WESTERN ASSET GLOBAL HIGH INCOME FUND INC.
Form N-Q
April 26, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-Q

QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED

MANAGEMENT INVESTMENT COMPANY

Investment Company Act file number 811-21337

Western Asset Global High Income Fund Inc.

(Exact name of registrant as specified in charter)

125 Broad Street, New York, NY 10004

(Address of principal executive offices) (Zip code)

Robert I. Frenkel, Esq.

Legg Mason & Co., LLC

300 First Stamford Place

Stamford, CT 06902

(Name and address of agent for service)

Registrant s telephone number, including area code: 1-800-451-2010

Date of fiscal year end: May 31,

Date of reporting period: February 28, 2007

ITEM 1. SCHEDULE OF INVESTMENTS

WESTERN ASSET GLOBAL HIGH INCOME FUND INC.

FORM N-Q

February 28, 2007

WESTERN ASSET GLOBAL HIGH INCOME FUND INC.

Schedule of Investments (unaudited) **February 28, 2007**

FACE AMOUNT	SECURITY (a)	VALUE
CORPORATE BONDS & NOTES - 34.4%		
Aerospace & Defense - 0.3%		
410,000	Alliant Techsystems Inc., Senior Subordinated Notes, 6.750% due 4/1/16	$ 411,025
1,150,000	DRS Technologies Inc., Senior Subordinated Notes, 6.875% due 11/1/13	1,158,625
	L-3 Communications Corp., Senior Subordinated Notes:	
845,000	7.625% due 6/15/12	880,912
25,000	6.375% due 10/15/15	25,000
	Total Aerospace & Defense	2,475,562
Airlines - 0.1%		
	Continental Airlines Inc.:	
230,000	Notes, 8.750% due 12/1/11	232,300
	Pass-Through Certificates:	
53,707	Series 0974C, 6.800% due 7/2/07	53,606
107,627	Series 1998-1, Class C, 6.541% due 9/15/08	107,156
	Total Airlines	393,062
Auto Components - 0.4%		
750,000	Keystone Automotive Operations Inc., Senior Subordinated Notes, 9.750% due 11/1/13	750,000
347,000	TRW Automotive Inc., Senior Notes, 9.375% due 2/15/13	374,326
	Visteon Corp., Senior Notes:	
815,000	8.250% due 8/1/10	831,300
785,000	7.000% due 3/10/14	686,875
	Total Auto Components	2,642,501
Automobiles - 1.3%		
	Ford Motor Co.:	
	Debentures:	
545,000	8.875% due 1/15/22	495,950
275,000	8.900% due 1/15/32	246,125
7,205,000	Notes, 7.450% due 7/16/31	5,818,037
	General Motors Corp.:	
570,000	Notes, 7.200% due 1/15/11	557,175
	Senior Debentures:	
300,000	8.250% due 7/15/23	280,500
2,540,000	8.375% due 7/15/33	2,368,550
	Total Automobiles	9,766,337
Building Products - 0.4%		
1,095,000	Associated Materials Inc., Senior Subordinated Notes, 9.750% due 4/15/12	1,149,750
600,000	Nortek Inc., Senior Subordinated Notes, 8.500% due 9/1/14	613,500
1,240,000	NTK Holdings Inc., Senior Discount Notes, step bond to yield 11.555% due 3/1/14	979,600
	Total Building Products	2,742,850

Capital Markets - 0.2%		
815,000	BCP Crystal U.S. Holdings Corp., Senior Subordinated Notes, 9.625% due 6/15/14	909,744
730,000	E*TRADE Financial Corp., Senior Notes, 7.375% due 9/15/13	762,850
	Total Capital Markets	1,672,594
Chemicals - 0.6%		
125,000	Chemtura Corp., Senior Notes, 6.875% due 6/1/16	121,875
750,000	Equistar Chemicals LP, Senior Notes, 10.625% due 5/1/11	796,875
930,000	Georgia Gulf Corp., Senior Notes, 9.500% due 10/15/14 (b)	920,700
415,000	Huntsman International LLC, Senior Subordinated Notes, 7.875% due 11/13/14 (b)	431,600

See Notes to Schedule of Investments.

WESTERN ASSET GLOBAL HIGH INCOME FUND INC.

Schedule of Investments (unaudited) (continued) **February 28, 2007**

FACE AMOUNT	SECURITY (a)	VALUE
Chemicals - 0.6% (continued)		
	Lyondell Chemical Co., Senior Notes:	
310,000	8.000% due 9/15/14	$ 327,825
260,000	8.250% due 9/15/16	280,800
1,190,000	Montell Finance Co. BV, Debentures, 8.100% due 3/15/27 (b)	1,195,950
220,000	Westlake Chemical Corp., Senior Notes, 6.625% due 1/15/16	216,700
	Total Chemicals	4,292,325
Commercial Banks - 1.1%		
2,370,000	ATF Capital BV, 9.250% due 2/21/14 (b)	2,364,075
1,050,000	Banco Mercantil del Norte SA, Subordinated Bonds, 6.135% due 10/13/16 (b)(c)	1,070,312
454,000	ICICI Bank Ltd., Bonds, 6.375% due 4/30/22 (b)(c)	462,544
2,710,000	Russian Agricultural Bank, Notes, 7.175% due 5/16/13 (b)	2,842,113
1,786,000	TuranAlem Finance BV, 8.250% due 1/22/37 (b)	1,815,023
	Total Commercial Banks	8,554,067
Commercial Services & Supplies - 0.7%		
15,000	Aleris International Inc., Senior Subordinated Notes, 10.000% due 12/15/16 (b)	15,900
225,000	Allied Security Escrow Corp., Senior Subordinated Notes, 11.375% due 7/15/11	234,000
	Allied Waste North America Inc., Senior Notes, Series B:	
900,000	7.375% due 4/15/14	909,000
400,000	7.250% due 3/15/15	410,000
	Aramark Corp., Senior Notes:	
470,000	8.500% due 2/1/15 (b)	490,562
110,000	8.860% due 2/1/15 (b)(c)	114,125
1,118,000	DynCorp International LLC/DIV Capital Corporation, Senior Subordinated Notes, Series B, 9.500% due 2/15/13	1,201,850
1,100,000	Interface Inc., Senior Subordinated Notes, 9.500% due 2/1/14	1,185,250
525,000	Rental Services Corp., Senior Bonds, 9.500% due 12/1/14 (b)	561,750
	Total Commercial Services & Supplies	5,122,437
Consumer Finance - 1.6%		
	Ford Motor Credit Co.:	
	Notes:	
50,000	7.875% due 6/15/10	50,897
1,300,000	7.000% due 10/1/13	1,248,688
	Senior Notes:	
1,650,000	10.610% due 6/15/11 (b)(c)	1,811,903
115,000	9.875% due 8/10/11	124,192
210,000	8.110% due 1/13/12 (c)	211,386
440,000	8.000% due 12/15/16	435,081
	General Motors Acceptance Corp.:	
5,820,000	Bonds, 8.000% due 11/1/31	6,435,709
2,040,000	Notes, 6.875% due 8/28/12	2,057,866
	Total Consumer Finance	12,375,722

Containers & Packaging - 0.9%		
1,100,000	Graham Packaging Co. Inc., Senior Subordinated Notes, 9.875% due 10/15/14	1,138,500
805,000	Graphic Packaging International Corp., Senior Subordinated Notes, 9.500% due 8/15/13	862,356
1,250,000	JSG Funding PLC, Senior Notes, 9.625% due 10/1/12	1,332,813
1,575,000	Owens-Illinois Inc., Senior Notes, 7.350% due 5/15/08	1,598,625
390,000	Plastipak Holdings Inc., Senior Notes, 8.500% due 12/15/15 (b)	408,525
575,000	Radnor Holdings Corp., Senior Notes, 11.000% due 3/15/10 (d)	5,750

See Notes to Schedule of Investments.

WESTERN ASSET GLOBAL HIGH INCOME FUND INC.

Schedule of Investments (unaudited) (continued) **February 28, 2007**

FACE AMOUNT	SECURITY (a)	VALUE
Containers & Packaging - 0.9% (continued)		
	Smurfit-Stone Container Enterprises Inc., Senior Notes:	
559,000	9.750% due 2/1/11	$ 580,661
745,000	8.375% due 7/1/12	763,625
	Total Containers & Packaging	6,690,855
Diversified Consumer Services - 0.2%		
	Education Management LLC/Education Management Corp.:	
365,000	8.750% due 6/1/14	385,987
555,000	10.250% due 6/1/16	604,950
	Service Corp. International:	
140,000	Debentures, 7.875% due 2/1/13	144,900
185,000	Senior Notes, 7.625% due 10/1/18	197,488
	Total Diversified Consumer Services	1,333,325
Diversified Financial Services - 1.2%		
755,000	Basell AF SCA, Senior Secured Subordinated Second Priority Notes, 8.375% due 8/15/15 (b)	800,300
550,000	CCM Merger Inc., Notes, 8.000% due 8/1/13 (b)	552,750
335,000	CitiSteel USA Inc., Senior Secured Notes, 12.949% due 9/1/10 (c)	347,563
290,000	El Paso Performance-Linked Trust Certificates, Notes, 7.750% due 7/15/11 (b)	309,575
487,000	Global Cash Access LLC/Global Cash Finance Corp., Senior Subordinated Notes, 8.750% due 3/15/12	513,785
530,000	Idearc Inc., Senior Notes, 8.000% due 11/15/16 (b)	547,225
150,000	Milacron Escrow Corp., Senior Secured Notes, 11.500% due 5/15/11	147,750
1,652,000	MMG Fiduciary Trust Corp., 6.750% due 2/1/16 (b)	1,680,819
1,750,000	TNK-BP Finance SA, 7.500% due 7/18/16 (b)	1,855,000
261,000	UCAR Finance Inc., Senior Notes, 10.250% due 2/15/12	276,008
430,000	UGS Corp., Senior Subordinated Notes, 10.000% due 6/1/12	473,000
890,000	Vanguard Health Holdings Co. I LLC, Senior Discount Notes, step bond to yield 9.952% due 10/1/15	732,025
555,000	Vanguard Health Holdings Co. II LLC, Senior Subordinated Notes, 9.000% due 10/1/14	573,037
	Total Diversified Financial Services	8,808,837
Diversified Telecommunication Services - 2.3%		
1,055,000	Cincinnati Bell Inc., Senior Notes, 7.000% due 2/15/15	1,056,319
120,000	Cincinnati Bell Telephone Co., Senior Debentures, 6.300% due 12/1/28	110,100
	Citizens Communications Co., Senior Notes:	
295,000	7.875% due 1/15/27 (b)	309,013
450,000	9.000% due 8/15/31	500,625
	Hawaiian Telcom Communications Inc.:	
30,000	Senior Notes, Series B, 10.889% due 5/1/13 (c)	30,900
1,075,000	Senior Subordinated Notes, Series B, 12.500% due 5/1/15	1,212,062
455,000	Inmarsat Finance PLC, 7.625% due 6/30/12	474,337
	Intelsat Bermuda Ltd., Senior Notes:	
755,000	9.250% due 6/15/16 (b)	838,050
1,505,000	11.250% due 6/15/16 (b)	1,711,937
1,050,000	Level 3 Communications Inc., Senior Notes, 11.500% due 3/1/10	1,170,750
	Level 3 Financing Inc., Senior Notes:	
225,000	11.800% due 3/15/11 (c)	243,563

90,000	9.250% due 11/1/14 (b)	92,813
50,000	9.150% due 2/15/15 (b)(c)	50,625
500,000	Nordic Telephone Co. Holdings, Senior Secured Notes, 8.875% due 5/1/16 (b)	541,250
1,200,000	NTL Cable PLC, Senior Notes, 8.750% due 4/15/14	1,257,000
	Qwest Communications International Inc., Senior Notes:	
590,000	7.500% due 2/15/14	614,337

See Notes to Schedule of Investments.

WESTERN ASSET GLOBAL HIGH INCOME FUND INC.

Schedule of Investments (unaudited) (continued) **February 28, 2007**

FACE AMOUNT	SECURITY (a)	VALUE
Diversified Telecommunication Services - 2.3% (continued)		
1,520,000	Series B, 7.500% due 2/15/14	$ 1,582,700
1,760,000	Southwestern Bell Telephone Co., Debentures, 7.000% due 11/15/27	1,805,047
1,255,000	Telcordia Technologies Inc., Senior Subordinated Notes, 10.000% due 3/15/13 (b)	1,179,700
8,000,000 MXN	Telefonos de Mexico SA de CV, Senior Notes, 8.750% due 1/31/16	720,770
155,000	Wind Acquisition Finance SA, Senior Bond, 10.750% due 12/1/15 (b)	179,413
1,225,000	Windstream Corp., 8.625% due 8/1/16	1,347,500
	Total Diversified Telecommunication Services	17,028,811
Electric Utilities - 0.3%		
	Enersis SA, Notes:	
962,000	7.375% due 1/15/14	1,053,952
364,000	7.400% due 12/1/16	406,194
550,000	Orion Power Holdings Inc., Senior Notes, 12.000% due 5/1/10	640,750
	Total Electric Utilities	2,100,896
Electronic Equipment & Instruments - 0.1%		
	NXP BV/NXP Funding LLC:	
170,000	Senior Notes, 9.500% due 10/15/15 (b)	176,375
530,000	Senior Secured Bond, 7.875% due 10/15/14 (b)	549,875
	Total Electronic Equipment & Instruments	726,250
Energy Equipment & Services - 0.3%		
560,000	Complete Production Services Inc., Senior Notes, 8.000% due 12/15/16 (b)	575,400
969,000	Dresser-Rand Group Inc., Senior Subordinated Notes, 7.375% due 11/1/14	988,380
280,000	Geokinetics Inc., Secured Notes, 11.860% due 12/15/12 (b)(c)	289,800
175,000	GulfMark Offshore Inc., Senior Subordinated Notes, 7.750% due 7/15/14	179,375
270,000	Pride International Inc., Senior Notes, 7.375% due 7/15/14	278,100
	Total Energy Equipment & Services	2,311,055
Food & Staples Retailing - 0.1%		
	CVS Lease Pass Through Trust:	
165,957	5.880% due 1/10/28 (b)	166,787
627,900	6.036% due 12/10/28 (b)	635,378
	Total Food & Staples Retailing	802,165
Food Products - 0.1%		
	Dole Food Co. Inc., Senior Notes:	
610,000	7.250% due 6/15/10	594,750
432,000	8.875% due 3/15/11	432,000
	Total Food Products	1,026,750

Gas Utilities - 0.1%		
980,000	Suburban Propane Partners LP/Suburban Energy Finance Corp., Senior Notes, 6.875% due 12/15/13	970,200
Health Care Providers & Services - 2.0%		
1,100,000	AmeriPath Inc., Senior Subordinated Notes, 10.500% due 4/1/13	1,193,500
775,000	Community Health Systems Inc., Senior Subordinated Notes, 6.500% due 12/15/12	782,750
1,300,000	DaVita Inc., Senior Subordinated Notes, 7.250% due 3/15/15	1,319,500
1,075,000	Genesis HealthCare Corp., Senior Subordinated Notes, 8.000% due 10/15/13	1,144,875
	HCA Inc.:	
2,220,000	Debentures, 7.500% due 11/15/95	1,832,463
1,360,000	Notes, 6.375% due 1/15/15	1,176,400
400,000	Senior Notes, 6.500% due 2/15/16	345,000
	Senior Secured Notes:	

See Notes to Schedule of Investments.

WESTERN ASSET GLOBAL HIGH INCOME FUND INC.

Schedule of Investments (unaudited) (continued) **February 28, 2007**

FACE AMOUNT	SECURITY (a)	VALUE
Health Care Providers & Services - 2.0% (continued)		
540,000	9.250% due 11/15/16 (b)	$ 579,825
420,000	9.625% due 11/15/16 (b)(e)	454,650
1,675,000	IASIS Healthcare LLC/IASIS Capital Corp., Senior Subordinated Notes, 8.750% due 6/15/14	1,746,188
667,000	Psychiatric Solutions Inc., Senior Subordinated Notes, 10.625% due 6/15/13	733,700
	Tenet Healthcare Corp., Senior Notes:	
125,000	7.375% due 2/1/13	117,500
2,150,000	9.875% due 7/1/14	2,198,375
1,275,000	Triad Hospitals Inc., Senior Subordinated Notes, 7.000% due 11/15/13	1,333,969
	Total Health Care Providers & Services	14,958,695
Hotels, Restaurants & Leisure - 2.7%		
675,000	Boyd Gaming Corp., Senior Subordinated Notes, 6.750% due 4/15/14	675,000
435,000	Buffets Inc., 12.500% due 11/1/14	458,925
	Caesars Entertainment Inc.:	
465,000	Senior Notes, 7.000% due 4/15/13	493,513
650,000	Senior Subordinated Notes, 8.875% due 9/15/08	681,688
557,000	Choctaw Resort Development Enterprise, Senior Notes, 7.250% due 11/15/19 (b)	566,748
875,000	Denny s Holdings Inc., Senior Notes, 10.000% due 10/1/12	936,250
255,000	El Pollo Loco Inc., Senior Notes, 11.750% due 11/15/13	

- seek collaborators for our product candidates at an earlier stage than otherwise would be desirable and on terms that are less favorable than might otherwise be available; and

- relinquish license or otherwise dispose of rights to technologies, product candidates or products that we would otherwise seek to develop or commercialize ourselves on unfavorable terms.

IF OUR AGREEMENTS WITH ANORMED INC. OR THE UNIVERSITY OF TEXAS M.D. ANDERSON CANCER CENTER TERMINATE, OUR BUSINESS WOULD BE ADVERSELY AFFECTED.

Our business is dependent on rights we have licensed from AnorMED Inc. and The University of Texas M.D. Anderson Cancer Center. Under the terms of the AnorMED license agreement, we are obligated to make a maintenance fee payment of $200,000 on January 1 of each year for the term of the license agreement. Pursuant to the license agreement, failure to pay the maintenance fee is a material breach of the agreement. We do not anticipate failing to pay the maintenance fee, however in the event we cannot pay the maintenance fee, AnorMED may terminate the license agreement and we would not be able to further develop and commercialize Atiprimod which would have an adverse effect on our business. Under the terms of The University of Texas M.D. Anderson Cancer Center license agreement for L-Annamycin, we are required to make certain good faith expenditures towards the clinical development of at least one licensed product within the two year period after March 2005. In addition, at any time after 5 years from August 12, 2004, The University of Texas M.D. Anderson Cancer Center has the right to terminate the license if we fail to provide evidence within 90 days of written notice that we have commercialized or we are actively and effectively attempting to commercialize L-Annamycin. If we fail to fulfill these obligations or other material obligations, The University of Texas M.D. Anderson Cancer Center license agreement may be terminated and our business would be adversely affected.

CLINICAL TRIALS INVOLVE A LENGTHY AND EXPENSIVE PROCESS WITH AN UNCERTAIN OUTCOME, AND RESULTS OF EARLIER STUDIES AND TRIALS MAY NOT BE PREDICTIVE OF FUTURE TRIAL RESULTS.

In order to receive regulatory approval for the commercialization of our product candidates, we must conduct, at our own expense, extensive clinical trials to demonstrate safety and efficacy of these product candidates. Clinical testing is expensive, can take many years to complete and its outcome is uncertain. Failure can occur at any time during the clinical trial process.

The results of preclinical studies and early clinical trials of our product candidates do not necessarily predict the results of later-stage clinical trials. Product candidates in later stages of clinical trials may fail to show the desired safety and efficacy traits despite having progressed through initial clinical testing. The data collected from clinical trials of our product candidates may not be sufficient to support the submission of a new drug application or to obtain regulatory approval in the United States or elsewhere. Because of the uncertainties associated with drug development and regulatory approval, we cannot determine if or when we will have an approved product for commercialization or achieve sales or profits.

DELAYS IN CLINICAL TESTING COULD RESULT IN INCREASED COSTS TO US AND DELAY OUR ABILITY TO GENERATE REVENUE.

While to date there has been no delays in our clinical trials, enrollment in our Atiprimod Phase I/IIa trial in multiple myeloma was slower than anticipated due to limited availability of relapsed multiple myeloma patients. In the future, we may experience delays in clinical testing of our product candidates. We do not know whether planned clinical trials will begin on time, will need to be redesigned or will be completed on schedule, if at all. Clinical trials can be delayed for a variety of reasons, including delays in obtaining regulatory approval to commence a trial, in reaching agreement on acceptable clinical trial terms with prospective sites, in obtaining institutional review board approval to conduct a trial at a prospective site, in recruiting patients to participate in a trial or in obtaining sufficient supplies of clinical trial materials. Many factors affect patient enrollment, including the size of the patient population, the proximity of patients to clinical sites, the eligibility criteria for the trial, competing clinical trials and new drugs approved for the conditions we are investigating. Prescribing physicians will also have to decide to use our product candidates over existing drugs that have established safety and efficacy profiles. Any delays in completing our clinical trials will increase our costs, slow down our product development and approval process and delay our ability to generate revenue.

WE MAY BE REQUIRED TO SUSPEND OR DISCONTINUE CLINICAL TRIALS DUE TO UNEXPECTED SIDE EFFECTS OR OTHER SAFETY RISKS THAT COULD PRECLUDE APPROVAL OF OUR PRODUCT CANDIDATES.

Our clinical trials may be suspended at any time for a number of reasons. For example, we may voluntarily suspend or terminate our clinical trials if at any time we believe that they present an unacceptable risk to the clinical trial patients. In addition, regulatory agencies may order the temporary or permanent discontinuation of our clinical trials at any time if they believe that the clinical trials are not being conducted in accordance with applicable regulatory requirements or that they present an unacceptable safety risk to the clinical trial patients.

Administering any product candidates to humans may produce undesirable side effects. These side effects could interrupt, delay or halt clinical trials of our product candidates and could result in the FDA or other regulatory authorities denying further development or approval of our product candidates for any or all targeted indications. Ultimately, some or all of our product candidates may prove to be unsafe for human use. Moreover, we could be subject to significant liability if any volunteer or patient suffers, or appears to suffer, adverse health effects as a result of participating in our clinical trials.

IF WE ARE UNABLE TO SATISFY REGULATORY REQUIREMENTS, WE MAY NOT BE ABLE TO COMMERCIALIZE OUR PRODUCT CANDIDATES.

We need FDA approval prior to marketing our product candidates in the United States of America. If we fail to obtain FDA approval to market our product candidates, we will be unable to sell our product candidates in the United States of America and we will not generate any revenue.

This regulatory review and approval process, which includes evaluation of preclinical studies and clinical trials of a product candidate as well as the

evaluation of our manufacturing process and our contract manufacturers facilities, is lengthy, expensive and uncertain. To receive approval, we must, among other things, demonstrate with substantial evidence from well-controlled clinical trials that the product candidate is both safe and effective for each indication where approval is sought. Satisfaction of these requirements typically takes several years and the time needed to satisfy them may vary substantially, based on the type, complexity and novelty of the pharmaceutical product. We cannot predict if or when we might submit for regulatory review any of our product candidates currently under development. Any approvals we may obtain may not cover all of the clinical indications for which we are seeking approval. Also, an approval might contain significant limitations in the form of narrow indications, warnings, precautions, or contra-indications with respect to conditions of use.

The FDA has substantial discretion in the approval process and may either refuse to file our application for substantive review or may form the opinion after review of our data that our application is insufficient to allow approval of our product candidates. If the FDA does not file or approve our application, it may require that we conduct additional clinical, preclinical or manufacturing validation studies and submit that data before it will reconsider our application. Depending on the extent of these or any other studies, approval of any applications that we submit may be delayed by several years, or may require us to expend more resources than we have available. It is also possible that additional studies, if performed and completed, may not be considered sufficient by the FDA to make our applications approvable. If any of these outcomes occur, we may be forced to abandon our applications for approval, which might cause us to cease operations.

We will also be subject to a wide variety of foreign regulations governing the development, manufacture and marketing of our products. Whether or not FDA approval has been obtained, approval of a product by the comparable regulatory authorities of foreign countries must still be obtained prior to manufacturing or marketing the product in those countries. The approval process varies from country to country and the time needed to secure approval may be longer or shorter than that required for FDA approval. We cannot assure you that clinical trials conducted in one country will be accepted by other countries or that approval in one country will result in approval in any other country.

IF OUR PRODUCT CANDIDATES ARE UNABLE TO COMPETE EFFECTIVELY WITH MARKETED CANCER DRUGS TARGETING SIMILAR INDICATIONS AS OUR PRODUCT CANDIDATES, OUR COMMERCIAL OPPORTUNITY WILL BE REDUCED OR ELIMINATED.

We face competition from established pharmaceutical and biotechnology companies, as well as from academic institutions, government agencies and private and public research institutions. Many of our competitors have significantly greater financial resources and expertise in research and development, manufacturing, preclinical testing, conducting clinical trials, obtaining regulatory approvals and marketing approved products than we do. Smaller or early-stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large, established companies. Our commercial opportunity will be reduced or eliminated if our competitors develop and commercialize cancer drugs that are safer, more effective, have fewer side effects or are less expensive than our product candidates. These third parties compete with us in recruiting and retaining qualified scientific and management personnel, establishing clinical trial sites and patient registration for clinical trials, as well as in acquiring technologies and technology licenses complementary to our programs or advantageous to our business.

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We expect that our ability to compete effectively will depend upon our ability to:

- successfully and rapidly complete clinical trials and submit for and obtain all requisite regulatory approvals in a cost-effective manner;

- maintain a proprietary position for our products and manufacturing processes and other related product technology;

- attract and retain key personnel;

- develop relationships with physicians prescribing these products; and

- build an adequate sales and marketing infrastructure for our product candidates.

Because we will be competing against significantly larger companies with established track records, we will have to demonstrate to physicians that, based on experience, clinical data, side-effect profiles and other factors, our products are preferable to existing cancer drugs. If we are unable to compete effectively in the cancer drug market and differentiate our products from currently marketed cancer drugs, we may never generate meaningful revenue.

Numerous pharmaceutical and biotechnology companies have developed anthracycline drugs used to treat acute leukemias similar to our compound, L-Annamycin. These compounds include Adriamycin® and Ellence® which are marketed by Pfizer and Cerubidine® which is marketed by Boehringer Ingelheim. These drugs have been approved by the FDA and are currently being marketed as opposed to L-Annamycin which is in clinical development. Atiprimod, our drug candidate for relapsed multiple myeloma, works through a different mechanism of action than Velcade which is currently marketed by Millenium Pharmaceuticals and other drugs in development, such as Celgene Corporation s Revlimid.

WE CURRENTLY HAVE NO SALES AND MARKETING ORGANIZATION. IF WE ARE UNABLE TO ESTABLISH A DIRECT SALES FORCE IN THE UNITED STATES TO PROMOTE OUR PRODUCTS, THE COMMERCIAL OPPORTUNITY FOR OUR PRODUCTS MAY BE DIMINISHED.

We currently have no sales and marketing organization. If any of our product candidates are approved by the FDA, we intend to market that product directly to hospitals in the United States of America through our own sales force. We will incur significant additional expenses and commit significant additional management resources to establish this sales force. We may not be able to establish these capabilities despite these additional expenditures. We will also have to compete with other pharmaceutical and biotechnology companies to recruit, hire and train sales and marketing personnel. If we elect to rely on third parties to sell our product candidates in the United States, we may receive less

revenue than if we sold our products directly. In addition, we may have little or no control over the sales efforts of those third parties. In the event we are unable to develop our own sales force or collaborate with a third party to sell our product candidates, we may not be able to commercialize our product candidates which would negatively impact our ability to generate revenue.

WE MAY NEED OTHERS TO MARKET AND COMMERCIALIZE OUR PRODUCT CANDIDATES IN INTERNATIONAL MARKETS.

In the future, if appropriate regulatory approvals are obtained, we intend to commercialize our product candidates in international markets. However, we have not decided how to commercialize our product candidates in those markets. We may decide to build our own sales force or sell our products through third parties. Currently, we do not have any plans to enter international markets. If we decide to sell our product candidates in international markets through a third party, we may not be able to enter into any marketing arrangements on favorable terms or at all. In addition, these arrangements could result in lower levels of income to us than if we marketed our product candidates entirely on our own. If we are unable to enter into a marketing arrangement for our product candidates in international markets, we may not be able to develop an effective international sales force to successfully commercialize those products in international markets. If we fail to enter into marketing arrangements for our products and are unable to develop an effective international sales force, our ability to generate revenue would be limited.

IF OUR RELATIONSHIP WITH OUR CONTRACT MANUFACTURER FOR L-ANNAMYCIN TERMINATES, OR THEIR FACILITIES ARE DAMAGED OR DESTROYED, WE MAY BE UNABLE TO DEVELOP OR COMMERCIALIZE L-ANNAMYCIN.

Currently, Antibioticos S.p.A. is our sole supplier of Annamycin (drug substance that is the active component of the final formulated L-Annamycin drug product). If our relationship with this contract manufacturer, or any other contract manufacturer we might use, terminates or if any of their facilities are damaged for any reason, including fire, flood, earthquake or other similar event, we may be unable to obtain supply of Annamycin. If any of these events were to occur, we may need to find alternative manufacturers or manufacturing facilities. The number of contract manufacturers with the expertise, required regulatory approvals and facilities to manufacture Annamycin on a commercial scale is extremely limited, and it would take a significant amount of time to arrange for alternative manufacturers. If we need to change to other commercial manufacturers, the FDA and comparable foreign regulators must approve these manufacturers facilities and processes prior to our use, which would require new testing and compliance inspections. In addition, we may not have the intellectual property rights, or may have to share intellectual property rights, to any improvements in the current manufacturing processes or any new manufacturing processes for Annamycin. Any of these factors could cause us to delay or suspend clinical trials, regulatory submissions, required approvals or commercialization of L-Annamycin, entail higher costs, and could result in our being unable to commercialize L-Annamycin successfully. Furthermore, if our contract manufacturers fail to deliver the required commercial quantities of bulk drug substance or finished product on a timely basis and at commercially reasonable prices, and we were unable to find one or more replacement manufacturers capable of production at a substantially equivalent cost, in substantially equivalent volumes and quality, and on a timely basis, we would likely be unable to meet demand for L-Annamycin and we would lose potential revenue.

IF THE FDA DOES NOT APPROVE OUR CONTRACT MANUFACTURERS FACILITIES, WE MAY BE UNABLE TO DEVELOP OR COMMERCIALIZE OUR PRODUCT CANDIDATES.

We rely on third-party contract manufacturers to manufacture our product candidates, and currently have no plans to develop our own manufacturing facility. The facilities used by our contract manufacturers to manufacture our product candidates must be approved by the FDA. If the FDA does not approve these facilities for the manufacture of our product, we may need to fund additional modifications to our manufacturing process, conduct

additional validation studies, or find alternative manufacturing facilities, any of which would result in significant cost to us as well as a delay of up to several years in obtaining approval for and manufacturing of our product candidates. In addition, our contract manufacturers will be subject to ongoing periodic unannounced inspection by the FDA and corresponding state agencies for compliance with good manufacturing practices regulations, or cGMPs, and similar foreign standards. These regulations cover all aspects of the manufacturing, testing, quality control and record keeping relating to our product candidates. We do not have control over our contract manufacturers compliance with these regulations and standards. Failure by our contract manufacturers to comply with applicable regulations could result in sanctions being imposed on us, including fines, injunctions, civil penalties, failure of the government to grant market approval of drugs, delays, suspension or withdrawals of approvals, operating restrictions and criminal prosecutions, any of which could significantly and adversely affect our business. In addition, we have no control over our contract manufacturers ability to maintain adequate quality control, quality assurance and qualified personnel. Failure by our contract manufacturers to comply with or maintain any of these standards could adversely affect the development of our product candidates and our business.

IF PRODUCT LIABILITY LAWSUITS ARE SUCCESSFULLY BROUGHT AGAINST US, WE MAY INCUR SUBSTANTIAL LIABILITIES AND MAY BE REQUIRED TO LIMIT COMMERCIALIZATION OF OUR PRODUCT CANDIDATES.

We face an inherent risk of product liability lawsuits related to the testing of our product candidates, and will face an even greater risk if we sell our product candidates commercially. Currently, we are not aware of any anticipated product liability claims with respect to our product candidates. In the future, an individual may bring a liability claim against us if one of our product candidates causes, or merely appears to have caused, an injury. If we cannot successfully defend ourselves against the product liability claim, we may incur substantial liabilities. Regardless of merit or eventual outcome, liability claims may result in:

- decreased demand for our product candidates;
- injury to our reputation;
- withdrawal of clinical trial participants;
- costs of related litigation;
- substantial monetary awards to patients;
- product recalls;
- loss of revenue; and
- the inability to commercialize our product candidates.

We have human clinical trial liability insurance with a $3,000,000 annual aggregate and per occurrence limit for up to 40 patients participating at the same time in our Atiprimod and L-Annamycin clinical trials. We intend to expand our insurance coverage to include the sale of commercial products if marketing approval is obtained for our product candidates. Our current insurance coverage may prove insufficient to cover any liability claims brought against us. In addition, because of the increasing costs of insurance coverage, we may not be able to maintain insurance coverage at a reasonable cost or obtain insurance coverage that will be adequate to satisfy any liability that may arise.

EVEN IF WE RECEIVE REGULATORY APPROVAL FOR OUR PRODUCT CANDIDATES, WE WILL BE SUBJECT TO ONGOING SIGNIFICANT REGULATORY OBLIGATIONS AND OVERSIGHT.

If we receive regulatory approval to sell our product candidates, the FDA and foreign regulatory authorities may, nevertheless, impose significant restrictions on the indicated uses or marketing of such products, or impose ongoing requirements for post-approval studies. Following any regulatory approval of our product candidates, we will be subject to continuing regulatory obligations, such as safety reporting requirements, and additional post-marketing obligations, including regulatory oversight of the promotion and marketing of our products. If we become aware of previously unknown problems with any of our product candidates here or overseas or our contract manufacturers facilities, a regulatory agency may impose restrictions on our products, our contract manufacturers or on us, including requiring us to reformulate our products, conduct additional clinical trials, make changes in the labeling of our products, implement changes to or obtain re-approvals of our contract manufacturers facilities or withdraw the product from the market. In addition, we may experience a significant drop in the sales of the affected products, our reputation in the marketplace may suffer and we may become the target of lawsuits, including class action suits. Moreover, if we fail to comply with applicable regulatory requirements, we may be subject to fines, suspension or withdrawal of regulatory approvals, product recalls, seizure of products, operating restrictions and criminal prosecution. Any of these events could harm or prevent sales of the affected products or could substantially increase the costs and expenses of commercializing and marketing these products.

WE RELY ON THIRD PARTIES TO CONDUCT OUR CLINICAL TRIALS. IF THESE THIRD PARTIES DO NOT SUCCESSFULLY CARRY OUT THEIR CONTRACTUAL DUTIES OR MEET EXPECTED DEADLINES, WE MAY NOT BE ABLE TO SEEK OR OBTAIN REGULATORY APPROVAL FOR OR COMMERCIALIZE OUR PRODUCT CANDIDATES.

We have agreements with third-party contract research organizations, or CROs, to provide monitors and to manage data for our clinical programs. We and our CROs are required to comply with current Good Clinical Practices, or GCPs, regulations and guidelines enforced by the FDA for all of our products in clinical development. The FDA enforces GCPs through periodic inspections of trial sponsors, principal investigators and trial sites. In the future, if we or our CROs fail to comply with applicable GCPs, the clinical data generated in our clinical trials may be deemed unreliable and the FDA may require us to perform additional clinical trials before approving our marketing applications. We cannot assure you that, upon inspection, the FDA will determine that any of our clinical trials for products in clinical development comply with GCPs. In addition, our clinical trials must be conducted with product produced under cGMP regulations, and will require a large number of test subjects. Our failure to comply with these regulations may require us to repeat clinical trials, which would delay the regulatory approval process.

If any of our relationships with these third-party CROs terminate, we may not be able to enter into arrangements with alternative CROs. If CROs do not successfully carry out their contractual duties or obligations or meet expected deadlines, if they need to be replaced, or if the quality or accuracy of the clinical data they obtain is compromised due to the failure to adhere to our clinical protocols, regulatory requirements or for other reasons, our clinical trials may be extended, delayed or terminated, and we may not be able to obtain regulatory approval for or successfully commercialize our

product candidates. As a result, our financial results and the commercial prospects for our product candidates would be harmed, our costs could increase, and our ability to generate revenue could be delayed.

IF WE FAIL TO ATTRACT AND KEEP SENIOR MANAGEMENT AND KEY SCIENTIFIC PERSONNEL, WE MAY BE UNABLE TO SUCCESSFULLY DEVELOP OUR PRODUCT CANDIDATES, CONDUCT OUR CLINICAL TRIALS AND COMMERCIALIZE OUR PRODUCT CANDIDATES.

Our success depends in part on our continued ability to attract, retain and motivate highly qualified management, clinical and scientific personnel and on our ability to develop and maintain important relationships with leading academic institutions, clinicians and scientists. We are highly dependent upon our senior management and scientific staff, particularly Gary S. Jacob, our Chief Executive Officer. The loss of services of Dr. Jacob or one or more of our other members of senior management could delay or prevent the successful completion of our planned clinical trials or the commercialization of our product candidates.

The competition for qualified personnel in the biotechnology and pharmaceuticals field is intense. We will need to hire additional personnel as we expand our clinical development and commercial activities. We may not be able to attract and retain quality personnel on acceptable terms given the competition for such personnel among biotechnology, pharmaceutical and other companies. We do not carry key person insurance covering any members of our senior management.

IF WE FAIL TO ACQUIRE AND DEVELOP OTHER PRODUCTS OR PRODUCT CANDIDATES, WE MAY BE UNABLE TO GROW OUR BUSINESS.

To date, we have in-licensed or acquired the rights to each of our product candidates. As part of our growth strategy, in addition to developing our current product candidates, we intend to license or acquire additional products and product candidates for development and commercialization. Because we have limited internal research capabilities, we are dependent upon pharmaceutical and biotechnology companies and other researchers to sell or license products to us. The success of this strategy depends upon our ability to identify, select and acquire the right pharmaceutical product candidates and products. We currently do not have any intentions to acquire another company.

Any product candidate we license or acquire may require additional development efforts prior to commercial sale, including extensive clinical testing and approval by the FDA and applicable foreign regulatory authorities. All product candidates are prone to the risks of failure inherent in pharmaceutical product development, including the possibility that the product candidate will not be shown to be sufficiently safe and effective for approval by regulatory authorities. In addition, we cannot assure you that any products that we license or acquire that are approved will be manufactured or produced economically, successfully commercialized or widely accepted in the marketplace.

Proposing, negotiating and implementing an economically viable product acquisition or license is a lengthy and complex process. Other companies, including those with substantially greater financial, marketing and sales resources, may compete with us for the acquisition or license of product candidates and approved products. We may not be able to acquire or license the rights to additional product candidates and approved products on terms that we find acceptable, or at all.

WE MAY UNDERTAKE ACQUISITIONS IN THE FUTURE, AND ANY DIFFICULTIES FROM INTEGRATING THESE ACQUISITIONS COULD DAMAGE OUR ABILITY TO ATTAIN OR MAINTAIN PROFITABILITY.

We may acquire additional businesses, products or product candidates that complement or augment our existing business. Integrating any newly acquired business or product could be expensive and time-consuming. We may not be able to integrate any acquired business or product successfully or operate any acquired business profitably. Moreover, we many need to raise additional funds through public or private debt or equity financing to make acquisitions, which may result in dilution to stockholders and the incurrence of indebtedness that may include restrictive covenants.

WE WILL NEED TO INCREASE THE SIZE OF OUR ORGANIZATION, AND WE MAY EXPERIENCE DIFFICULTIES IN MANAGING GROWTH.

We are a small company with 8 full-time and 3 part-time employees as of December 31, 2006. To continue our clinical trials and commercialize our product candidates, we will need to expand our employee base for managerial, operational, financial and other resources. Future growth will impose significant added responsibilities on members of management, including the need to identify, recruit, maintain and integrate additional employees. Over the next 12 months depending on the progress of our planned clinical trials, we plan to add additional employees to assist us with our clinical programs. Our future financial performance and our ability to commercialize our product candidates and to compete effectively will depend, in part, on our ability to manage any future growth effectively. To that end, we must be able to:

- manage our development efforts effectively;
- manage our clinical trials effectively;
- integrate additional management, administrative, manufacturing and sales and marketing personnel;
- maintain sufficient administrative, accounting and management information systems and controls; and
- hire and train additional qualified personnel.

We may not be able to accomplish these tasks, and our failure to accomplish any of them could harm our financial results.

REIMBURSEMENT MAY NOT BE AVAILABLE FOR OUR PRODUCT CANDIDATES, WHICH COULD DIMINISH OUR SALES.

Market acceptance and sales of our product candidates may depend on reimbursement policies and health care reform measures. The levels at which government authorities and third-party payors, such as private health insurers and health maintenance organizations, reimburse patients for the price they pay for our products could affect whether we are able to commercialize these products. We cannot be sure that reimbursement will be available

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for any of these products. Also, we cannot be sure that reimbursement amounts will not reduce the demand for, or the price of, our products. We have not commenced efforts to have our product candidates reimbursed by government or third party payors. If reimbursement is not available or is available only to limited levels, we may not be able to commercialize our products.

In recent years, officials have made numerous proposals to change the health care system in the United States. These proposals include measures that would limit or prohibit payments for certain medical treatments or subject the pricing of drugs to government control. In addition, in many foreign countries, particularly the countries of the European Union, the pricing of prescription drugs is subject to government control. If our products are or become subject to government regulation that limits or prohibits payment for our products, or that subject the price of our products to governmental control, we may not be able to generate revenue, attain profitability or commercialize our products.

As a result of legislative proposals and the trend towards managed health care in the United States, third-party payers are increasingly attempting to contain health care costs by limiting both coverage and the level of reimbursement of new drugs. They may also refuse to provide any coverage of uses of approved products for medical indications other than those for which the FDA has granted market approvals. As a result, significant uncertainty exists as to whether and how much third-party payers will reimburse patients for their use of newly-approved drugs, which in turn will put pressure on the pricing of drugs.

LEGISLATIVE OR REGULATORY REFORM OF THE HEALTHCARE SYSTEM MAY AFFECT OUR ABILITY TO SELL OUR PRODUCTS PROFITABLY.

In both the United States and certain foreign jurisdictions, there have been a number of legislative and regulatory proposals to change the healthcare system in ways that could impact upon our ability to sell our products profitably. In recent years, new legislation has been proposed in the United States at the federal and state levels that would effect major changes in the healthcare system, either nationally or at the state level.

These proposals have included prescription drug benefit proposals for Medicare beneficiaries introduced in Congress. Legislation creating a prescription drug benefit and making certain changes in Medicaid reimbursement has recently been enacted by Congress and signed by the President. Given this legislation s recent enactment, it is still too early to determine its impact on the pharmaceutical industry and our business. Further federal and state proposals are likely. The potential for adoption of these proposals affects or will affect our ability to raise capital, obtain additional collaborators and market our products. We expect to experience pricing pressures in connection with the sale of our products due to the trend toward managed health care, the increasing influence of health maintenance organizations and additional legislative proposals. Our results of operations could be adversely affected by future healthcare reforms.

RISKS RELATED TO OUR INTELLECTUAL PROPERTY

IT IS DIFFICULT AND COSTLY TO PROTECT OUR PROPRIETARY RIGHTS, AND WE MAY NOT BE ABLE TO ENSURE THEIR PROTECTION.

Our commercial success will depend in part on obtaining and maintaining patent protection and trade secret protection of our product candidates, and the methods used to manufacture them, as well as successfully defending these patents against

third-party challenges. We will only be able to protect our product candidates from unauthorized making, using, selling, offering to sell or importation by third parties to the extent that we have rights under valid and enforceable patents or trade secrets that cover these activities.

As of December 31, 2006, we own and/or have licensed rights to 15 issued United States patents and 7 United States patent applications. We have approximately 150 issued and/or pending foreign patent applications. We may file additional patent applications and extensions. Our issued United States patents we own and license primarily are composition of matter and formulation patents related to Atiprimod and L-Annamycin. Our composition of matter patents for L-Annamycin and Atiprimod expire in 2017 and 2016, respectively. Our formulation patents for L-Annamycin and Atiprimod dimaleate (preferred salt form) both expire in 2016.

The patent positions of pharmaceutical and biotechnology companies can be highly uncertain and involve complex legal and factual questions for which important legal principles remain unresolved. No consistent policy regarding the breadth of claims allowed in biotechnology patents has emerged to date in the United States. The biotechnology patent situation outside the United States is even more uncertain. Changes in either the patent laws or in interpretations of patent laws in the United States and other countries may diminish the value of our intellectual property. Accordingly, we cannot predict the breadth of claims that may be allowed or enforced in our licensed patents or in third-party patents.

The degree of future protection for our proprietary rights is uncertain because legal means afford only limited protection and may not adequately protect our rights or permit us to gain or keep our competitive advantage. For example:

- others may be able to make compounds that are competitive with our product candidates but that are not covered by the claims of our licensed patents, or for which we are not licensed under our license agreements;

- we or our licensors might not have been the first to make the inventions covered by our pending patent application or the pending patent applications and issued patents of our licensors;

- we or our licensors might not have been the first to file patent applications for these inventions;

- others may independently develop similar or alternative technologies or duplicate any of our technologies;

- it is possible that our pending patent application or one or more of the pending patent applications of our licensors will not result in issued patents;

- the issued patents of our licensors may not provide us with any competitive advantages, or may be held invalid or unenforceable as a result of legal challenges by third parties;

- we may not develop additional proprietary technologies that are patentable; or

- the patents of others may have an adverse effect on our business.

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We also may rely on trade secrets to protect our technology, especially where we do not believe patent protection is appropriate or obtainable. However, trade secrets are difficult to protect. While we use reasonable efforts to protect our trade secrets, our employees, consultants, contractors, outside scientific collaborators and other advisors may unintentionally or willfully disclose our information to competitors. Enforcing a claim that a third party illegally obtained and is using our trade secrets is expensive and time consuming, and the outcome is unpredictable. In addition, courts outside the United States are sometimes less willing to protect trade secrets. Moreover, our competitors may independently develop equivalent knowledge, methods and know-how.

WE MAY INCUR SUBSTANTIAL COSTS AS A RESULT OF LITIGATION OR OTHER PROCEEDINGS RELATING TO PATENT AND OTHER INTELLECTUAL PROPERTY RIGHTS AND WE MAY BE UNABLE TO PROTECT OUR RIGHTS TO, OR USE, OUR TECHNOLOGY.

If we choose to go to court to stop someone else from using the inventions claimed in our licensed patents, that individual or company has the right to ask the court to rule that these patents are invalid and/or should not be enforced against that third party. These lawsuits are expensive and would consume time and other resources even if we were successful in stopping the infringement of these patents. In addition, there is a risk that the court will decide that these patents are not valid and that we do not have the right to stop the other party from using the inventions. There is also the risk that, even if the validity of these patents is upheld, the court will refuse to stop the other party on the ground that such other party s activities do not infringe our rights to these patents.

Furthermore, a third party may claim that we are using inventions covered by the third party s patent rights and may go to court to stop us from engaging in our normal operations and activities, including making or selling our product candidates. These lawsuits are costly and could affect our results of operations and divert the attention of managerial and technical personnel. There is a risk that a court would decide that we are infringing the third party s patents and would order us to stop the activities covered by the patents. In addition, there is a risk that a court will order us to pay the other party damages for having violated the other party s patents. The biotechnology industry has produced a proliferation of patents, and it is not always clear to industry participants, including us, which patents cover various types of products or methods of use. The coverage of patents is subject to interpretation by the courts, and the interpretation is not always uniform. If we are sued for patent infringement, we would need to demonstrate that our products or methods of use either do not infringe the patent claims of the relevant patent and/or that the patent claims are invalid, and we may not be able to do this. Proving invalidity, in particular, is difficult since it requires a showing of clear and convincing evidence to overcome the presumption of validity enjoyed by issued patents.

Because some patent applications in the United States of America may be maintained in secrecy until the patents are issued, because patent applications in the United States of America and many foreign jurisdictions are typically not published until eighteen months after filing, and because publications in the scientific literature often lag behind actual discoveries, we cannot be certain that others have not filed patent applications for technology covered by our licensors issued patents or our pending applications or our licensors pending applications or that we or our licensors were the first to invent the technology. Our competitors may have filed, and may in the future file, patent applications covering technology similar to ours. Any such patent application may have

priority over our or our licensors patent applications and could further require us to obtain rights to issued patents covering such technologies. If another party has filed a United States patent application on inventions similar to ours, we may have to participate in an interference proceeding declared by the United States Patent and Trademark Office to determine priority of invention in the United States. The costs of these proceedings could be substantial, and it is possible that such efforts would be unsuccessful, resulting in a loss of our United States patent position with respect to such inventions.

Some of our competitors may be able to sustain the costs of complex patent litigation more effectively than we can because they have substantially greater resources. In addition, any uncertainties resulting from the initiation and continuation of any litigation could have a material adverse effect on our ability to raise the funds necessary to continue our operations.

RISKS RELATED TO OUR COMMON STOCK

MARKET VOLATILITY MAY AFFECT OUR STOCK PRICE AND THE VALUE OF YOUR INVESTMENT.

The market prices for securities of biopharmaceutical companies in general have been highly volatile and may continue to be highly volatile in the future. The following factors, in addition to other risk factors described in this section, may have a significant impact on the market price of our common stock:

- announcements of technological innovations or new products by us or our competitors;
- announcement of FDA approval or non-approval of our product candidates or delays in the FDA review process;
- actions taken by regulatory agencies with respect to our product candidates, clinical trials, manufacturing process or sales and marketing activities;
- regulatory developments in the United States of America and foreign countries;
- the success of our development efforts and clinical trials;
- the success of our efforts to acquire or in-license additional products or product candidates;
- any intellectual property infringement action, or any other litigation, involving us;
- announcements concerning our competitors, or the biotechnology or biopharmaceutical industries in general;
- actual or anticipated fluctuations in our operating results;

- changes in financial estimates or recommendations by securities analysts;

- our ability to maintain listing requirements on the American Stock Exchange;

- sales of large blocks of our common stock;

- sales of our common stock by our executive officers, directors and significant stockholders; and

- the loss of any of our key scientific or management personnel.

The occurrence of one or more of these factors may cause our stock price to decline, and investors may not be able to resell their shares at or above the price that they paid for the shares. In addition, the stock markets in general, and the markets for biotechnology and biopharmaceutical stocks in particular, have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common stock.

WE ARE AT RISK OF SECURITIES CLASS ACTION LITIGATION.

In the past, securities class action litigation has often been brought against a company following a decline in the market price of its securities. This risk is especially relevant for us because biotechnology and biopharmaceutical companies have experienced significant stock price volatility in recent years. If we faced such litigation, it could result in substantial costs and a diversion of management s attention and resources, which could harm our business.

WE HAVE NOT PAID CASH DIVIDENDS IN THE PAST AND DO NOT EXPECT TO PAY CASH DIVIDENDS IN THE FUTURE. ANY RETURN ON INVESTMENT MAY BE LIMITED TO THE VALUE OF OUR STOCK.

We have never paid cash dividends on our stock and do not anticipate paying cash dividends on our stock in the foreseeable future. The payment of cash dividends on our stock will depend on our earnings, financial condition and other business and economic factors affecting us at such time as the board of directors may consider relevant. If we do not pay cash dividends, our stock may be less valuable because a return on your investment will only occur if our stock price appreciates.

FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 (the Act) provides a safe harbor for forward-looking statements made by us or on our behalf. We and our representatives may from time to time make written or oral statements that are forward-looking, including statements contained in this prospectus and other filings with the Securities and Exchange Commission, reports to our stockholders and news releases. All statements that express expectations, estimates, forecasts or projections are forward-looking statements within the meaning of the Act. In addition, other written or oral statements which constitute forward-looking statements may be made by us or on our behalf. Words such as expects, anticipates, intends, plans, believes, seeks, estimates, projects, forecast may, should, variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in or suggested by such forward-looking statements. Among the important factors on which such statements are based are assumptions concerning our ability to complete ongoing clinical trials, results of our clinical trials, the timing of approval of our products by the United States Food and Drug Administration, our ability to obtain additional financing, our ability to attract and retain key employees, our ability to protect intellectual property, and our ability to adapt to economic, political and regulatory conditions affecting the healthcare industry.

USE OF PROCEEDS

We will not receive any of the proceeds from the resale of the shares of common stock.

SELLING STOCKHOLDERS

Below is information with respect to the number of shares of our common stock owned by the selling stockholders as of January 11, 2007. Except as described below, the selling stockholders do not have, or have had, any position, office or other material relationship with us or any of our affiliates beyond their investment in, or receipt of, our securities. See Plan of Distribution for additional information about the selling stockholders and the manner in which the selling stockholders may dispose of their shares. Beneficial ownership has been determined in accordance with the rules of the SEC, and includes voting or investment power with respect to the shares. Unless otherwise indicated in the table below, to our knowledge, the selling stockholders named in the table below have sole voting and investment power with respect to their shares of common stock. Our registration of these shares does not necessarily mean that the selling stockholders will sell any or all of the shares covered by this prospectus.

We are registering 28,500,537 shares of our common stock, par value $0.0001 per share, for resale from time to time by the selling stockholders identified in this prospectus. Such amount consists of (i) 4,950,335 shares of common stock and 1,694,535 shares of common stock issuable upon exercise of warrants issued in connection with a private placement by us in February 2006 and April 2006, (ii) 740,067 shares of common stock and 2,086,988 shares of common stock issuable upon exercise of warrants issued by us to certain investors in the February 2006 and April 2006 private placement in connection with entering into a lock-up agreement with us and agreeing to an amendment of the securities purchase agreement previously entered into in connection with the February 2006 and April 2006 private placement which (a) deleted the mandatory registration rights set forth in such securities purchase agreement and added piggyback registration rights and (b) waiving any and all unpaid penalties pursuant to the liquidated damages provisions contained in such securities purchase agreement, (iii) 8,188,333 shares of common issuable upon conversion of 614,125 shares of Series A Convertible Preferred stock and 9,260,091 shares of common stock issuable upon exercise of warrants issued in connection with a private placement by us in October 2006 January 2007, (iv) 633,000 shares of common stock issuable upon exercise of stock options, (v) 872,188 shares of common stock issuable upon exercise of warrants and (vi) 75,000 shares of common stock issued pursuant to a consulting agreement.

Of the 28,500,537 shares of common stock being registered in this registration statement, 4,440,402 shares of common stock and 2,012,072 shares of common stock issuable upon exercise of warrants are subject to a lock-up agreement with us pursuant to which the holders have agreed not to sell or transfer their shares of common stock and warrants from September 1, 2006 until May 31, 2007.

The number of shares of common stock that may actually be purchased by the selling stockholder under the warrants and options and the number of shares of common stock that may actually be sold by the selling stockholder will be determined by the selling stockholder. Because the selling stockholder may purchase all, some or none of the shares of common stock which can be purchased under the warrants and options and the selling stockholder may sell all, some or none of the shares of common stock which it holds, and because the offering contemplated by this prospectus is not currently being underwritten, no estimate can be given as to the number of shares of common stock that will be held by the selling stockholder upon termination of the offering. The information set forth in the following table regarding the beneficial ownership after resale of shares is based on the premise that the selling stockholder will purchase the maximum number of shares of common stock provided for by the warrants and options and will sell all of the shares of common stock owned by that selling stockholder and covered by this prospectus.

We have filed with the SEC a registration statement, of which this prospectus forms a part, with respect to the resale of the shares of our common stock from time to time, under Rule 415 under the Securities Act, on the American Stock Exchange, in privately negotiated transactions, in underwritten offerings or by a combination of these methods for sale.

For the table set forth below, the following persons have investment and voting control over the shares owned by the respective entities:

Entity	**Control Person**
RAB North American Equity Fund (1)	Arilde Eide
RAB American Opportunities Fund Ltd. (2)	Arilde Eide
High Octane BioResearch LLC	Paul Kythreotis
Decision S.A.S.	Giuseppe Muraro
Burnaby Biotech LLC	Kari Ardisonne
Mayflower Medical Ventures Ltd.	Thomas Lane
Beaufort International Associates Limited	Tanvier Malik
Early Discovery Europa Ltd.	Jesse Hester
Hauck & Aufhauser	Bernd Sinnwell and Rainer Schiffels
Crescent International Ltd.	Maxi Brezzi and Bachir Taleb-Ilorahimi
Babington Microcap Management Ltd.	Stephen John Kelly
Nite Capital, LP	Keith Goodman, Manager of the General Partner
Mercer Consultants Inc.	Eduardo Schmilovich
Goldeneye Biocapital Limited	Jason Tabone
Catalytix, LDC	Ted Kalem, Managing Member of Array Capital Management, LLC
Catalytix LDC Life Science Hedge AC	Ted Kalem, Managing Member of Array Capital Management, LLC
MP Biopharmaceutical Partners LP	Viren Mehta, Managing Member of MP Asset Managers LP
MP Biopharmaceutical Fund Ltd.	Viren Mehta, Managing Member of MP Asset Managers LP
Lombardia Technology Development S.A.	John Wortley Hunt
Eureka Science Incubator S.A.R.L.	William Hawes
Hornet Opportunity L/S Equity Fund	Roger Bigger
Credit Suisse Monaco	David Emptoz-Lacote
Salinas Strategic Health Care S.A.	Mathew Stokes

Foxhound Investment Partners SA	George Kouma
Casimir Capital LP	Richard Sands
Stanford Group Company	R. Allen Stanford
New England Partners Capital, L.P.	John F. Rousseau, Jr., Edwin Snape, Robert J. Hanks and David Dullum
Anima S.G.R.p.A.	Giordano Martinelli
Panetta Partners Ltd.	Gabriele M. Cerrone
Fimi S.p.A.	Wolf Chitis
Ajax Partners	Richard B. Stone
Clubhouse Partners	Michael Stone
Ashton Partners, LLC	Jeff Blank
Bluegrass Growth Fund, Ltd.	Brian Shatz
Societe Bancaire Privee SA	Arturo Barone
Union Bancaire Privee	Olivier Constantin
Early Bird BioInvestments Ltd.	Andrew Moray Stuart
Continental Advisors SA	Riccardo Moraldi and Annalisa Ciampoli
Prism Ventures LLC	Judson Cooper and Joshua Schein

(1) BNP Paribas Securities Services Luxembourg is acting as nominee for the beneficial holder, RAB North American Equity Fund.

(2) Credit Suisse Client Nominees (UK) Limited is acting as nominee for the beneficial holder, RAB American Opportunities Fund Ltd.

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Selling Stockholder	Number of Shares Beneficially Owned Prior to the Offering	Number of Shares Being Offered		After the Offering Number of Shares Beneficially Owned (1)	After the Offering Percent of Shares Beneficially Owned (2)
BNP Paribas Securities Services Luxembourg (13)	261,820	261,820	(8)		
Credit Suisse Client Nominees (UK) Limited (14)	1,214,445	1,111,352	(10)	103,093	*
High Octane BioResearch LLC	92,700	92,700	(4)		
Decision S.A.S.	15,000	15,000	(4)		
Burnaby Biotech LLC	75,300	75,300	(4)		
Moshe Talpaz, M.D.	650,000	75,000	(5)	575,000	1.4
Mayflower Medical Ventures Ltd.	534,887	238,334	(6)	296,553	*
Beaufort International Associates Limited	51,540	46,683	(6)	4,857	*
Early Discovery Europa Ltd.	375,000	375,000	(7)		
Hauck & Aufhauser	251,750	251,750	(8)		
Crescent International Ltd.	1,303,500	1,303,500	(10)		
Babington Microcap Management Ltd.	1,507,777	1,367,777	(3)	140,000	*
Nite Capital LP	839,167	839,167	(8)		
Mercer Consultants Inc.	1,062,500	1,062,500	(9)		
Benny Shabtai	100,700	100,700	(8)		
Michael Solomon	201,400	201,400	(8)		
David Tawaststjerna	100,700	100,700	(8)		
Oded Levy	100,700	100,700	(8)		
Alfons Melohn	411,400	201,400	(8)	210,000	*
Hillel Weinberger	734,732	734,732	(10)		
Isaac Dweck	734,732	734,732	(10)		
David Jaroslawicz	548,066	548,066	(10)		
Phil Lifschitz (15)	334,734	334,734	(10)		
Maria Aurora Citarda	553,850	553,850	(10)		
Goldeneye Biocapital Limited	1,308,800	402,800	(8)	906,000	2.3
Catalytix, LDC	83,917	83,917	(8)		
Catalytix LDC Life Science Hedge AC	83,917	83,917	(8)		
Frank Goodman	58,741	58,741	(8)		
Mike Wilkins	100,700	100,700	(8)		
MP Biopharmaceutical Partners LP	90,375	90,375	(9)		

MP Biopharmaceutical Fund Ltd.	159,625	159,625	(9)		
Michael Goodman	41,958	41,958	(8)		
Lombardia Technology Development S.A.	350,000	350,000	(7)		
Eureka Science Incubator S.A.R.L.	1,483,959	738,467	(8)	745,492	1.9
Raffaele Petrassi	703,500	503,500	(8)	200,000	*
Hornet Opportunity L/S Equity Fund	250,000	250,000	(9)		
Credit Suisse Monaco	251,750	251,750	(8)		
Salinas Strategic Health Care S.A.	1,597,450	701,450	(10)	896,000	2.3
Foxhound Investment Partners SA	59,500	59,500	(11)		
Casimir Capital LP (16)	46,667	46,667	(11)		
Stanford Group Company (17)	22,750	22,750	(11)		

New England Partners Capital, L.P.	2,247,734	1,333,332	(12)	914,402	2.3
Anima S.G.R.p.A.	666,666	666,666	(12)		
Reed Rubin	133,334	133,334	(12)		
Mylo Beyda	133,335	133,335	(12)		
Nathan Dweck	133,334	133,334	(12)		
Morris Dweck	133,332	133,332	(12)		
Ralph Dweck	133,333	133,333	(12)		
Sandra Lifschitz (20)	80,000	80,000	(12)		
Fimi S.p.A.	533,334	533,334	(12)		
Panetta Partners Ltd. (18)	3,486,737	60,000	(12)	3,426,737	8.5
Joshua and Eileen Schein	1,109,566	423,666	(12)	685,900	1.7
Ajax Partners (19)	1,200,000	1,200,000	(12)		
Clubhouse Partners	140,000	60,000	(12)	80,000	*
Ashton Partners, LLC	200,000	200,000	(12)		
Jerry Heymann	200,000	200,000	(12)		
Judson Cooper	1,803,101	1,103,666	(12)	699,435	1.8
Early Bird BioInvestment Ltd.	2,133,334	2,133,334	(12)		
Brian Shatz	133,334	133,334	(12)		
Bluegrass Growth Fund, Ltd.	133,334	133,334	(12)		
Maria Clelia Acocella	100,000	100,000	(12)		
Philippe Hennessy	213,334	213,334	(12)		
Stephen Milstein	106,666	106,666	(12)		
Joel Stone	533,334	533,334	(12)		
Howard Freedberg	133,334	133,334	(12)		
Maria Rosa Olcese	469,334	469,334	(12)		
Union Bancaire Privee	266,666	266,666	(12)		
Societe Bancaire Privee SA	1,866,667	1,866,667	(12)		
Richard Stone(19)	157,000	157,000	(12)		
Nicola Granato	746,666	746,666	(12)		
Prism Ventures LLC	147,188	147,188	(7)		
Continental Advisors SA	26,667	26,667	(21)		

* less than 1%

(1) Assuming that all shares offered here are sold but no other securities held by the selling stockholder are sold.

(2) Based upon 39,194,996 shares of common stock outstanding as of January 11, 2007.

(3) Consists of 450,000 shares of common stock issuable upon exercise of stock options received in January 2003 for consulting services and 835,644 shares of common stock issuable upon exercise of warrants received in connection with our February and April 2006 private placement and October 2006-

January 2007 private placement.

(4) Consists of shares of common stock issuable upon exercise of stock options issued in connection with services related to our merger with Webtronics in April 2003.

(5) Consists of shares of common stock issued in connection with a consulting agreement.

(6) Consists of shares of common stock issuable upon exercise of warrants received in connection with our February and April 2006 private placement and October 2006- January 2007 private placement.

(7) Consists of shares of common stock issuable upon exercise of warrants issued in connection with a consulting agreement.

(8) Consists of shares of common stock and shares of common stock issuable upon the exercise of warrants held by the selling stockholder which were (i) issued in connection with our February and April 2006 private placement and (ii) issued pursuant to the Letter and Lock-Up Agreements.

(9) Consists of shares of common stock and shares of common stock issuable upon the exercise of warrants held by the selling stockholder which were issued in connection with our February and April 2006 private placement.

(10) Consists of shares of common stock and shares of common stock issuable upon the exercise of warrants held by the selling stockholder which were (i) issued in connection with our February and April 2006 private placement, (ii) issued pursuant to the Letter and Lock-Up Agreements and (iii) issued in connection with our October 2006- January 2007 private placement.

(11) Consists of shares of common stock issuable upon exercise of warrants issued in connection with our February and April 2006 private placement.

(12) Consists of shares of common stock and shares of common stock issuable upon the exercise of warrants held by the selling stockholder which were issued in connection with our October 2006- January 2007 private placement.

(13) BNP Paribas Securities Services Luxembourg is acting as nominee for the beneficial holder, RAB North American Equity Fund.

(14) Credit Suisse Client Nominees (UK) Limited is acting as nominee for the beneficial holder, RAB American Opportunities Fund Ltd.

(15) Mr. Lifschitz is affiliated with Oppenheimer & Co., a NASD member broker-dealer. We do not have any arrangement with Oppenheimer &Co. for it to act as a broker-dealer for the sale of the shares included herein for the selling stockholders. This selling stockholder may be deemed to be an underwriter with respect to his sales of shares to be offered by him in this prospectus. This selling security holder has represented to us that he acquired the shares in the ordinary course of business and that, at the time of such acquisition, he did not have any agreements or understandings, directly or indirectly, with any person to distribute the shares.

(16) Casimir Capital LP is a NASD member broker-dealer. We do not have any arrangement with Casimir Capital LP for it to act as a broker-dealer for the sale of the shares included herein for the selling stockholders. Casimir Capital LP may be deemed to be an underwriter with respect to its respective sales of shares to be offered by them in this prospectus. Casimir Capital LP served as a

placement agent in connection with our February and April 2006 private placement.

(17) Stanford Group Company is a NASD member broker-dealer. We do not have any arrangement with Stanford Group Company for it to act as a broker-dealer for the sale of the shares included herein for the selling stockholders. Stanford Group Company may be deemed to be an underwriter with respect to its respective sales of shares to be offered by them in this prospectus. Stanford Group Company served as a placement agent in connection with our February and April 2006 private placement

(18) Gabriele M. Cerrone, our Chairman, is the sole managing partner and control person of Panetta Partners, Ltd. and in such capacity only exercises voting and dispositive control over securities owned by Panetta, despite him having only a small pecuniary interest in such securities.

(19) Richard B. Stone is the managing partner of Ajax Partners and is a registered representative with Sunrise Securities Corp., a NASD member broker-dealer. We do not have any arrangement with Sunrise Securities Corp. for it to act as a broker-dealer for the sale of the shares included herein for the selling stockholders. This selling stockholder may be deemed to be an underwriter with respect to its sales of shares to be offered by it in this prospectus. This selling security holder has represented to us that it acquired the shares in the ordinary course of business and that, at the time of such acquisition, it did not have any agreements or understandings, directly or indirectly, with any person to distribute the shares

(20) Mrs. Lifschitz is the wife of Phil Lifshitz who is affiliated with Oppenheimer & Co., a NASD member broker-dealer.

(21) Consists of shares of common stock issuable upon exercise of warrants received in connection with our October 2006 January 2007 private placement.

PLAN OF DISTRIBUTION

The selling stockholders, or their pledgees, donees, transferees, or any of their successors in interest selling shares received from a named selling stockholder as a gift, partnership distribution or other non-sale-related transfer after the date of this prospectus (all of whom may be selling stockholders) may sell the common stock offered by this prospectus from time to time on any stock exchange or automated interdealer quotation system on which the common stock is listed or quoted at the time of sale, in the over-the-counter market, in privately negotiated transactions or otherwise, at fixed prices that may be changed, at market prices prevailing at the time of sale, at prices related to prevailing market prices or at prices otherwise negotiated. The selling stockholders may sell the common stock by one or more of the following methods, without limitation:

- Block trades in which the broker or dealer so engaged will attempt to sell the common stock as agent but may position and resell a portion of the block as principal to facilitate the transaction;

- An exchange distribution in accordance with the rules of any stock exchange on which the common stock is listed;

- Ordinary brokerage transactions and transactions in which the broker solicits purchases;

- Privately negotiated transactions;

- In connection with short sales of company shares;

- Through the distribution of common stock by any selling stockholder to its partners, members or stockholders;

- By pledge to secure debts of other obligations;

- In connection with the writing of non-traded and exchange-traded call options, in hedge transactions and in settlement of other transactions in standardized or over-the-counter options;

- Purchases by a broker-dealer as principal and resale by the broker-dealer for its account; or

- In a combination of any of the above.

These transactions may include crosses, which are transactions in which the same broker acts as an agent on both sides of the trade. The selling stockholders may also transfer the common stock by gift. We do not know of any arrangements by the selling stockholders for the sale of any of the common stock.

The selling stockholders may engage brokers and dealers, and any brokers or dealers may arrange for other brokers or dealers to participate in effecting sales of the common stock. These brokers or dealers may act as principals, or as an agent of a selling stockholder. Broker-dealers may agree with a selling stockholder to sell a specified number of the stocks at a stipulated price per share. If the broker-dealer is unable to sell common stock acting as agent for a selling stockholder, it may purchase as principal any unsold shares at the stipulated price. Broker-dealers who acquire common stock as principals may thereafter resell the shares from time to time in transactions in any stock exchange or automated interdealer quotation system on which the common stock is then listed, at prices and on terms then prevailing at the time of sale, at prices related to the then-current market price or in negotiated transactions. Broker-dealers may use block transactions and sales to and through broker-dealers, including transactions of the nature described above. The selling stockholders may also sell the common stock in accordance with Rule 144 or Rule 144A under the Securities Act, rather than pursuant to this prospectus. In order to comply with the securities laws of some states, if applicable, the shares of common stock may be sold in these jurisdictions only through registered or licensed brokers or dealers.

Broker-dealers may receive commissions or discounts from the selling stockholders (or, if any broker-dealer acts as agent for the purchaser of shares, from the purchaser) in amounts to be negotiated, but, except as set forth in a supplement to this prospectus, in the case of an agency transaction not in excess of a customary brokerage commission in compliance with NASDR Rule 2440; and in the case of a principal transaction a markup or markdown in compliance with NASDR IM-2440.

From time to time, the selling stockholders may pledge, hypothecate or grant a security interest in some or all of the shares owned by them. The pledgees, secured parties or person to whom the shares have been hypothecated will, upon foreclosure in the event of default, be deemed to be selling stockholders. The number of a selling stockholder s shares offered under this prospectus will decrease as and when it takes such actions. The plan of distribution for that selling stockholder s shares will otherwise remain unchanged. In addition, a selling stockholder may, from time to time, sell the shares short, and, in those instances, this prospectus may be delivered in connection with the short sales and

the shares offered under this prospectus may be used to cover short sales.

To the extent required under the Securities Act, the aggregate amount of selling stockholder s shares being offered and the terms of the offering, the names of any agents, brokers, dealers or underwriters, any applicable commission and other material facts with respect to a particular offer will be set forth in an accompanying prospectus supplement or a post-effective amendment to the registration statement of which this prospectus is a part, as

appropriate. Any underwriters, dealers, brokers or agents participating in the distribution of the common stock may receive compensation in the form of underwriting discounts, concessions, commissions or fees from a selling stockholder and/or purchasers of selling stockholder s shares, for whom they may act (which compensation as to a particular broker-dealer might be less than or in excess of customary commissions). Neither we nor the selling stockholders can presently estimate the amount of any such compensation.

The selling stockholders and any underwriters, brokers, dealers or agents that participate in the distribution of the common stock may be deemed to be underwriters within the meaning of the Securities Act, and any discounts, concessions, commissions or fees received by them and any profit on the resale of the securities sold by them may be deemed to be underwriting discounts and commissions. If a selling stockholder is deemed to be an underwriter, the selling stockholder may be subject to certain statutory liabilities including, but not limited to Sections 11, 12 and 17 of the Securities Act and Rule 10b-5 under the Exchange Act. Selling stockholders who are deemed underwriters within the meaning of the Securities Act will be subject to the prospectus delivery requirements of the Securities Act. The SEC staff is of a view that selling stockholders who are registered broker-dealers or affiliates of registered broker-dealers may be underwriters under the Securities Act. We will not pay any compensation or give any discounts or commissions to any underwriter in connection with the securities being offered by this prospectus.

A selling stockholder may enter into hedging transactions with broker-dealers and the broker-dealers may engage in short sales of the common stock in the course of hedging the positions they assume with that selling stockholder, including, without limitation, in connection with distributions of the common stock by those broker-dealers. A selling stockholder may enter into option or other transactions with broker-dealers, who may then resell or otherwise transfer those common stock. A selling stockholder may also loan or pledge the common stock offered hereby to a broker-dealer and the broker-dealer may sell the common stock offered by this prospectus so loaned or upon a default may sell or otherwise transfer the pledged common stock offered by this prospectus.

The selling stockholders and other persons participating in the sale or distribution of the common stock will be subject to applicable provisions of the Exchange Act, and the rules and regulations under the Exchange Act, including Regulation M. This regulation may limit the timing of purchases and sales of any of the common stock by the selling stockholders and any other person. The anti-manipulation rules under the Exchange Act may apply to sales of common stock in the market and to the activities of the selling stockholders and their respective affiliates. Regulation M may restrict the ability of any person engaged in the distribution of the common stock to engage in market-making activities with respect to the particular common stock being distributed for a period of up to five business days before the distribution. These restrictions may affect the marketability of the common stock and the ability of any person or entity to engage in market-making activities with respect to the common stock.

We have agreed to indemnify the selling stockholders and any brokers, dealers and agents who may be deemed to be underwriters, if any, of the common stock offered by this prospectus, against specified liabilities, including liabilities under the Securities Act. The selling stockholders have agreed to indemnify us against specified liabilities.

We have agreed with the selling stockholders to keep this registration statement effective until the earliest date on which (i) all of the shares of common stock have been disposed of pursuant to the prospectus and (ii) all of the shares of common stock are eligible for resale under Rule 144 under the Securities Act

without restrictions as to volume and (iii) with respect to 22,768,250 shares, until two years after the effective date of the registration statement of which this prospectus is part of.

We cannot assure you that the selling stockholders will sell all or any portion of the common stock offered by this prospectus. In addition, we cannot assure you that the selling stockholders will not transfer the shares of our common stock by other means not described in this prospectus.

LEGAL MATTERS

The validity of the common stock will be passed upon by Sichenzia Ross Friedman Ference LLP, New York, New York. Sichenzia Ross Friedman Ference LLP owns an aggregate of 12,000 shares of our common stock.

EXPERTS

The financial statements incorporated by reference in this prospectus have been audited by BDO Seidman, LLP, an independent registered public accounting firm, to the extent and for the periods set forth in their report incorporated herein by reference, and are incorporated herein in reliance upon such report given upon the authority of said firm as experts in auditing and accounting.

PART II

INFORMATION NOT REQUIRED IN THE PROSPECTUS

ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION

The following table sets forth an estimate of the costs and expenses payable by Callisto Pharmaceuticals, Inc. in connection with the offering described in this registration statement. All of the amounts shown are estimates except the Securities and Exchange Commission (SEC) registration fee:

Securities and Exchange Commission Registration Fee	$ 2,524
Accounting Fees and Expenses	6,500
Legal Fees and Expenses	20,000
Miscellaneous	2,976
Total	$ 32,000

ITEM 15. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Callisto Pharmaceuticals, Inc. s Certificate of Incorporation provides that to the fullest extent permitted by the Delaware General Corporation Law, a director of the company shall not be personally liable to the company or its stockholders for monetary damages for breach of fiduciary duty as a director. Under current Delaware law, liability of a director may not be limited (i) for any breach of the director s duty of loyalty to the company or its stockholders, (ii) for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law, and (iii) for any transaction from which the director derives an improper personal benefit.

The effect of the provision of Callisto s Certificate of Incorporation is to eliminate the rights of the company and its stockholders (through stockholders derivative suits on behalf of the company) to recover monetary damages against a director for breach of the fiduciary duty of care as a director (including breaches resulting from negligent or grossly negligent behavior) except in the situations described in clauses (i) through (iii) above. This provision does not limit or eliminate the rights of the company or any stockholder to seek nonmonetary relief such as an injunction or rescission in the event of a breach of a director s duty of care. In addition, Callisto s Certificate of Incorporation provides that the company shall indemnify to the fullest extent permitted by law its directors, officers and employees and any other persons to which Delaware law permits a corporation to provide indemnification against losses incurred by any such person by reason of the fact that such person was acting in such capacity.

Callisto has an insurance policy that insures its directors and officers, within the limits and subject to the limitations of the policy, against certain expenses in connection with the defense of actions, suits or proceedings, and certain liabilities that might be imposed as a result of such actions, suits or proceedings, to which they are parties by reason of being or having been directors or officers.

ITEM 16. EXHIBITS

Exhibit Number	**Description**

5.1	Opinion of Sichenzia Ross Friedman Ference LLP
23.1	Consent of BDO Seidman, LLP
23.2	Consent of Sichenzia Ross Freidman Ference LLP (included in Exhibit 5.1)
24	Power of Attorney (included on Page II-4)

ITEM 17. UNDERTAKINGS

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

Provided, however, that paragraphs (1)(i), (1)(ii) and (1)(iii) do not apply if the Registration Statement is on Form S-3 and if the information required to be included in a post-effective amendment by those paragraphs is contained in reports filed with or furnished to the Commission by the registrant pursuant to section 13 or section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement, or is contained in a form of prospectus filed pursuant to Rule 424(b) that is part of the registration statement.

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) That, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant s annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan s annual report pursuant to Section 15(d) of the

Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

(5) That, for the purpose of determining liability under the Securities Act of 1933 to any purchaser:

(A) Each prospectus filed by a Registrant pursuant to Rule 424(b)(3) shall be deemed to be part of the registration statement as of the date the filed prospectus was deemed part of and included in the registration statement; and

(B) Each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5) or (b)(7) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule 415(a)(1)(i), (vii) or (x) for the purpose of providing the information required by Section 10(a) of the Securities Act of 1933 shall be deemed to be part of and included in the registration statement as of the earlier of the date such form of prospectus is first used after effectiveness or the date of the first contract of sale of securities in the offering described in the prospectus. As provided in Rule 430B, for liability purposes of the issuer and any person that is at that date an underwriter, such date shall be deemed to be a new effective date of the registration statement relating to the securities in the registration statement to which the prospectus relates, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof. *Provided, however*, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such effective date, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such effective date.

(6) That, for the purpose of determining liability of a Registrant under the Securities Act of 1933 to any purchaser in the initial distribution of the securities, each undersigned Registrant undertakes that in a primary offering of securities of an undersigned Registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned Registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of an undersigned Registrant relating to the offering required to be filed pursuant to Rule 424;

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of an undersigned Registrant or used or referred to by an undersigned Registrant;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about an undersigned Registrant or its securities provided by or on behalf of an undersigned Registrant; and

(iv) Any other communication that is an offer in the offering made by an undersigned Registrant to the purchaser.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

SIGNATURES

In accordance with the requirements of the Securities Act of 1933, as amended, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this Form S-3 to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, State of New York, on January 12, 2007.

CALLISTO PHARMACEUTICALS, INC.

By: /s/ Gary S. Jacob
Gary S. Jacob, Ph.D.
Chief Executive Officer

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Gabriele M. Cerrone and Gary S. Jacob, and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Registration Statement, and any subsequent registration statements pursuant to Rule 462 of the Securities Act of 1933 and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that each of said attorney-in-fact or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

In accordance with the requirements of the Securities Act of 1933, as amended, this Form S-3 has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	**Title**	**Date**
/s/ Gary S. Jacob Gary S. Jacob	Chief Executive Officer and Director (Principal Executive Officer)	January 12, 2007
/s/ Bernard Denoyer Bernard Denoyer	Vice President, Finance (Principal Financial and Accounting Officer)	January 12, 2007
/s/ Gabriele M. Cerrone Gabriele M. Cerrone	Chairman of the Board	January 12, 2007
/s/ Christoph Bruening Christoph Bruening	Director	January 12, 2007

/s/ John Brancaccio John P. Brancaccio	Director	January 12, 2007
/s/ Stephen Carter Stephen Carter	Director	January 12, 2007
/s/ Randall K. Johnson Randall K. Johnson	Director	January 12, 2007
/s/ Riccardo Dalla-Favera Riccardo Dalla-Favera	Director	January 12, 2007