portion included in current liabilities)	1,066,733	7,007,626
Accrued interest	203,409	91,337
Capital leases (Net of portion included in current liabilities)	24,316	23,693
<b>Total Noncurrent Liabilities</b>	<b>1,294,458</b>	<b>7,122,656</b>
<b>Total Liabilities</b>	<b>7,671,179</b>	<b>18,360,611</b>
Series A Convertible Redeemable Preferred Stock - \$0.01 par value; authorized - 2,000,000 shares; issued and outstanding - 0 and 1,913,985 shares in 2007 and 2006, respectively	-	10,355,997
Series B-1 Convertible Redeemable Preferred Stock - \$0.01 par value; authorized - 3,746,000 shares; issued and outstanding - 0 and 3,725,000 shares in 2007 and 2006, respectively	-	20,405,341
<b>Total Convertible Redeemable Preferred Stock</b>	<b>-</b>	<b>30,761,338</b>
<b>Stockholders' Equity (Deficit)</b>		
Common stock, \$.01 par value; authorized - 30,000,000 shares; issued and outstanding 15,721,340 and 7,356,155 shares in 2007 and 2006, respectively	157,213	73,562
Series C convertible preferred stock, \$0.01 par value; authorized - 2,720,000 shares; issued and outstanding - 0 and 2,720,000 shares in 2007 and 2006, respectively	-	27,200
Additional paid-in capital	87,500,564	15,950,642
Other accumulated comprehensive loss	(289,802)	(53,266)
Accumulated deficit	(81,370,021)	(58,195,318)
<b>Total Stockholders' Equity (Deficit)</b>	<b>5,997,954</b>	<b>(42,197,180)</b>
	<b>\$ 13,669,133</b>	<b>\$ 6,924,769</b>

## Consolidated Statements of Operations

	Year Ended December 31, 2007 Audited	Fifteen Months Ended December 31, 2006 Audited
Revenue		
Fee and sales revenue	\$ 4,703,419	\$ 4,385,637
Contract revenue	50,669	860,107
Grant revenue	1,241,930	1,514,685
Total Revenue	<u>5,996,018</u>	<u>6,760,429</u>
Cost of Revenue	<u>4,256,701</u>	<u>4,992,465</u>
Gross Profit	<u>1,739,317</u>	<u>1,767,964</u>
Operating Expense		
Research and development	2,083,267	3,206,231
Selling, general and administrative	7,762,103	8,357,227
Total Operating Expense	<u>9,845,370</u>	<u>11,563,458</u>
Loss from Operations	<u>(8,106,053)</u>	<u>(9,795,494)</u>
Other Expense (Income)		
Interest expense	14,311,096	3,299,677
Interest income	(12,924)	(175,792)
Loss on abandonment of patents	-	63,154
Write-off of professional fees incurred in connection with aborted reverse merger and IPO	760,468	76,815
Loss from disposal of property and equipment	10,010	28,385
Total Other Expense, Net	<u>15,068,650</u>	<u>3,292,239</u>
Net Loss	<u>\$ (23,174,703)</u>	<u>\$ (13,087,733)</u>



	Total	Common Stock			Series C Convertible Preferred Stock		Additional Paid-in Capital	Other Accumulated Comprehensive Loss	Accumulated Deficit
		Shares	Amount	Common Stock Subscribed	Shares	Amount			
Balance, December 31, 2006	\$(42,197,180)	7,356,155	\$73,562	\$ -	2,720,000	\$ 27,200	\$15,950,642	\$ (53,266)	\$(58,195,318)
Reverse stock split	-	(7,354,665)	(73,547)	-	-	-	73,547	-	-
Issuance of 3,675,074 shares of common stock related to AIM initial public offering (IPO)	10,915,617	3,675,074	36,751	-	-	-	10,878,866	-	-
Issuance of 87,500 shares of common stock related IPO and reverse merger expenses	264,250	87,500	875	-	-	-	263,375	-	-
Professional fees in connection with IPO	(1,469,457)	-	-	-	-	-	(1,469,457)	-	-
Commissions in connection with IPO	(835,025)	-	-	-	-	-	(835,025)	-	-
Accretion of Series A and B-1 convertible preferred stock to its redeemable value	(2,535,723)	-	-	-	-	-	(2,535,723)	-	-
Conversion of Series A and B-1 convertible preferred stock	33,297,061	2,124	21	-	-	-	33,297,040	-	-
Conversion of Series C convertible preferred stock	-	567	6	-	(2,720,000)	(27,200)	27,194	-	-
Intrinsic value of the beneficial conversion feature of convertible debt in conjunction with the IPO	10,978,752	-	-	-	-	-	10,978,752	-	-
Conversion of convertible debt notes into common shares	20,897,500	11,331,305	113,312	-	-	-	20,784,188	-	-
Issuance of 623,280 shares of common stock for warrants exercised	-	623,280	6,233	-	-	-	(6,233)	-	-
Foreign currency translation adjustment	(236,536)	-	-	-	-	-	-	(236,536)	-
Stock based compensation under FAS 123-R	93,398	-	-	-	-	-	93,398	-	-
Net loss	(23,174,703)	-	-	-	-	-	-	-	(23,174,703)
Balance, December 31, 2007	\$ 5,997,954	15,721,340	\$157,213	\$ -	-	\$ -	\$ 87,500,564	\$ (289,802)	\$(81,370,021)

## Consolidated Statements of Cash Flows

	Year Ended December 31, 2007 Audited	Fifteen Months Ended December 31, 2006 Audited
Cash Flows from Operating Activities		
Net loss	\$ (23,174,703)	\$ (13,087,733)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation	502,691	555,261
Amortization	91,323	148,561
Stock based compensation	93,398	27,141
Recovery of bad debts	-	(35,000)
Loss on disposal of property and equipment	10,010	91,539
Interest expense amortization on convertible debt discount	149,709	1,737,040
Accrued interest on convertible debt	2,676,266	1,289,983
Intrinsic value of the beneficial conversion of convertible debt	10,978,752	-
Common stock issued for services rendered	264,250	-
(Increase) decrease in		
Receivables	220,221	(628,452)
Inventories	46,950	(162,157)
Prepaid expenses and deposits	(36,667)	(226,310)
Deferred charges	315,286	-
Increase (decrease) in		
Accounts payable	2,933,139	951,261
Accrued expenses	626,947	54,180
Advance for research agreement	-	(223,202)
Accrued interest - Related party	96,695	79,431
Deferred revenue	38,574	75,931
Total Adjustments	19,007,544	3,735,207
Net Cash Used in Operating Activities	(4,167,159)	(9,352,526)
Cash Flows from Investing Activities		
Payments for patents	(159,886)	(406,871)
Capital expenditures	(81,083)	(323,102)
Proceeds from sale of property and equipment	10,314	-
Net Cash Used in Investing Activities	(230,655)	(729,973)

	Year Ended December 31, 2007 Audited	Fifteen Months Ended December 31, 2006 Audited
Cash Flows from Financing Activities		
Repayments under capital lease obligations	\$ (25,067)	\$ (80,756)
Principal payments on long-term debt	(24,748)	(50,374)
Proceeds from issuance of long-term debt	3,590,000	6,656,938
Proceeds from stock subscription receivable	1,299,616	600,000
Payment of legal fees relating to IPO	(2,304,482)	(675,996)
Net Cash Provided by Financing Activities	<u>2,535,319</u>	<u>6,449,812</u>
Effect of Foreign Currency Exchange Rate Changes on Cash	<u>(153,887)</u>	<u>50,825</u>
Net Decrease in Cash and Cash Equivalents	(2,016,382)	(3,581,862)
Cash and Cash Equivalents, Beginning of Period	<u>2,248,374</u>	<u>5,830,236</u>
Cash and Cash Equivalents, End of Period	<u>\$ 231,992</u>	<u>\$ 2,248,374</u>

## Note 1- Industry Operations

Lifeline Scientific, Inc. (the company), is in the business of delivering, to targeted medical markets, a portfolio of related proprietary technologies, which include devices, solutions and protocols designed to maximize the use and availability of organs, tissue and stem cells.

## Note 2 – Initial Public Offering

In December 2007, the company completed an initial public offering (IPO) and shares of the company's common stock were admitted to trading on the AIM Market of the London Stock Exchange (AIM). The company sold over 3.6 million new shares of common stock at a per share price of £1.50 or \$3.02, which approximated \$11 million of additional capital before transaction costs. The company received approximately \$9.6 million in cash in January 2008.

Simultaneously with the IPO, the company amended and restated its articles of incorporation and revised the number of common shares authorized from 75,000,000 to 30,000,000 and eliminated its classification of preferred shares.

The effects of the IPO triggered certain conversion features of the company's convertible debt (also see Note 15) and redeemable preferred stock. The terms and conversion features of the redeemable preferred stock did not contain anti-dilution provisions, and called for each share to be convertible into one share of common stock, subject to the reverse stock split described below. The aggregate liquidation preference of the Series A and Series B-1 preferred stock of \$33,297,061 was converted into 2,124 common shares. The aggregate of the convertible debt and related accrued interest of \$20,897,500 was converted into new common shares, as defined by each of the note agreements, totaling 11,331,305 shares of common stock.

In conjunction with the IPO, the company effected a reverse stock split at a ratio of 1 new share of common stock to 5,000 shares of old common stock. The par value of those shares remained at \$.01. All common share and per common share amounts in the accompanying consolidated financial statements have been retroactively adjusted to give effect to the reverse stock split, other than those presented prior to the reverse stock split in the consolidated statements of stockholders' equity (deficit).

The following is a summary of noncash conversion of the convertible debt and accrued interest and preferred stock into common stock, as defined by various agreements, at the date of the IPO:

	Convertible Promissory Notes	Preferred Stock	Common Stock	Additional Paid- In Capital
Balance before conversion	\$ 20,897,500	\$ 33,324,261	\$ 43,874	\$ 33,392,142
Conversion of convertible promissory notes dated 2004 and 2005 at 60% of IPO price	(8,931,398)	-	49,315	8,882,083
Conversion of convertible promissory notes dated 2006 at 55% of IPO price	(8,164,766)	-	49,181	8,115,585
Conversion of convertible promissory notes dated 2007 at 85% of IPO price	(3,801,336)	-	14,816	3,786,520
Conversion of Series A preferred stock	-	(11,209,663)	7	11,209,656
Conversion of Series B-1 preferred stock	-	(22,087,398)	14	22,087,384
Conversion of Series C preferred stock	-	(27,200)	6	27,194
Balance after conversion	\$ -	\$ -	\$ 157,213	\$ 87,500,564

The company's management believes its shares trading on the AIM will increase public awareness and recognition of the company and the LifePort in addition to raising the profile of the company with its customers and suppliers. The company expects to use the proceeds resulting from the IPO to fund the commercial launch of the LifePort kidney transporter, fund further development of the LifePort kidney transporter and provide working capital.

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

#### Principles of Consolidation and Change in Year-End

The company was incorporated in the state of Delaware as Organ Recovery Systems, Inc. on October 1, 1998. On December 20, 2007, the company changed its name to Lifeline Scientific, Inc. The company is consolidated with the following subsidiaries:

Bowman Research, Ltd. (wholly owned) (new in 2004)  
Bowman Research, Inc. (wholly owned) (new in 2006)  
ORS International Holdings, Ltd. (wholly owned) (new in 2004)  
ORS Europe, NV (wholly owned) (new in 2004)  
Cell and Tissue Systems, Inc. (49% owned) (new in 2005)  
Organ Recovery System, Inc. (New in 2007)

Intercompany balances and transactions have been eliminated in consolidation.

All entities included in the consolidated financial statements changed their year-end from September 30 to December 31, effective December 31, 2006.

FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46), requires consolidation by the primary beneficiary where the variable interest entity does not have sufficient equity at risk to finance its activities without additional subordinated financial support from other parties. The application of this guidance resulted in the consolidation of Cell and Tissue Systems, Inc. (CTS), which was created in 2005 and was deemed to be a variable interest entity. CTS was primarily formed to meet regulatory requirements in order to enhance its ability and capacity to apply for funding from available government sources. The company contributed \$490 for the 49% ownership needed to form the variable interest entity. CTS has an accumulated deficit as of December 31, 2007 and 2006. As the primary beneficiary, the company is required to absorb 100% of the accumulated losses of CTS. Any subsequent profits earned by CTS will first be allocated to the company to offset losses of the minority stockholder of CTS previously absorbed by the company.

#### Cash and Cash Equivalents

The company considers all money market accounts and short-term investments with an original maturity of three months or less to be cash equivalents. The majority of cash and cash equivalents as of December 31, 2007 and 2006 were held at a single financial institution, and the balances held at times may exceed federally insured limits. The company has not experienced any losses in such accounts. The company believes it is not exposed to any significant credit risk on cash and cash equivalents.

#### Receivables

Receivables are carried at original invoice or closing statement amount less estimates made for doubtful receivables. Management determines the allowances for doubtful accounts by reviewing and identifying troubled accounts on a monthly basis and by using historical experience applied to an aging of accounts. A receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 90 days. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received.

#### Inventories

Inventories are valued at the lower of cost (first-in, first-out) or market.

### Depreciation and Amortization

The company's policy is to depreciate or amortize the cost of furniture and equipment over the estimated useful lives of the assets using the straight-line method. The cost of leasehold improvements is amortized over the estimated useful lives, or the applicable lease term, if shorter. The cost of tooling and molds is depreciated by the units of production method.

	<u>Years</u>
Grant Assets	Life of grant
Computer equipment	3-5
Furniture and fixtures	5-7
Equipment under capital lease	5-7
Laboratory equipment	5-7
Leasehold improvements	5-12
Tooling and molds	Varies by units produced
Vehicles	5

### Intangibles

The cost of intangible assets is being amortized over the remaining lives of the assets acquired as follows:

	<u>Years</u>
Patents	17
Other	5

Legal fees associated with filings for patents that are pending are capitalized, if management believes that it is probable that such patent applications will be successful. Patent costs are not amortized until the patent is obtained.

### Revenue Recognition

Product sale revenue is recognized upon shipment of product to the client. Service fee revenues are recognized when services are performed.

Contract research service revenue is recognized using the proportional performance model. Revenue from such contracts is recognized as the services are performed using the straight-line method over the life of the contract. The contract life is deemed to be from the signing of the contract until delivery of the final report. This service period will vary, but on average will range from one to nine months in length. The company periodically reviews its estimates of contract life and modifies them as appropriate.

The company does not recognize revenue with respect to start-up costs or activities associated with contracts, which include contract and scope negotiation and feasibility analysis. The costs for these activities are expensed as incurred.

Deferred and unbilled revenue is recognized in the consolidated balance sheets. In most cases, a portion of the contract fee revenue is paid at the time the study is initiated. These advances are deferred and recognized on a straight-line basis over the contract term as the services are performed. Unbilled services are recorded for revenues recognized to date and relate to amounts that are currently unbillable to the client pursuant to contractual terms.

Government grant revenues are recognized when earned. Grant revenues are deemed earned to the extent of the total allowable expenditures incurred, which are specified in the grant contract.

### Deferred Charges

Deferred charges consist primarily of legal fees and commissions incurred in connection with the issuance of convertible debt. The costs were being amortized using the effective interest method from the date of issuance to the stated redemption date of the convertible instrument. The convertible debt was converted into common stock upon a qualified initial public offering in December 2007 and the company recognized the remaining deferred charges in the consolidated income statement upon the conversion of the convertible debt.

### Income Taxes

Income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of property and equipment, bad debts, intangibles and accrued expenses for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred taxes are also recognized for net operating losses, which are available to offset future taxable income.

### Redeemable Preferred Stock

The company elected to account for its redeemable preferred stocks in conformity with the requirements of the Securities and Exchange Commission of the United States of America. Accordingly, these shares were classified outside of stockholders' equity (deficit). In addition, the carrying value of those shares was adjusted to redemption value as of each year-end through the company's additional paid-in capital. The redeemable preferred stock was converted into common stock upon the IPO in December 2007.

### Stock Options

In the fourth quarter of 2006, the company adopted SFAS 123R, "Share-Based Payment," which is a revision to SFAS 123, "Accounting for Stock-Based Compensation" (SFAS 123). SFAS 123R focuses primarily on accounting for transactions in which an entity obtains employee services in exchange for share-based payments. Under SFAS 123R, the cost of employee services received in exchange for an award of equity instruments is generally measured based on the grant-date fair value of the award. Under SFAS 123R, share-based awards that do not require future service (i.e., vested awards) are expensed immediately. Share-based employee awards that require future service are amortized over the relevant service period. The company adopted SFAS 123R under the modified perspective adoption method. Under the method of adoption, the provisions of SFAS 123R are generally applied only to share-based awards granted subsequent to adoption and consolidated financial statements for periods prior to adoption are not restated for the effects of adopting SFAS 123R.

The company used the intrinsic method, as allowed by SFAS 123, "Accounting for Stock-Based Compensation," to account for stock options granted for employees and directors, for all periods prior to October 1, 2006. Therefore, no compensation expense was recognized for stock options issued prior to October 1, 2006, because the exercise price of the options was at least equal to the market price of the underlying stock on the grant date.

### Stock Warrants

The company accounts for nonemployee stock-based awards in which goods or services are the consideration received for the equity instruments based on the fair value of the consideration or the fair value of the equity instruments issued, whichever is more readily measurable.

### Management Estimates

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

from those estimates.

#### Research and Development

Expenditures relating to the development of new products and procedures are expensed as incurred.

#### Foreign Currency Translation

The financial position and results of operations of the company's foreign subsidiaries in Europe are measured using the subsidiary's local currency as the functional currency. Assets and liabilities of the foreign subsidiaries are translated to U.S. dollars using exchange rates in effect as of the consolidated balance sheet dates. Income and expense items are translated at monthly average rates of exchange. The resultant translation gains or losses are included in the components of stockholders' deficit designated as foreign currency translation adjustment.

#### **Note 4 - inventories**

	2007	2006
Medical devices	\$ 308,902	\$ 311,080
Supplies	107,738	152,510
	<u>\$ 416,640</u>	<u>\$ 463,590</u>

#### **Note 5 – Property and Equipment**

	2007	2006
Grant assets	\$ -	\$ 4,250
Computer equipment	198,525	186,488
Furniture and fixtures	468,563	446,573
Equipment under capital lease	286,185	239,818
Laboratory equipment	1,568,249	1,556,006
Leasehold improvements	961,359	916,695
Tooling and molds	536,919	534,919
Vehicles	64,941	95,115
	<u>4,084,741</u>	<u>3,979,864</u>
Accumulated depreciation and amortization	<u>(2,998,249)</u>	<u>(2,515,344)</u>
	<u>\$ 1,086,492</u>	<u>\$ 1,464,520</u>

#### **Note 6 - Deferred Charges**

Deferred charges consist of the following:

	2007	2006
Commissions and legal expenses	\$ -	\$ 637,509
Less accumulated amortization		(322,223)
	<u>\$ -</u>	<u>\$ 315,286</u>

## Note 7 - Intangibles

Intangible assets consist of the following:

	2007	2006
Patents	\$ 1,285,988	\$ 1,155,354
Patents pending	355,220	325,968
Other	-	41,720
	<u>1,641,208</u>	<u>1,523,042</u>
Less accumulated amortization	(424,749)	(375,146)
	<u>\$ 1,216,459</u>	<u>\$ 1,147,896</u>

During the year ended December 31, 2007 and fifteen months ended December 31, 2006, the company abandoned \$0 and \$63,154, respectively, of patents issued and patents pending.

The following schedule by year of future intangible amortization:

Year Ending December 31:

2008	\$ 109,352
2009	117,834
2010	117,834
2011	103,372
2012	103,372
Thereafter	<u>664,695</u>
	<u>\$ 1,216,459</u>

## Note 8 - long-Term Debt

	2007	2006
Loan payable to an auto finance company, payable in monthly installments of \$813, due in August 2008; secured by the vehicle.	\$ 6,131	\$ 14,195
Note payable to contractor, payable in monthly installments of \$1,717 - \$2,922, including interest at an annual rate of prime plus 3%, due in February 2008; secured by equipment.	29,044	45,727
Subordinated loan payable by ORS Europe, NV to IWT, principal and interest payable in lump sum in November 2009 or at ORS Europe, NV's option can be extended and paid off on an installment basis through September 2012; interest charged at an annual rate of 8.43%; debt subordinated to the intercompany payable to Lifeline Scientific, Inc.	1,066,733	964,014
Convertible promissory notes issued to various stockholders during 2005 and 2004; bear interest at 12%; interest and principal were originally due in July 2006; however, in June 2006 the company and the note holders agreed to an extension of the maturity date; aggregate principal and accrued interest of \$8,931,398 was converted into 4,931,578 shares of common stock at the IPO by dividing the principal and accrued interest balance by 60% of the per share price.	-	6,501,874

Convertible promissory notes to various private investors during 2006 and 2007; bear interest at 12%; interest and principal due at maturity in July and August 2009; interest rate automatically increased on April 1, 2007 and June 30, 2007 to 24% and 36% per annum, respectively, as a conversion event, as defined in the agreement, did not occur before June 30, 2007; the mandatory conversion feature required all then-outstanding principal and interest, other than interest that the holder elected to receive in cash, due on this note to be automatically converted into common stock; aggregate principal and interest of \$8,164,766 was converted into 4,918,115 shares of common stock at the IPO by dividing the principal and interest balance by 55% of the per share price; aggregate principal and interest of \$3,801,336 was converted into 1,481,612 shares of common stock at the IPO by dividing the principal and interest balance by 85% of the per share price. (Balance is net of unamortized discount of \$149,709 in 2006; effective interest rate on discount is 2.1% for the issuance in 2006).

	-	6,028,645
Capital lease obligations, payable in monthly installments, including interest at various annual rates, due in September 2006 through November 2010; secured by the underlying equipment.	48,821	45,431
Long-term debt, net	1,150,729	13,599,886
Less current maturities	(59,680)	(6,568,567)
	<u>\$ 1,091,049</u>	<u>\$ 7,031,319</u>

During 2007, the company issued additional convertible promissory notes of \$3,590,000. The notes bore interest at 12% and accrued interest charged to operations prior to the IPO was \$211,336. The aggregate principal and accrued interest of \$3,801,336 was converted into 1,481,612 shares of common stock upon the IPO as described in Note 2.

The aggregate of the convertible debt and related accrued interest was converted into the number of new common shares, as defined by each of the note agreements, totaling 11,331,305 shares of common stock.

Maturities on long-term debt other than capital leases are as follows as of December 31, 2007:

Year Ending December 31:		
2008	\$	35,175
2009		1,066,733
Total Minimum Payments Required	<u>\$</u>	<u>1,101,908</u>

## Note 9 - Income Taxes

The benefit for income taxes consists of the following components:

	2007	2006
Current Provision		
Federal	\$ -	\$ -
State	-	-
	-	-
Deferred Taxes		
Federal	4,345,187	2,989,452
State	615,738	423,623
Total Income Taxes	4,960,925	3,413,075
Additional valuation allowance	(4,960,925)	(3,413,075)
	\$ -	\$ -

The net deferred tax asset in the accompanying balance sheet includes the following components:

	2007	2006
Deferred tax liabilities	\$ (555,643)	\$ (535,997)
Deferred tax assets	26,909,110	21,928,539
Net deferred tax asset	26,353,467	21,392,542
Valuation allowance	(26,353,467)	(21,392,542)
Net Deferred Tax Asset	\$ -	\$ -

The income tax expense (benefit) differs from the federal statutory tax rate generally as a result of changes in the valuation allowance and permanent differences, such as meals and entertainment expenses and state income taxes. A valuation allowance has been provided to reduce the deferred tax assets to the amount that is more likely than not to be realized.

The company has federal and state net operating loss carryforwards totaling \$65,141,000, which may offset against future taxable income. If not used, the carryforwards will expire as follows:

<u>Year</u>	
2019	\$ 2,116,000
2020	4,905,000
2021	4,136,000
2022	5,496,000
2023	7,720,000
2024	6,412,000
2025	11,136,000
2026	11,081,000
2027	12,139,000
Total Loss Carryforwards	<u>\$ 65,141,000</u>

It is possible that previous or future changes in ownership could result in limitations on the utilization of operating loss carryforwards pursuant to Internal Revenue Code Section 382. If such changes did or were to occur, there would be an annual limitation on loss carryforwards that could be utilized. In addition, a portion of the carryforwards could expire before becoming available to reduce future taxable income.

#### Adoption of FIN 48

The company adopted FIN 48 effective January 1, 2007. Upon adoption of FIN 48 and through December 31, 2007, the company had no unrecognized tax benefits. As of the date of adoption, there were no tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within 12 months from the date of adoption of FIN 48 or from December 31, 2007. As of December 31, 2007, the company is subject to federal and state income tax in the United States. Since the company is in a loss carryforward position, as described in the previous paragraph, the company is generally subject to U.S. federal and state income tax examinations by tax authorities for all years for which a loss carryforward is available. Thus, upon adoption of FIN 48, the company's open tax years extend back to 2002. In the event that the company concludes that it is subject to interest and/or penalties arising from uncertain tax positions, the company will record interest and penalties as a component of other income and expense. No amounts of interest or penalties were recognized in the company's consolidated statements of operations or consolidated balance sheets upon adoption of FIN 48 or as of and for the year ended December 31, 2007.

#### **Note 10 - Common and Preferred Stock**

In accordance with its third amended and restated certificate of incorporation dated December 20, 2007, the total number of shares the company is authorized to issue is 30,000,000, all of which is designated as common stock with \$.01 par value.

Immediately prior to December 20, 2007 and in accordance with its second amended and restated certificate of incorporation dated June 2006, the total number of shares the company was authorized to issue was 75,000,000, of which 66,534,000 shares were to be designated common stock, \$.01 par value and 8,466,000 shares were to be designated preferred stock. Of the preferred stock, 2,000,000 shares were to be designated Series A convertible preferred stock, \$.01 par value, 3,746,000 shares were to be designated Series B-1 convertible redeemable preferred stock, \$.01 par value and 2,720,000 shares were to be designated Series C convertible preferred stock, \$.01 par value.

## Common Stock

Each share of common stock entitles the holder to one vote on each matter submitted to a vote of the stockholders of the company. The holders of the common stock shall be entitled to receive dividends when, and if, declared by the Board of Directors.

## Preferred Stock

Prior to the IPO, each share of outstanding Series A preferred, Series B preferred and Series C preferred entitled the record holder to one vote on each matter submitted to a vote of the stockholders of the company and to have the number of votes equal to the number of whole shares of common stock into which such shares of Series A, Series B and Series C were convertible.

The holders of Series B-1 preferred were entitled to receive annual dividends of \$0.311 per share, when and if declared by the Board of Directors and payable in preference and priority to any payment of any dividend on the Series A preferred or common stock. The holders of the Series A preferred were entitled to receive annual dividends of \$0.264 per share when, and if, declared by the Board of Directors and payable in preference and priority to any payment of any dividend on the common stock. The holders of Series C preferred were entitled to receive annual dividends of \$0.312 per share when, and if, declared by the Board of Directors and payable in preference and priority to any payment of any dividend on the Series A preferred or common stock. The rights to such dividends on the Series A, Series B and Series C preferred were not cumulative.

As of the date of the IPO, the Board of Directors had not declared any dividends to which the stockholders of Series A preferred, Series B preferred and Series C preferred were entitled.

The Series A, Series B and Series C preferred stock were entitled to liquidation rights, as defined in the second amended and restated certificate of incorporation of the company. The holders of Series A and Series B stock were entitled to their original issue price per share plus an amount equal to the original issue price per share multiplied by 2% per quarter, compounded quarterly in arrears, or the amount in which the holder would be entitled to had such shares been converted to common stock.

The holders of the Series A, Series B and Series C preferred stock had the option to convert such shares at any time into the number of shares of common stock that result from dividing the appropriate liquidation preference by the appropriate conversion price of \$3.30 per share for the Series A stock and \$3.30, as adjusted, for the issued Series B-1 stock. The Series C stock conversion price was \$3.90 per share.

On or after November 2, 2006, upon written request of the holders of at least 50% of the issued and outstanding shares of the Series B preferred stock, or if no shares of the Series B preferred stock remained outstanding, at least 50% of the issued and outstanding shares of Series A preferred stock, the company shall redeem any outstanding shares of Series B preferred stock or Series A preferred. In June 2006, the company and the Series B and Series A preferred stockholders agreed to extend this redemption agreement and the existing terms until July 31, 2007. The company and the Series B and Series A preferred stockholders further agreed in 2007 to extend the redemption agreement and the existing terms until July 31, 2008.

The redemption amount, which shall be equivalent to the liquidation distribution as described above, increased to \$22,087,398 and \$11,209,663 as of the date of the IPO for Series B preferred and Series A preferred, respectively, based upon the current number of Series B and Series A preferred shares outstanding as of the IPO. In addition, legal fees and commissions of \$555,565 paid in conjunction with the issuance of the Series B-1 preferred stock have been recorded as a direct offset to the Series B preferred.

Upon the IPO, which triggered the conversion features of the Series A and Series B-1 preferred stock, the aggregate liquidation preference of the Series A and Series B-1 preferred stock was converted into 2,124 common shares on a reverse split adjusted basis.

Upon the IPO, which triggered the conversion features of the Series C preferred stock, the Series C preferred stock was converted into 567 common shares on a reverse split adjusted basis.

The existing warrants at the date of the IPO were not affected by the reverse stock split in accordance with the agreements.

## Note 11- Stock Options and Warrants

### Options

In February 1999, the company approved a Stock Option and Restricted Stock Plan (the Plan). As of December 31, 2007 the Plan reserves 2,500,000 shares of common stock for grant. The Plan permits granting of awards to selected employees, consultants and directors of the company in the form of options to purchase shares and shares of restricted stock. Options granted may include Nonstatutory Options as well as Incentive Stock Options. The Plan is currently administered by the Board of Directors. The Plan gives broad powers to the Board of Directors to administer and interpret the Plan, including the authority to select the individuals to be granted options and restricted stock, and to prescribe the particular form and conditions of each option or restricted stock granted. The stock options granted were nonstatutory options, which under the Plan, vest equally over a four-year period, and have a 10-year term. The options were granted to employees at an exercise price, which was deemed to be the fair market value of the common stock on the date of the grant. It is the company's policy to issue new stock certificates to satisfy stock option exercises.

All option activity below has been retroactively adjusted to give effect to the reverse stock split described in Note 2.

A summary of option activity under the Plan as of December 31, 2007, and the changes during the year ended December 31, 2007 and fifteen months ended December 31, 2006 is as follows:

	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding as of October 1, 2005	288	\$ 7,200	-	\$ -
Granted	33	12,500	-	-
Exercised	-	-	-	-
Forfeited or expired	(11)	9,250	-	-
Outstanding as of December 31, 2006	309	\$ 7,700	5.60	\$ -
Granted	10	12,500	-	-
Exercised	-	-	-	-
Forfeited or expired	(1)	12,500	-	-
Adjusted (1)	39	12,500	-	-
Outstanding as of December 31, 2007	357	7,750	4.47	\$ -
Options exercisable as of December 31, 2007	271	\$ 6,650	3.97	\$ -

(1) Individual option grants to individuals were rounded up to the nearest whole share due to the reverse stock split described in Note 2, causing a rounding difference in the table above.

A summary of the company's nonvested options as of December 31, 2007, and changes during the year ended December 31, 2007 and fifteen months ended December 31, 2006, is presented as follows:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested options, October 1, 2005	102	2,450
Granted	33	2,750
Vested	(56)	2,800
Forfeited	(1)	3,850
Nonvested options, December 31, 2006	78	2,350
Granted	10	-
Vested	(39)	2,550
Forfeited	(1)	1,750
Nonvested options, December 31, 2007	48	2,083

The company recognized compensation expense of \$93,398 and \$27,141 for the year ended December 31, 2007 and the fifteen months ended December 31, 2006, respectively. As of December 31, 2007, there was approximately \$76,000 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of two years.

No options were exercised during the year ended December 31, 2007 and fifteen months ended December 31 2006.

The weighted-average grant-date fair value of options granted during the year ended December 31, 2007 and fifteen months ended December 31, 2006 was \$0 and \$0.55, respectively. Fair value was estimated as of the grant date based on a Black-Scholes option pricing model using the following weighted average assumptions:

	2007 (Year)	2006 (Fifteen Months)
Risk-free interest rate	4.20%	5-5.25%
Expected volatility rate	75%	-
Dividend yield	-	-
Expected life	5	5

## Warrants

In October 2003, the company issued a five-year warrant for the right to purchase 75,000 shares of company common stock at \$3.90 per share to the entity from which it acquired the assets for the newly created Bowman subsidiary. The exercise price of the warrant was equivalent to the market price of the Series C preferred stock sold to unrelated third parties. The value of the warrant was determined by the use of the Black-Scholes option-pricing model in the amount of \$64,710, assuming a five-year life. This amount has been added to the overall purchase price and allocated to the estimated fair value of net assets acquired with the offset to additional paid-in capital. In connection with the same acquisition, a warrant for the right to purchase 2,250 shares of company common stock was issued to a third party as compensation for services rendered. The value of \$1,710 was determined and recorded in the same fashion.

In March 2004, the company issued a 10-year warrant for the right to purchase 149,604 shares of company common stock at \$4.25 per share, which was a premium to the current market value of \$2.50 per share. The warrant was issued to a third party as compensation for services rendered in conjunction with the raising of additional equity of Series C convertible preferred stock. The value of the warrant was determined to be \$170,549 by the Black-Scholes option-pricing model.

In February 2005 and July 2004, in conjunction with the issuance of convertible promissory notes, the company issued warrants, which were convertible into senior stock of the company. The warrants exercisable at the lesser of A) 70% of the then-current value per share of the senior stock, as determined in the agreement; or B) \$3.90, the market price of the company's Series C preferred stock currently being sold in the marketplace. The warrants cannot be exercised before the earlier to occur of 1) July 31, 2006; 2) the repayment in full of all amounts due under the convertible notes and; 3) the conversion of all amounts due under the notes into senior stock of the company in accordance with the terms of the note agreement. The value of the warrants was determined to be \$200,306 and \$274,342 for the years ended September 30, 2005 and 2004, respectively, by the Black-Scholes option-pricing model. The estimated fair value of the warrants was recorded as a discount to the convertible promissory notes and amortized as additional interest expense using the effective interest method over the period from the date of issuance to the stated redemption date.

In August 2005, the company offered to warrant holders the opportunity to exercise all warrants outstanding at a 28% discount to the original exercise price. In addition, the warrant holders who exercised this opportunity received a contingent replacement warrant with substantially the same terms as the warrant they exercised in the offer, excluding a discount. The value of the early exercise of the warrants at a discount was determined to be \$2,750,857 for the year ended September 30, 2005 and was recorded as additional interest expense. Pursuant to the offer, 2,532,617 shares of common stock were issued, with another 213,523 shares of common stock subscribed as of September 30, 2005. Net proceeds of \$6,812,110, including the common stock subscribed, were raised in the warrant exchange offer. The contingent replacement warrant became exercisable when the company did not complete an initial public offering (IPO) or a sale of the company within one year after the exercise of the warrants in the offer. The offer was made to raise additional funds and simplify the company's capital structure in anticipation of an IPO of the common stock of the company during 2006.

In July and August 2006, in conjunction with the issuance of convertible promissory notes, the company issued warrants, which are convertible into common stock of the company. The warrants are exercisable for a number of shares of common stock determined by dividing 40% of the initial principal amount of the note by the applicable exercise price. The exercise price of the warrants is A) if prior to a qualified public offering, the lesser of 65% of the then-current value per share of common stock or \$3.90 and B) if following a qualified public offering, the amount equal to 120% of the IPO price, subject to a 2% per month decrease down to 110%, if a qualified public offering has not occurred by October 31, 2006. The warrants expire in June 2011. The number of warrants granted was 2,553,038 and the value of the warrants on the date of grant was determined to be \$178,713 for the 15-month period ended December 31, 2006 by the Black-Scholes option pricing model. The estimated fair value of the warrants has been recorded as a discount to the convertible promissory notes. This discount was amortized as additional interest expense using the effective interest method over the period from the date of issuance to the stated redemption date.

In June 2007, in conjunction with the issuance of convertible promissory notes, the company issued warrants, which are convertible into common stock of the company. The warrants are exercisable for a number of shares of common stock determined by dividing 40% of the initial principal amount of the note by the applicable exercise price. The exercise price of the warrants is the amount equal to 130% multiplied by the IPO price. The warrants expire in August 2010. The number of warrants granted was 365,959 and the value of the warrants on the date of grant was determined to be \$0 for the year ended December 31, 2007 by the Black-Scholes option pricing model. If before the expiration

date the common stock of the company shall have a closing sale price equal to or greater than 250% of the IPO Price for a period of 30 consecutive calendar days, then this warrant will automatically convert into common stock.

In December 2007, in conjunction with the IPO, the company issued warrants, which are convertible into common stock of the company. The warrant holder may exercise each warrant held to purchase a share of common stock at an exercise price of £1.95 (or \$3.92 as of December 31, 2007), or as adjusted as defined by the agreement. The warrants expire in January 2011. The fair value of the stock at grant date was less than the exercise price of the warrants. The number of warrants granted was 2,472,277 and the value of the warrants on the date of grant was determined to be \$0 for the year ended December 31, 2007 by the Black-Scholes option pricing model.

Warrant activity for the year ended December 31, 2007 and fifteen months ended December 31, 2006 is as follows:

	<u>Number of Warrants</u>
Outstanding as of October 1, 2005	2,923,906
Granted	2,553,038
Adjusted	(13,383)
Expired	(1,542)
Outstanding as of December 31, 2006	<u>5,462,019</u>
Granted	365,959
Granted at IPO	2,472,277
Exercised	<u>(623,280)</u>
Outstanding as of December 31, 2007	<u><u>7,676,975</u></u>

The terms of existing warrants at the IPO were not amended, other than as described in the following paragraph. However, because the warrants are convertible into the number of shares of common stock now quoted in foreign currency, the number of common shares issuable at the exercise of warrants will fluctuate based on changes in foreign currency. The number of shares issuable upon the exercise of warrants was 5,462,019 and 5,420,808 as of December 31, 2007 and 2006, respectively.

According to the terms of the IPO, warrant holders of 1,529,962 warrants have agreed not to exercise the warrants within 180 days of the admission of the common shares to AIM in return for an extension of the expiration date for a minimum of 180 days.

#### **Note 12 - Operating Leases**

The company conducts its operations in facilities leased under a number of operating leases. Rent expense under these agreements amounted to \$478,006 and \$622,365 for the year ended December 31, 2007 and fifteen months ended December 31, 2006, respectively.

The following is a schedule by year of future minimum lease payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2007:

Year Ending December 31:	
2008	\$ 437,579
2009	440,009
2010	413,061
2011	215,457
2012	53,126
Total Minimum Payments Required	<u><u>\$ 1,559,232</u></u>

#### **Note 13 - Employee Benefit Plan**

The company sponsors a limited employer-matching 401(k) plan for all employees who have completed one year of service. The plan provides for contributions in such amounts as determined by the Board of Directors, and the employer match is discretionary. There were no company contributions during the year ended December 31, 2007 and fifteen months ended December 31, 2006, and the company has not accrued for a contribution into the 401(k) plan.

**Note 14 – Related Party Transaction**

The company has entered into a consulting agreement with Pascal Group. Steven Mayer, a member of the company's board of directors, is a director of the Pascal Group. These arrangements were concluded at arm's length. Fees for services rendered under the consulting agreement were \$98,000 and \$90,600 for the year ended December 31, 2007 and fifteen months ended December 31, 2006.

## Note 15 - Other Cash Flow Information

The company financed property and equipment purchases totaling \$37,329 and \$36,146 for the year ended December 31, 2007 and fifteen months ended December 31, 2006.

The company issued 875 shares of its common stock during the year ended December 31, 2007 for financial services by unrelated third parties in conjunction with the IPO. The value of the services was \$264,250 for the year ended December 31, 2007.

The company recorded a transaction to increase the book value of the Series A and B-1 preferred stock to the liquidation value of each issue in accordance with the amended and restated certificate of incorporation of the company. (See Note 10.) The amounts were \$853,666 and \$976,252 for Series A and \$1,682,059 and \$2,074,232 for Series B-1 for the year ended December 31, 2007 and fifteen months ended December 31, 2006, respectively.

The company issued 623,280 shares with \$.01 par upon the exercise of warrants immediately prior to the IPO.

The company recorded a receivable for a common stock subscription in conjunction with the IPO amounting to \$9,616,001.

Cash payments of interest were \$394,297 and \$14,411 for the year ended December 31, 2007 and fifteen months ended December 31, 2006, respectively.

In connection with the issuance of convertible debt, the company has recorded debt discounts representing the intrinsic value of the beneficial conversion feature of the convertible debt. Additional debt discounts were also recorded for the value of the warrants that were issued in conjunction with the convertible debt. Both amounts were being amortized to interest expense, using the effective interest method from the date of issuance to the stated redemption date.

The following table sets forth these debt discounts issued during and the related total amortization of interest expense for the periods presented:

	2007	2006
Beneficial conversion feature (1)	\$ -	\$ -
Warrants (2)		178,713
	\$ -	\$ 178,713
Amortization to interest expense during the period	\$ 11,128,529	\$ 1,737,040

(1) The convertible debt issuances in 2006 and 2007 contained a contingent beneficial conversion feature, which was recorded upon the IPO, as defined by the agreement. The intrinsic value of this contingency, computed in accordance with EITF 00-27 and the terms of the agreement was \$6,652,965. The convertible debt issuances in 2004 and 2005 contained initial beneficial conversion features that were recorded and accreted to interest expense in the amount of \$2,804,301. These issuances also contained contingent beneficial conversion features, which were recorded upon the IPO, as defined by the agreements, in the amount of \$5,324,525. Due to subsequent amendments to the term of the agreements, an increase to the initial intrinsic value of the beneficial conversion feature as originally recorded was triggered by the IPO. The total amount of additional intrinsic value of beneficial conversion features recognized upon the IPO was \$10,978,748. The total additional noncash interest expense in conjunction with the intrinsic value of the beneficial conversion features recorded over the life of the convertible promissory notes was \$13,783,748.

(2) Due to the conversion of the convertible debt at the date of the IPO, the unamortized debt discounts of \$149,782 was charged to interest expense during the year ended December 31, 2007.

See Note 11 for additional noncash transactions.

**Note 16 - Major Sources of Revenue**

The company receives the majority of its grant revenue under several grant contracts from the National Institutes of Health. During the year ended December 31, 2007 and fifteen months ended December 31, 2006, the company received approximately \$1,247,000 and \$1,462,000, respectively. The receivable balance for the granting agencies were \$60,047 and \$64,806 as of December 31, 2007 and 2006, respectively.

**Note 17 – Reclassifications**

For comparability, the 2006 financial statements reflect reclassifications where appropriate to conform to the consolidated financial statement presentation used in 2007.