ALEXION PHARMACEUTICALS INC
Form 10-Q
July 24, 2009
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2009

OR

¨ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission file number: 0-27756

Alexion Pharmaceuticals, Inc.

(Exact name of registrant as specified in its charter)

Delaware	13-3648318
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

352 Knotter Drive, Cheshire, Connecticut 06410

(Address of principal executive offices) (Zip Code)

203-272-2596

(Registrant's telephone number, including area code)

N/A

(Former name, former address, and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 45 of Regulation S-T (§ 232,404 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.:

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Act) Yes ¨ No x

Common Stock, $0.0001 par value	87,950,219
Class	Outstanding at July 17, 2009

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ALEXION PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(in thousands, except per share amounts)	June 30, 2009	December 31, 2008
Assets		
Current Assets:		
Cash and cash equivalents	$ 145,803	$ 138,012
Trade accounts receivable, net of allowances of $357 and $28 at June 30, 2009 and December 31, 2008, respectively	94,954	74,476
Inventories	45,495	49,821
Deferred tax assets	979	972
Prepaid expenses and other current assets	12,999	13,820
Total current assets	300,230	277,101
Property, plant and equipment, net	155,419	139,885
Intangible assets, net	30,248	32,325
Goodwill, net	19,954	19,954
Restricted cash	1,838	1,699
Deferred tax assets	4,978	3,397
Other assets	2,318	3,190
Total assets	$ 514,985	$ 477,551
Liabilities and Stockholders Equity		
Current Liabilities:		
Accounts payable	$ 9,165	$ 8,655
Accrued expenses	55,392	46,200
Deferred revenue	2,710	1,128
License payable		25,000
Deferred tax liabilities	621	639
Current debt obligations	44,000	2,500
Current portion of capital lease obligations	310	296
Total current liabilities	112,198	84,418
Capital lease obligations, less current portion	44	203
Mortgage loan, less current portion		44,000
Convertible notes	9,918	97,222
Deferred tax liabilities	923	906
Other liabilities	5,455	3,801
Total liabilities	128,538	230,550
Commitments and contingencies (Notes 4 and 5)		
Stockholders Equity:		
Preferred stock, $0.0001 par value; 5,000 shares authorized, no shares issued or outstanding		
Common stock, $0.0001 par value; 145,000 shares authorized; 88,042 and 81,418 shares issued at June 30, 2009 and December 31, 2008, respectively	5	5
Additional paid-in capital	1,059,349	941,439

Treasury stock, at cost, 96 and 57 shares, respectively	(2,676)	(1,260)
Accumulated other comprehensive income (loss)	(5,408)	2,947
Accumulated deficit	(664,823)	(696,130)
Total stockholders equity	386,447	247,001
Total liabilities and stockholders equity	$ 514,985	$ 477,551

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

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ALEXION PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

(in thousands, except per share amounts)	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Revenues:				
Net product sales	$ 92,256	$ 59,559	$ 173,523	$ 105,105
Contract research revenues				95
Total revenues	92,256	59,559	173,523	105,200
Cost of sales	10,313	7,142	20,272	12,606
Operating expenses:				
Research and development	18,288	16,825	37,377	32,434
Selling, general and administrative	42,705	32,907	79,357	62,688
Total operating expenses	60,993	49,732	116,734	95,122
Operating income (loss)	20,950	2,685	36,517	(2,528)
Other income and expense:				
Investment income	184	604	487	1,371
Interest expense	(109)	(736)	(442)	(1,332)
Foreign currency gain (loss)	264	(335)	(129)	368
Debt exchange expense	(3,395)		(3,395)	
Income (loss) before income taxes	17,894	2,218	33,038	(2,121)
Income tax provision (benefit)	1,092	(156)	1,730	(246)
Net income (loss)	$ 16,802	$ 2,374	$ 31,308	$ (1,875)
Net income (loss) per share				
Basic	$ 0.20	$ 0.03	$ 0.38	$ (0.02)
Diluted	$ 0.19	$ 0.03	$ 0.35	$ (0.02)
Shares used in computing net income (loss) per share				
Basic	85,128	75,684	82,948	75,358
Diluted	90,159	78,991	89,975	75,358

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

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands)	Six months ended June 30, 2009	2008
Cash flows from operating activities:		
Net income (loss)	$ 31,308	$ (1,875)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Depreciation and amortization	5,964	3,569
Share-based compensation expense	14,874	11,891
Non-cash debt exchange expense	3,395	
Unrealized foreign currency (gain) loss	(3,115)	1,985
Unrealized loss on forward contracts	472	
Loss on disposal of property, plant and equipment		47
Changes in operating assets and liabilities:		
Accounts receivable	(18,176)	(9,474)
Inventories	4,858	(14,615)
Prepaid expenses and other assets	(10,425)	4,253
Accounts payable and accrued expenses	11,057	5,059
Deferred revenue	2,431	2,057
Net cash flows from operating activities	42,643	2,897
Cash flows from investing activities:		
Proceeds from maturity or sale of marketable securities		8,737
Purchases of property, plant and equipment	(18,325)	(17,079)
Purchase of technology rights	(27,740)	(3,000)
Release of (increase in) restricted cash	(134)	474
Net cash flows from investing activities	(46,199)	(10,868)
Cash flows from financing activities:		
Payments under capital lease obligations	(145)	(134)
Proceeds from revolving credit facility		5,000
Debt issuance costs		(312)
Net proceeds from exercise of employee stock options	10,800	14,098
Net cash flows from financing activities	10,655	18,652
Effect of exchange rate changes on cash	692	99
Net change in cash and cash equivalents	7,791	10,780
Cash and cash equivalents at beginning of period	138,012	95,321
Cash and cash equivalents at end of period	$ 145,803	$ 106,101

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

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ALEXION PHARMACEUTICALS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share amounts)

1. Business

Alexion Pharmaceuticals, Inc. (Alexion or the Company) is a biopharmaceutical company engaged in the discovery, development and delivery of biologic therapeutic products aimed at treating patients with severe and life-threatening disease states, including hematologic, kidney and neurologic diseases, transplant rejection, cancer and autoimmune disorders. Our marketed product Soliris® (eculizumab) is the first and only therapy approved for the treatment of patients with paroxysmal nocturnal hemoglobinuria, or PNH. We were incorporated in 1992 and began commercial sale of Soliris in the United States and Europe in 2007.

2. Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. These accounting principles were applied on a basis consistent with those of the consolidated financial statements contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2008. In our opinion, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary to state fairly our financial position as of June 30, 2009 and the results of our operations and cash flows for the three and six months ended June 30, 2009 and 2008. The December 31, 2008 condensed consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America. These interim financial statements should be read in conjunction with the audited financial statements for the year ended December 31, 2008 included in our Annual Report on Form 10-K. The results of operations for the three and six months ended June 30, 2009 are not necessarily indicative of the results to be expected for the full year.

The financial statements of our subsidiaries with functional currencies other than the U.S. dollar are translated into U.S. dollars using period-end exchange rates for assets and liabilities, historical exchange rates for stockholders equity and weighted average exchange rates for operating results. Translation gains and losses are included in accumulated other comprehensive income in stockholders equity. Foreign currency transaction gains and losses are included in the results of operations in other income (expense).

The accompanying unaudited condensed consolidated financial statements include the accounts of Alexion Pharmaceuticals, Inc. and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

We have reclassified certain amounts for the prior period to conform to the current year presentation.

We have evaluated subsequent events through July 24, 2009. No material subsequent events have occurred since June 30, 2009 that required recognition or disclosure in these financial statements.

3. Revenue

Our principal source of revenue is product sales. We have applied the following principles in recognizing revenue:

We recognize revenue from product sales when persuasive evidence of an arrangement exists, title to product and associated risk of loss has passed to the customer, the price is fixed or determinable, collection from the customer is reasonably assured and we have no further performance obligations. Revenue is recorded upon receipt of the product by the patients health-care provider, which is typically a hospital, physician s office, pharmacy or health care facility. Amounts collected from customers and remitted to governmental authorities, which are primarily comprised of value-added taxes (VAT) in foreign jurisdictions, are presented on a net basis in the Company s statements of operations and do not impact net product sales.

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(in thousands, except per share amounts)

In the United States, our customers are primarily specialty distributors and specialty pharmacies which supply physician office clinics, hospital outpatient clinics, infusion clinics or home health care providers. We also sell Soliris to government agencies. Outside the United States, our customers are primarily hospitals, hospital buying groups, pharmacies, other health care providers and distributors.

Because of the pricing of Soliris, the limited number of patients, the short period from sale of product to patient infusion and the lack of contractual return rights, Soliris customers generally carry limited inventory. We monitor inventory within our distribution channel to determine whether deferral of sales is required. To date, actual refunds and returns have been negligible.

We record estimated rebates payable under governmental programs, including Medicaid and programs in Europe, as a reduction of revenue at the time product sales are recorded. Our calculations related to these rebate accruals require estimates, including estimates of customer mix, to determine which sales will be subject to rebates and the amount of such rebates. We update our estimates and assumptions each period and record any necessary adjustments. Generally, the length of time between product sale and the processing and reporting of the rebates is three to six months. Upon reconciliation of government reporting to our sales records, we revise our estimates of rebates payable, which may have an impact on revenue in the period in which the adjustment was made.

We record distribution and other fees paid to our customers as a reduction of revenue. These costs are typically known at the time of sale, resulting in minimal adjustments subsequent to the period of sale.

We record the effective portion of our cash flow hedges to revenue in the period in which the derivative contract is settled.

4. Royalties

Our cost of sales for the three and six month periods ended June 30, 2009 and 2008 includes royalties to third parties related to the sale and commercial manufacture of Soliris. We estimate our royalty obligations based on existing contractual obligations and our assessment of estimated royalties owed to other third parties. These estimates may be influenced by the outcome of future litigation or other claims, if any, the results of which are uncertain. On a periodic basis and based on specific events such as the outcome of litigation or settlement of claims, we may reassess these estimates, resulting in adjustments to cost of sales.

In December 2008, we entered into a definitive license agreement with PDL BioPharma, Inc. on their Queen patent portfolio relating to the humanization of antibodies for $25,000. The initial payment of $12,500 was paid in January 2009, and the final payment of $12,500 was paid in June 2009. No additional payments are owed by Alexion to PDL under the definitive license agreement for Soliris sales for any indication.

In February 2008, we agreed to purchase certain patents related to complement-inhibition technology from Oklahoma Medical Research Foundation, OMRF, for $10,000. We paid a total of $7,500 in 2008 and a final payment of $2,500 in June 2009.

5. Inventories

Inventories are stated at the lower of cost or estimated realizable value. We determine the cost of inventory using the average cost method.

The following table summarizes the components of our inventories:

	June 30, 2009	December 31, 2008
Raw materials	$ 4,072	$ 3,805

Work-in-process	18,158	27,017
Finished goods	23,265	18,999
	$ 45,495	$ 49,821

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(in thousands, except per share amounts)

We have recorded approximately $8,700 of pre-validation inventory within property, plant and equipment. We will reclassify amounts to inventory in the same period in which we receive regulatory approval and such inventory can be available for commercial sales.

Two third party contractors provide vialing services for Soliris. In July 2009, we became aware that one of the vialers is undergoing regulatory review by the European Medicines Evaluation Agency, or EMEA, to address deficiencies at its facility. The contractor has not been able to confirm to us that it is authorized to release product to any of its customers, including Alexion, for sale in the European Union. We do not believe that this situation, even if resolved adversely, will result in a constraint on our ability to satisfy demand for Soliris supply. We believe we hold sufficient Soliris inventory to satisfy patient needs for commercial and clinical Soliris for the foreseeable future. Further, our second vialer continues to produce Soliris on a routine basis, and we believe they have the capacity to meet our current and future commercial and clinical needs.

If the contractor under review is unable to release certain lots of product to us for sale in the European Union, it may be necessary to dispose of the inventory. The contractor has informed us that it is actively developing a plan to resume manufacturing, release and shipment of product. We have identified all inventory that may be affected by an adverse decision by the EMEA, and we will not vial finished product for sale in the European Union at this facility until the deficiencies are resolved favorably, if ever. We have a total of approximately $11,000 of inventory that has been vialed by the contract manufacturer which could be at risk of disposal or expiry. We continue to evaluate the situation, and at this time we can not estimate whether and to what extent a loss on this inventory is probable.

6. Comprehensive Income (Loss)

The following table summarizes components of our comprehensive income (loss):

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Net income (loss)	$ 16,802	$ 2,374	$ 31,308	$ (1,875)
Defined benefit pension plan activity		(245)		(245)
Unrealized losses on hedge contracts	(9,143)		(8,514)	
Foreign currency translation adjustment	299	112	159	(1,355)
Comprehensive income (loss)	$ 7,958	$ 2,241	$ 22,953	$ (3,475)

7. Exit Activities

In December 2006, we initiated an integration plan with our subsidiary, Alexion Antibody Technologies, Inc., or AAT, to consolidate certain functions and operations, including the termination of all AAT personnel, closure of AAT facilities, and impairment of equipment in that facility. These costs were recognized as liabilities during the year ended December 31, 2006. The following table summarizes the activity recorded during the six months ended June 30, 2009 and 2008:

	Six Months Ended June 30,	
	2009	2008

Accrual balance, beginning of period	$ 596	$ 763
Revision of estimate	58	
Payments and other settlements	(141)	(85)
Accrual balance, end of period	$ 513	$ 678

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We remain obligated for lease payments through 2012. In September 2007, we signed a sub-lease for the AAT facility, which provides for sub-lease payments through the term of the lease, or 2012. The accrual for restructuring activities reflects the present value of lease obligations, reduced by estimated sub-lease income.

8. Debt

In April and May 2009, we issued an aggregate of 5,644 shares of our common stock in exchange for $87,304 principal amount of our 1.375% Convertible Senior Notes due 2012 owned by certain note holders. The issuance of the shares was made solely in exchange of the notes pursuant to an exemption from the registration requirements of the Securities Act of 1933, as amended, under Section 3(a)(9) of such Act. We did not receive any cash proceeds as a result of the exchange, and the notes were retired and cancelled. The note holders received shares from the exchange in excess of the amount that they would have received pursuant to their conversion rights under the notes. In the second quarter of 2009, we recorded a non-cash expense of $3,395 for the fair value of the additional shares over the stated conversion rate. As of June 30, 2009, $9,918 of the convertible notes remains outstanding, and the fair value, based on quoted market prices, was estimated at $25,943.

On June 30, 2009, we amended our mortgage loan agreement to permit the prepayment of the mortgage loan without penalty. The original terms of the mortgage loan permitted prepayment at any time after July 11, 2009, and each prepayment would be subject to a prepayment penalty.

The amendment to the mortgage loan permits prepayment at any time after June 30, 2009 and without penalty if prepaid prior to January 5, 2010, provided no event of default exists. Alexion may prepay the entire mortgage loan at any time prior to January 5, 2010 without penalty. If Alexion does not prepay the entire principal balance on or prior to January 5, 2010, any prepayment made after such date must be accompanied by the prepayment penalty set forth in the mortgage loan agreement. In July 2009, we prepaid $5,000 of the principal balance of the mortgage loan, without penalty, resulting in an outstanding principal balance of $39,000. Because we intend to prepay this loan within the next twelve months, the full amount has been reclassified to current liabilities. As of June 30, 2009, the estimated fair value of the mortgage loan is $45,302.

During the first quarter of 2009, we determined that we were not in compliance with a capital expenditure covenant under our working capital revolving credit facility. In May 2009, our lender agreed to waive noncompliance under the agreement, and we amended the credit agreement to modify such covenants. In the second quarter 2009, we determined that we were not in compliance with a negative covenant relating to investments in subsidiaries. In July 2009, our lender waived non-compliance, and we amended the credit agreement to modify the negative covenant. Other than letters of credit, we did not borrow under this facility during the second quarter of 2009.

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(in thousands, except per share amounts)

9. Earnings (Loss) Per Common Share

Basic earnings per share (EPS) are computed by dividing net income (loss) by the weighted-average number of shares of common stock outstanding. For purposes of calculating diluted EPS, net income (loss) is adjusted for the after-tax amount of interest and deferred financing costs associated with the convertible debt, and the denominator reflects the potential dilution that could occur, if options, unvested restricted stock or other contracts to issue common stock were exercised or converted into common stock, using the treasury stock method, as well as the potential dilution if the remaining convertible notes were converted to common stock.

The following table summarizes the calculation of basic and diluted EPS for the three and six month periods ended June 30, 2009 and 2008:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net income (loss)	$ 16,802	$ 2,374	$ 31,308	$ (1,875)
Effect of dilutive securities:				
Interest expense and debt fee amortization, net of tax, related to our 1.375% convertible senior notes	26		276	
Net income (loss) diluted	16,828	2,374	31,584	(1,875)
Shares used in computing net income (loss) per common share basic	85,128	75,684	82,948	75,358
Effect of dilutive securities:				
Shares issuable upon the assumed conversion of our 1.375% convertible senior notes	2,431		4,307	
Stock options	2,266	2,802	2,362	
Unvested restricted stock	334	505	358	
Dilutive potential common shares	5,031	3,307	7,027	
Shares used in computing net income (loss) per common share diluted	90,159	78,991	89,975	75,358
Net income (loss) per share:				
Basic	$ 0.20	$ 0.03	$ 0.38	$ (0.02)
Diluted	$ 0.19	$ 0.03	$ 0.35	$ (0.02)

The following table represents the potentially dilutive shares excluded from the calculation of EPS for the three and six month periods ended June 30, 2009 and 2008 because their effect is anti-dilutive:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Options to purchase common stock	2,644	1,806	2,463	1,885
Unvested restricted stock	28	9	329	383
Common stock issuable under convertible debt		9,538		9,538

2,672	11,353	2,792	11,806

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share amounts)

10. Derivative Instruments and Hedging Activities

In March 2008, the Financial Accounting Standards Board (FASB) issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 (FAS 161). FAS 161 requires entities to provide enhanced disclosures about how and why the entity uses derivative instruments, how the instruments and related hedged items are accounted for under FAS No. 133, Accounting for Derivative Instruments and Hedging Activities, (FAS 133) and how the instruments and related hedged items affect the financial position, results of operations, and cash flows of the entity. We adopted FAS 161 during the three month period ended March 31, 2009.

FAS 133 establishes accounting and reporting standards for derivative instruments and hedging activities and requires the Company to recognize these as either assets or liabilities on the balance sheet and measure them at fair value. The accounting for gains and losses resulting from changes in fair value is dependent on the use of the derivative and whether it is designated and qualifies for hedge accounting.

All hedging activities are documented at the inception of the hedge and must meet the definition of highly effective in offsetting changes to future cash flows within the meaning of FAS 133 to be a qualifying hedge. The effectiveness of the qualifying hedge contract is assessed quarterly to ensure compliance with FAS 133. We record the fair value of our hedges in other current assets and other current liabilities. Gains or losses resulting from changes in the fair value of qualifying hedges are recorded in other comprehensive income until the forecasted transaction occurs. When the forecasted transaction occurs, the effective amount is reclassified into revenue. Any ineffective portion of the gains or losses resulting from changes in fair value, if any, is reported in other income or other expense.

We operate internationally and, in the normal course of business, are exposed to fluctuations in foreign currency exchange rates. The exposures result from portions of our revenues, as well as the related receivables, and costs that are denominated in currencies other than the U.S. dollar, primarily the Euro, Japanese Yen, Swiss Franc and British Pound. We manage our foreign currency transaction risk within specified guidelines through the use of derivatives. All of our derivative instruments are utilized for risk management purposes, and we do not use derivatives for speculative trading purposes.

We enter into foreign exchange contracts, with durations of up to 18 months, to hedge exposures resulting from portions of our forecasted intercompany revenues that are denominated in currencies other than the U.S. dollar. These hedges are designated as cash flow hedges upon inception. As of June 30, 2009, we have open contracts with notional amounts totaling $122,047 that qualified for hedge accounting.

We enter into foreign exchange contracts, with durations of approximately 30 days, designed to limit the balance sheet exposure of monetary assets and liabilities of our foreign subsidiaries. These derivative instruments do not qualify for hedge accounting under FAS 133; however, gains and losses on these hedge transactions are designed to offset gains and losses on underlying balance sheet exposures. As of June 30, 2009, the notional settlement amount of forward foreign exchange contracts relating to monetary assets and liabilities was $53,742.

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(in thousands, except per share amounts)

The following table summarizes the Company s fair value of outstanding derivatives at June 30, 2009:

	Asset Derivatives 2009		Liability Derivatives 2009	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:				
Foreign exchange contracts	Other current assets	$ 1,111	Accrued expenses	$ 4,733
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	Other current assets	362	Accrued expenses	356
Total Derivatives		**$ 1,473**		**$ 5,089**

The impact on other comprehensive income (OCI) and earnings from foreign exchange contracts that qualified as cash flow hedges, for the three and six months ended June 30, 2009, are as follows:

	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Foreign Exchange Contracts		
Gain (loss) recognized in OCI	$ (9,143)	$ (8,514)
Gain (loss) reclassified from OCI to net product sales (Effective portion)	$ 2,648	$ 6,496
Gain (loss) reclassified from OCI to other income and expense (Ineffective portion)	$ 47	$ 212

Assuming no change in foreign currency rates, $3,449 of the loss recognized in other comprehensive income is expected to be reclassified to revenue over the next twelve months.

We recognized a loss of $3,420 and $6, in other expense, for the three months ended June 30, 2009 and 2008, respectively, and $2,949 and $114, for the six months ended June 30, 2009 and 2008, respectively, associated with the foreign exchange contracts not designated as hedging instruments under FAS 133. These amounts were largely offset by gains in monetary assets and liabilities during this period.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share amounts)

11. Stock-Based Compensation

The following table summarizes the components of stock-based compensation expense in the consolidated statements of operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Research and development	$ 1,817	$ 1,525	$ 4,055	$ 3,152
Selling, general and administrative	5,131	4,479	10,819	8,739
	$ 6,948	$ 6,004	$ 14,874	$ 11,891

The following table summarizes the stock-based compensation capitalized to inventory and fixed assets:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Stock-based compensation expense capitalized to inventory	$ 303	$ 269	$ 569	$ 526
Stock-based compensation expense capitalized to fixed assets	$ 332	$ 401	$ 652	$ 769

12. Fair Value Measurement

The table below presents information about our assets and liabilities that are measured at fair value on a recurring basis as of June 30, 2009 and indicates the fair value hierarchy of the valuation techniques we utilized to determine such fair value.

		Fair Value Measurement at June 30, 2009			
Balance Sheet Classification	Type of Instrument	Total	Level 1	Level 2	Level 3
Cash equivalents	Money market funds	$ 107,070	$	$ 107,070	$
Other assets	Foreign exchange contracts	$ 1,473	$	$ 1,473	$
Accrued expenses	Foreign exchange contracts	$ 5,089	$	$ 5,089	$

As of June 30, 2009, there has not been any impact to the fair value of our derivative liabilities due to our own credit risk. Similarly, there has not been any significant adverse impact to our derivative assets based on our evaluation of our counterparties credit risks.

13. Income Taxes

We maintain a full valuation allowance against substantially all U.S. and certain foreign deferred tax assets where realization of those assets remains uncertain. Accordingly, we have not reported any tax benefit relating to the remaining net operating loss carryforwards (NOLs) and income tax credit carryforwards that will be utilized in future periods in these jurisdictions.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except per share amounts)

We will continue to reassess the valuation allowance, on a quarterly basis, for deferred income tax assets. We would consider reversing a significant portion of the valuation reserve upon assessment of certain factors, including: (i) a demonstration of sustained profitability; and (ii) the support of internal financial forecasts demonstrating the utilization of the NOLs prior to their expiration. If we determine that the reversal of the valuation reserves in these jurisdictions is appropriate, a significant one-time benefit will be recognized in the period of the reversal. Such release of valuation allowance could occur in whole, or part, in the near-term.

During the three and six months ended June 30, 2009, we recorded an income tax provision of $1,092 and $1,730, respectively, compared to an income tax benefit of $156 and $246, for the three and six months ended June 30, 2008. The tax provision for the three and six months ended June 30, 2009 is principally attributable to entities in certain foreign jurisdictions who reported profitability during the period as well as U.S. federal alternative minimum tax and certain state income taxes. The income tax benefit for the three and six months ended June 30, 2008 is attributable to the exchange of research tax credits for cash and the reversal of the valuation allowance against the deferred tax assets of one our foreign subsidiaries.

14. Employee Benefit Plans

Defined Contribution Plans

We have two qualified 401(k) plans covering all eligible U.S. employees. Under the plans, employees may contribute up to the statutory allowable amount for any calendar year. For the three months ended June 30, 2009 and 2008, we recorded matching contributions of approximately $344 and $294, respectively. For the six months ended June 30, 2009 and 2008, we recorded matching contributions of approximately $850 and $733, respectively.

Defined Benefit Plan

We maintain a defined benefit plan for employees in Switzerland. The assets of the funded plan are held independently of our assets in a legally distinct and independent collective trust fund which serves various unrelated employers. Annually, the plan is valued by independent actuaries using the projected unit credit method. The liabilities correspond to the projected benefit obligations of which the discounted net present value is calculated based on years of employment, expected salary increases, and pension adjustments. For the three months ended June 30, 2009 and 2008, we recorded net periodic benefit costs of $67 and $41, respectively. For the six months ended June 30, 2009 and 2008, we recorded net periodic benefit costs of $132 and $81 respectively.

15. Recently Issued Accounting Pronouncements

In May 2009, the FASB issued Statement No. 165, Subsequent Events (FAS 165), which establishes general standards of accounting for, and requires disclosure of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. We adopted the provisions of FAS 165 for the quarter ended June 30, 2009. The adoption of FAS 165 did not have a material effect on our consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162 (SFAS 168). SFAS 168 replaces SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles and establishes the FASB Accounting Standard Codification (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles in the United States. All guidance contained in the Codification carries an equal level of authority. On the effective date of SFAS 168, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. SFAS 168 is effective for

financial statements issued for interim and annual periods ending after September 15, 2009. We have evaluated this new statement, and have determined that it will not have a significant impact on the determination or reporting of our financial results.

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

Note Regarding Forward-Looking Statements

This quarterly report on Form 10-Q contains forward-looking statements that have been made pursuant to the provisions of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are based on current expectations, estimates and projections about our industry, management s beliefs and certain assumptions made by our management, and may include, but are not limited to, statements regarding the potential benefits and commercial potential of Soliris® (eculizumab), for its approved indications and any future indications, timing and effect of sales of Soliris in various markets worldwide, level of future Soliris sales and collections, costs, expenses and capital requirements, cash outflows, cash from operations, impact of interest rate changes on our outstanding obligations, status of reimbursement, price approval and funding processes in various countries worldwide, progress in developing commercial infrastructure and interest about Soliris in the patient, physician and payor communities, the safety and efficacy of Soliris and our product candidates, estimates of the potential markets and estimated commercialization dates for Soliris around the world, sales and marketing plans, any changes in the current or anticipated market demand or medical need for Soliris, potential clinical trials of our product candidates for new indications, status of our ongoing clinical trials, commencement dates for new clinical trials, evaluation of our clinical trial results by regulatory agencies in other countries, prospects for regulatory approval in other countries, the need for additional research and testing, the uncertainties involved in the drug development process and manufacturing, our future research and development activities, assessment of competitors and potential competitors, estimates of the capacity and ability of Alexion and third parties to provide manufacturing, product finishing, vial filling, packaging and other services to support Soliris and our product candidates, assessment of our ability to satisfy customer demand for Soliris if the inventory held by our finished vial contractor is not released for sale, costs relating to the validation process at the Rhode Island facility, timing for submission of sBLA for commercial production of eculizumab at the Rhode Island facility, potential costs resulting from product liability or other third party claims, the sufficiency of our existing capital resources and projected cash needs, assessment of impact of recent accounting pronouncements, and the effect of shifting currency exchange rates. Words such as anticipates, expects, intends, plans, believes, seeks, estimates, variations of such w similar expressions are intended to identify such forward-looking statements, although not all forward-looking statements contain these identifying words. These statements are not guarantees of future performance and are subject to certain risks, uncertainties, and assumptions that are difficult to predict; therefore, actual results may differ materially from those expressed or forecasted in any such forward-looking statements. Such risks and uncertainties include, but are not limited to, those discussed later in this report under the section entitled Risk Factors. Unless required by law, we undertake no obligation to update publicly any forward-looking statements, whether because of new information, future events or otherwise. However, readers should carefully review the risk factors set forth in other reports or documents we file from time to time with the Securities and Exchange Commission.

Business

Overview

We are a biopharmaceutical company engaged in the discovery, development and delivery of biologic therapeutic products aimed at treating patients with severe and life-threatening disease states, including hematologic, kidney and neurologic diseases, transplant rejection, cancer and autoimmune disorders. Our marketed product Soliris® (eculizumab) is the first and only therapy approved for the treatment of patients with paroxysmal nocturnal hemoglobinuria, or PNH.

Soliris is designed to inhibit a specific aspect of the complement component of the immune system and thereby treat inflammation associated with chronic hematologic, kidney and neurological disorders, transplant rejection, and autoimmune disorders. Soliris is a humanized monoclonal antibody that generally blocks complement activity for one to two weeks after a single dose at the doses currently prescribed. The initial indication for which we received approval for Soliris is PNH. PNH is a rare, debilitating and life-threatening, acquired genetic deficiency blood disorder defined by the destruction of red blood cells, or hemolysis. The chronic hemolysis in patients with

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PNH may be associated with life-threatening thromboses, recurrent pain, kidney disease, disabling fatigue, impaired quality of life, severe anemia, pulmonary hypertension, shortness of breath and intermittent episodes of dark-colored urine (hemoglobinuria).

In March 2007, the Food and Drug Administration, or FDA, granted marketing approval for Soliris. In the United States, Soliris is indicated for the treatment of all patients with PNH to reduce hemolysis. We began commercial sale of Soliris in the United States during April 2007.

In June 2007, the European Commission, or E.C., approved the use of Soliris for patients with PNH in the European Union, which also serves as the basis for approval in Iceland and Norway. Subsequently, we engaged with appropriate authorities on the operational, reimbursement, price approval and funding processes that are separately required in each country and have initiated commercialization in those countries where this process was completed.

We were granted marketing approval in Canada in January 2009 and Australia in February 2009 for the use of Soliris for patients with PNH.

In January 2009, the Ministry of Health, Labour and Welfare of Japan designated Soliris as an orphan drug. Among other things, this designation will provide us, if Soliris is approved for marketing and sale in Japan, with 10 years of market exclusivity for Soliris as a treatment for patients with PNH in Japan, subject to limited exceptions. In March 2009, we submitted a New Drug Application for Soliris as a treatment for PNH patients to Japan s Pharmaceuticals and Medical Devices Agency.

Clinical

We are also focusing our research efforts on the use of eculizumab as a treatment for patients with other rare and severe complement-mediated conditions, including chronic hemolytic and thrombotic disorders, kidney diseases, transplant rejection and chronic and debilitating neurological disorders. The FDA authorized our Investigational New Drug Application, or IND, for studying the safety and efficacy of eculizumab in treating myasthenia gravis, a rare autoimmune syndrome characterized by the failure of neuromuscular transmission, and we commenced clinical development in 2008. We are currently engaged in clinical programs to investigate the use of eculizumab as a treatment for patients with other complement-mediated disorders, including atypical Hemolytic Uremic Syndrome, or aHUS, a disease in which the lack of naturally occurring complement inhibitors can cause life-threatening kidney damage. We are also considering clinical development of eculizumab for cold agglutinin disease, an ultra-rare auto-immune hemolytic anemia. The program for aHUS was initiated in January 2009. Also, we completed a phase I/II proof of concept study of IV eculizumab in allergic asthmatic patients in the fourth quarter of 2008.

We are aware that investigator-initiated trials of eculizumab are ongoing in patients with multifocal motor neuropathy, a severe autoimmune neurologic disorder and dense deposit disease, a severe kidney disease. We are also aware that independent investigators are evaluating eculizumab in high risk kidney transplant patients. We are considering expansion of development efforts to include investigation of eculizumab as a treatment for patients undergoing transplantation of other organs.

The FDA has also authorized our IND to evaluate the activity of an antibody to the immune regulator CD200 in patients with chronic lymphocytic leukemia, or CLL, an incurable chronic cancer that results from expansion of B-lymphocytes. We continue dosing of CLL patients with anti-CD200.

Manufacturing

We currently rely on a single third-party contract manufacturer for commercial quantities of Soliris. We obtain drug product to meet our requirements for clinical studies using both internal and third-party contract manufacturing capabilities. For both clinical and commercial requirements, we have contracted and expect to continue contracting for product finishing, vial filling and packaging through third parties.

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In July 2006, we acquired a manufacturing plant in Smithfield, Rhode Island for the future commercial production of Soliris and manufacturing development and manufacturing of future products. We have completed production of eculizumab for process validation purposes and are in the process of compiling a supplemental BLA for commercial production of eculizumab at this facility. We expect to submit the supplemental BLA during the third quarter 2009. We also commenced the use of our Rhode Island facility for the production and purification of certain of our product candidates for clinical studies.

Our most significant agreement with a third party manufacturer is the large-scale product supply agreement with Lonza Sales AG, or Lonza, dated December 18, 2002, which has been amended from time to time. This agreement, the Lonza Agreement, relates to the manufacture of eculizumab. An amendment to the Lonza Agreement, dated June 8, 2007, provides for additional production and minimum quantity purchase commitments of Soliris of $30,000 to $35,000 from 2009 through 2013. Such commitments may be cancelled only in limited circumstances. If we terminate the Lonza Agreement without cause, we will be required to pay for product scheduled for manufacture under our arrangement. Under an existing arrangement with Lonza, we expect to pay Lonza a royalty on net sales of Soliris manufactured at our Rhode Island facility.

Two third party contractors provide vialing services for Soliris. In July 2009, we became aware that one of the vialers is undergoing regulatory review by the European Medicines Evaluation Agency, or EMEA, to address deficiencies at its facility. The contractor has not been able to confirm to us that it is authorized to release product to any of its customers, including Alexion, for sale in the European Union. We do not believe that this situation, even if resolved adversely, will result in a constraint on our ability to satisfy demand for Soliris supply. We believe we hold sufficient Soliris inventory to satisfy patient needs for commercial and clinical Soliris for the foreseeable future. Further, our second vialer continues to produce Soliris on a routine basis, and we believe they have the capacity to meet our current and future commercial and clinical needs.

If the contractor under review is unable to release certain lots of product to us for sale in the European Union, it may be necessary to dispose of the inventory. The contractor has informed us that it is actively developing a plan to resume manufacturing, release and shipment of product. We have identified all inventory that may be affected by an adverse decision by the EMEA, and we will not vial finished product for sale in the European Union at this facility until the deficiencies are resolved favorably, if ever. We have a total of approximately $11,000 of inventory that has been vialed by the contract manufacturer which could be at risk of disposal or expiry. We continue to evaluate the situation, and at this time we can not estimate whether and to what extent a loss on this inventory is probable.

Other Events

In April and May 2009, we issued an aggregate of 5,644 shares of our common stock in exchange for $87,304 principal amount of our 1.375% Convertible Senior Notes due 2012 owned by certain note holders. The issuance of the shares was made solely in exchange of the notes pursuant to an exemption from the registration requirements of the Securities Act of 1933, as amended, under Section 3(a)(9) of such Act. We did not receive any cash proceeds as a result of the exchange, and the notes were retired and cancelled. The note holders received shares from the exchange in excess of the amount that they would have received pursuant to their conversion rights under the notes. In the second quarter of 2009, we recorded a non-cash expense of $3,395 for the fair value of the additional shares over the stated conversion rate. As of June 30, 2009, $9,918 of the principal amount of convertible notes remains outstanding.

On June 30, 2009, we amended our mortgage loan agreement to permit the prepayment of the mortgage loan without penalty. The original terms of the mortgage loan permitted prepayment at any time after July 11, 2009, and each prepayment would be subject to a prepayment penalty.

The amendment to the mortgage loan permits prepayment at any time after June 30, 2009 and without penalty if prepaid prior to January 5, 2010, provided no event of default exists. As described in the amendment, Alexion expects to prepay $5,000 in principal on the first business day of each month, commencing July 1, 2009 through December 1, 2009, and make a final payment of $14,000 on or prior to January 5, 2010. Alexion may

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prepay the entire mortgage loan at any time prior to January 5, 2010 without penalty. If Alexion does not prepay the entire principal balance on or prior to January 5, 2010, any prepayment made after such date must be accompanied by the prepayment penalty set forth in the mortgage loan agreement. In July 2009, we prepaid $5,000 of the principal balance of the mortgage loan, without penalty, resulting in an outstanding principal balance of $39,000. Because we intend to prepay this loan within the next twelve months, the full amount has been reclassified to current liabilities.

Critical Accounting Policies and the Use of Estimates

The significant accounting policies and basis of preparation of our consolidated financial statements are described in Note 1, Business Overview and Summary of Significant Accounting Policies of our financial statements included in our Form 10-K for the year ended December 31, 2008. Under accounting principles generally accepted in the United States, we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and disclosure of contingent assets and liabilities in our financial statements. We base our assumptions, judgments and estimates on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results could differ from those estimates.

We believe the judgments, estimates and assumptions associated with the following critical accounting policies have the greatest potential impact on our consolidated financial statements, so we consider these to be our critical accounting policies:

- Revenue recognition
- Royalties
- Inventories
- Research and development expenses
- Stock-based compensation
- Long-lived assets
- Income taxes

For a complete discussion of these critical accounting policies, refer to Critical Accounting Policies and Use of Estimates within Item 7 - Management s Discussion and Analysis of Financial Condition and Results of Operations included within our Form 10-K for the year ended December 31, 2008. We have reviewed our critical accounting policies as disclosed in our Form 10-K, and we have not noted any material changes.

Results of Operations

Revenues

Net product sales

The following table summarizes product revenue for the three and six month periods ended June 30, 2009 and 2008:

	Three months ended June 30,		Increase / (Decrease)	Six months ended June 30,		Increase / (Decrease)
	2009	2008	$ Change	2009	2008	$ Change
Net product sales	$ 92,256	$ 59,559	$ 32,697	$ 173,523	$ 105,105	$ 68,418

The increase in revenue for the three and six month periods ended June 30, 2009, as compared to the same period in 2008, was due to an increased number of patients treated with Soliris. The increase in treated patients was due to additional patients and physicians requesting Soliris therapy, as well as reimbursement and price approvals in additional countries.

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Cost of sales

Cost of sales was $10,313 and $7,142, for the three months ended June 30, 2009 and 2008, respectively and $20,272 and $12,606, for the six months ended June 30, 2009 and 2008, respectively. Cost of sales as a percentage of net product revenue was 11.2% and 12.0% for the three months ended June 30, 2009 and 2008 and 11.7% and 12.0% for the six months ended June 30, 2009 and 2008, respectively. Cost of sales includes manufacturing costs, as well as royalty expenses associated with sales of Soliris.

On a periodic basis and based on events such as the outcome of litigation, we may reassess the estimates of royalties owed to certain third parties. Changes in these estimates could have a material impact on our cost of sales in future periods.

Research and Development

Our research and development expense includes personnel, facility and external costs associated with the research and development of our product candidates, as well as product development costs.

We group our research and development expenses into two major categories: external direct expenses and all other R&D expenses.

External direct expenses are comprised of costs paid to outside parties for clinical development, product development and discovery research. Clinical development costs are comprised of costs to conduct and manage clinical trials related to Soliris and other product candidates. Product development costs, which historically relate primarily to Soliris, are those incurred in performing duties related to pre- and post-approval manufacturing development and regulatory functions. Discovery research costs are incurred in conducting laboratory studies and performing preclinical research for other uses of Soliris and other product candidates. Clinical development costs have been accumulated and allocated to each of our programs, while product development and discovery research costs have not been allocated.

All other R&D expenses consist of costs to compensate personnel, to maintain our facility, equipment and overhead and similar costs of our research and development efforts. These costs relate to efforts on our clinical and preclinical products as well as our discovery research efforts. These costs have not been allocated directly to each program.

The following table provides information regarding research and development expenses:

	Three months ended June 30,		$	Six months ended June 30,		$
	2009	2008	Variance	2009	2008	Variance
Clinical development	$ 5,255	$ 6,581	$ (1,326)	$ 10,430	$ 11,632	$ (1,202)
Product development	2,169	2,090	79	4,649	3,677	972
Discovery research	452	287	165	736	564	172
Total external direct expenses	**7,876**	**8,958**	**(1,082)**	**15,815**	**15,873**	**(58)**
Payroll and benefits	8,309	6,083	2,226	17,244	12,922	4,322
Operating and occupancy	1,190	961	229	2,506	1,990	516
Depreciation and amortization	913	823	90	1,812	1,649	163
Total other R&D expenses	**10,412**	**7,867**	**2,545**	**21,562**	**16,561**	**5,001**
Research and development expense	**$ 18,288**	**$ 16,825**	**$ 1,463**	**$ 37,377**	**$ 32,434**	**$ 4,943**

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For the three months ended June 30, 2009, the increase in research and development expense of $1,463, as compared to the same period in the prior year, was primarily related to the following:

Increase of $2,226 in research and development payroll and benefit expense related primarily to product development activities at our production facility in Smithfield RI.

Decrease of $1,326 in non-labor clinical development related primarily to $2,947 in decreased spending on our Soliris for PNH program, offset by a $1,654 increase in spending for other indications for Soliris (see table below).

For the six months ended June 30, 2009, the increase in research and development expense of $4,944, as compared to the same period in the prior year, was primarily related to the following:

Increase of $4,322 in research and development payroll and benefit expense related primarily to product development activities at our production facility in Smithfield RI.

Increase of $972 in non-labor product development related primarily to increases in manufacturing development activities at our production facility in Smithfield RI.

Decrease of $1,202 in non-labor clinical development primarily due to $4,306 in decreased spending on our Soliris for PNH program, offset by a $3,343 increase in spending for other indications for Soliris (see table below).

The following table summarizes external direct expenses related to our clinical development programs:

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
External direct expenses				
Soliris: PNH program	$ 1,869	$ 4,816	$ 3,996	$ 8,302
Soliris: non-PNH programs	2,114	460	4,308	965
CD200 program	303	289	584	349
Unallocated	969	1,016	1,542	2,016
	$ 5,255	**$ 6,581**	**$ 10,430**	**$ 11,632**

At this time, due to the risks inherent in the clinical trial process and given the early stages of our various product development programs, we are unable to estimate with any certainty the costs we will incur in the continued development of our programs for potential commercialization. While we are focused on advancing each of our product development programs, our future R&D expenses will depend on the determinations we make as to the scientific and clinical success of each program, as well as ongoing assessments as to program s commercial potential. As such, we are unable to predict how we will allocate available resources among our product development programs in the future.

The successful development of our drug candidates is uncertain and subject to a number of risks. A large portion of our annual expenses relates to commercialization of Soliris and general and administrative costs. We may not have or be able to raise the necessary capital to support both the commercialization of Soliris as well as each of our development programs through and until commercialization. Further, we cannot guarantee that results of clinical trials will be favorable or sufficient to support regulatory approvals for our other programs. We could decide to abandon development or be required to spend considerable resources not otherwise contemplated. For additional discussion regarding the risks and uncertainties regarding our development programs, please refer to the Risk Factors

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in this Form 10-Q, including the risk factors set forth under the headings, If we fail to obtain the capital necessary to fund our operations, we will be unable to continue the commercialization of Soliris or continue to complete our product development , None of our product candidates except for Soliris has received regulatory approvals , Completion of preclinical studies or clinical trials does not guarantee advancement to the next phase of development and There are many reasons why drug testing could be delayed or terminated .

Selling, General and Administrative Expenses

Our selling, general and administrative expense includes commercial and administrative personnel, corporate facility and external costs required to support the marketing and sales of our commercialized products. These selling, general and administrative costs include: corporate facility operating expenses and depreciation; marketing and sales operations in support of Soliris; human resources; finance, legal, information technology and support personnel expenses; and other corporate costs such as telecommunications, insurance, audit and legal expenses.

The table below provides information regarding selling, general and administrative expenses:

	Three months ended June 30,		$	Six months ended June 30,		$
	2009	2008	Variance	2009	2008	Variance
Selling, general and administrative expense	$ 42,705	$ 32,907	$ 9,798	$ 79,357	$ 62,688	$ 16,669

For the three months ended June 30, 2009, the increase of $9,798 in selling, general and administrative expense, as compared to the same period in the prior year, was primarily related to the following:

Increase in salary, benefits and other labor expenses of $4,710 including increased share-based compensation cost of $652. The increases in these costs were a result of increased headcount related to commercial development activities, including increases in payroll and benefits costs related to our global commercial teams of $2,978. This increase was also due to increases in payroll and benefits of $1,732 within other operational groups to support our worldwide growth.

Increase in non-labor selling, general and administrative expenses of $4,661 was due primarily to increases in marketing and consulting services of $2,491, travel costs of approximately $1,046 and occupancy and depreciation expenses of $1,027 relating to new and expanded office space in Europe, Canada and Australia.

For the six months ended June 30, 2009, the increase of $16,669 in selling, general and administrative expense, as compared to the same period in the prior year, was primarily related to the following:

Increase in salary, benefits and other labor expenses of $9,221 including increased share-based compensation cost of $2,080. The increases in these costs were a result of increased headcount related to commercial development activities, including increases in payroll and benefits costs related to our global commercial teams of $5,634. This increase was also due to increases in payroll and benefits of $3,560, within other operational groups to support our worldwide growth.

Increase in non-labor selling, general and administrative expenses of $6,673 was due primarily to increases in marketing and consulting services of $3,073, travel costs of $1,328 and occupancy and depreciation expenses of $2,184 relating to new and expanded office space in

Europe, Canada and Australia.

Other Income and Expense

We recognize investment income primarily from our portfolio of cash equivalents and short-term marketable securities. Investment income was $184 and $604, for the three months ended, and $487 and $1,371, for the six months ended, June 30, 2009 and 2008, respectively. The decrease was due to lower interest rates during the three and six month periods ended June 30, 2009, as compared to the same period in the prior year.

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We incur interest on our convertible notes, mortgage debt, revolving credit facility, and other debt and capital lease obligations. Our interest expense is net of capitalized interest related to the construction and validation of our Rhode Island manufacturing facility, of $1,154 and $1,092 for the three months ended, and $2,356 and $2,288 for the six months ended, June 30, 2009 and 2008, respectively. Interest expense was $109 and $736, for the three months ended, and $442 and $1,332, for the six months ended, June 30, 2009 and 2008, respectively. The decrease in interest expense was due to the lower principal balance of our convertible notes as a result of the note conversion in October 2008 and exchange in April and May 2009.

Foreign currency transaction gains and losses relate to changes in the fair value of monetary assets and liabilities of our foreign operations. The foreign currency transaction gains (losses) totaled $264 and $(335), for the three months ended, and $(129) and $368, for the six months ended, June 30, 2009 and 2008, respectively. The gain (loss) recorded in these periods was primarily a result of the fluctuation in exchange rates on the portion of our monetary assets and liabilities that were not fully hedged.

We recorded $3,395 of non-cash debt exchange expense in the three month period ended June 30, 2009 relating to the exchange of 5,644 shares for $87,304 principal amount of our 1.375% Convertible Senior Notes. The expense was recorded based on the fair value of the additional shares provided to the noteholders over the stated conversion rate.

Income Taxes

During the three and six months ended June 30, 2009, we recorded an income tax provision of $1,092 and $1,730, respectively, compared to an income tax benefit of $156 and $246, for the three and six months ended June 30, 2008. The tax provision for the three and six months ended June 30, 2009 is principally attributable to entities in certain foreign jurisdictions who reported profitability during the period as well as U.S. federal alternative minimum tax and certain state income taxes. The income tax benefit for the three and six months ended June 30, 2008 is attributable to the exchange of research tax credits for cash and the reversal of the valuation allowance against the deferred tax assets of one our foreign subsidiaries.

The Company maintains a valuation allowance against certain U.S. and foreign deferred tax assets as realizability of those assets is uncertain. We will continue to reassess the valuation allowance, on a quarterly basis, for deferred income tax assets. We would consider reversing a significant portion of the valuation reserve upon assessment of certain factors, including: (i) a demonstration of sustained profitability; and (ii) the support of internal financial forecasts demonstrating the utilization of the NOLs prior to their expiration. We may release the valuation in the next 2 to 3 quarters; however, the exact timing and the portion of the valuation allowance released are subject to change based on the level of profitability that we are able to achieve during this period, as well as our forecasted profitability. If we determine that the reversal of the valuation reserves in these jurisdictions is appropriate, a significant one-time benefit will be recognized in the period of the reversal, resulting in a significant increase in our reported net income during this period. Because we expect our recorded tax rate to increase in subsequent periods following a significant release of the valuation allowance, our net income will be negatively affected in the period following the release, even though there is no impact on the amount of cash paid for income taxes.

Net Income (Loss)

The Company recorded net income of $16,802 or $0.19 per diluted share and $2,374 or $0.03 per diluted share for the three months ended June 30, 2009 and 2008, respectively. The Company recorded net income of $31,308 or $0.35 per diluted share and a net loss of $1,875 or $0.02 per diluted share for the six months ended June 30, 2009 and 2008, respectively.

Liquidity and Capital Resources

As of June 30, 2009, our consolidated cash and cash equivalents totaled $145,803. The $7,791 increase from December 31, 2008 is primarily related to increased sales and the resulting collection of

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accounts receivable and proceeds from employee option exercises, offset by investments in our Smithfield, Rhode Island facility, $27,500 in final payments related to technology rights and payment of year-end accruals. Until required for use in the business, we invest our cash reserves in highly-rated money market funds and high quality commercial, corporate and U.S. Government notes in accordance with our investment policy. We do not have any investments in auction rate securities or collateralized debt obligations.

Financial instruments that potentially expose the Company to concentrations of credit risk are limited to cash equivalents, accounts receivable and our foreign exchange derivative contracts. Substantially all cash equivalents are currently held in a single AAA rated institutional money market fund that participates in the U.S. Department of Treasury s Temporary Guarantee Program for money market funds. At June 30, 2009, one individual customer accounted for 18.8% of the accounts receivable balance. At June 30, 2008, two individual customers accounted for 24.9% and 22.5% of the accounts receivable balance.

For the three and six month period ended June 30, 2009, one customer accounted for 19.2% and 19.8% of our product sales, respectively. For the three and six month period ended June 30, 2008, one customer accounted for 23.0% and 22.8% of our product sales, respectively.

At June 30, 2009, we have foreign currency forward contracts with notional amounts totaling $175,789. These outstanding foreign currency forward contracts had a net cumulative loss of $3,616. The counterparty to these forward contracts is a large multinational commercial bank, and we believe the risk of nonperformance is not material. However, we can not be assured that the financial institution will not be further impacted by the negative economic environment.

At June 30, 2009, our working capital was $188,032, compared to $192,683 at December 31, 2008. At June 30, 2009, our current ratio was 2.68, compared to 3.28 at December 31, 2008. The decrease in current ratio relates primarily to the reclassification of the $44,000 mortgage loan from noncurrent to current liabilities due to our intent to prepay the full amount in the next 12 months.

We anticipate that cash generated from operations and our existing available cash, as well as interest and investment income earned on available cash and marketable securities, should provide us adequate resources to fund our operating expenses and capital requirements as currently planned for at least the next twelve months.

Operating Activities

Net cash provided by operating activities was $42,643 and $2,897 for the six months ended June 30, 2009 and 2008, respectively. The change is primarily due to the net income achieved in 2009 versus the net loss achieved in the same period in 2008. The components of cash provided by operating activities for the six months ended June 30, 2009 are as follows:

Our reported net income, adjusted for non-cash items, including depreciation and amortization, non-cash debt exchange expense, unrealized currency gain, unrealized hedge gains and stock compensation, of $52,898.

Net cash outflow due to changes in operating assets and liabilities of $10,255, primarily relates to increases in accounts receivable and prepaid expenses and other assets of $18,176 and $10,425, respectively, offset by an $11,057 increase in accounts payable and accrued expenses.

During 2009, we expect changes in cash from operations to be highly dependent on sales levels, and the related cash collections, from Soliris. In addition, we expect that cash outflows related to the changes in operating assets will continue to increase related to sales and resulting accounts receivable increases. In the second half of 2009, we also expect to purchase additional inventory from our third party contract manufacturer.

Investing Activities

Net cash used in investing activities was $46,199 and $10,868 for the six months ended June 30, 2009 and 2008, respectively. For the six months ended June 30, 2009, the net cash used for investing activities consisted of the following:

Additions to property, plant and equipment of $18,325, of which $13,249 was attributable to expenditures related to our Rhode Island manufacturing facility, with the remaining attributable to spending on information technology and facility capital costs.

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Payments of $25,000 and $2,500 related to the final payment for the PDL settlement and OMRF patent purchase agreement, respectively.

In July 2006, we acquired a manufacturing plant in Smithfield, Rhode Island for the future commercial production of Soliris, for manufacturing development and for manufacturing of future products. Since this date, we have incurred costs related to the construction of the plant to support full-scale commercial manufacturing. We have also capitalized costs related to validation activities, including engineering runs, necessary to obtain approval of the facility from government regulators for the production of a commercially approved drug. To date, these costs primarily include direct labor, materials, overhead and pre-validation inventory related to the facility. We will begin depreciating the fixed assets related to the facility when the assets are substantially complete and ready for their intended use, which would occur upon the regulatory approval of the plant for production of commercial quantities of eculizumab.

Through June 30, 2009, we have capitalized $129,624 related to the facility, which includes all costs associated with construction, renovation and upgrades, engineering runs and capitalized interest. Through June 30, 2009, costs incurred in seeking regulatory approval, including engineering runs, was $53,319, and capitalized interest was $11,401. We expect to continue to incur costs related to the validation process through the end of 2009. At such point that we receive regulatory approval, we would cease capitalizing costs into property, plant and equipment.

Financing Activities

Net cash provided by financing activities was $10,655 and $18,652 for the six months ended June 30, 2009 and 2008, respectively. These amounts consisted primarily of proceeds from the issuance of common stock related to the exercise of stock options.

Borrowings and Contractual Obligations

The disclosure of payments we have committed to make under our contractual obligations are summarized in Form 10-K for the twelve-month period ended December 31, 2008, in the section titled Management s Discussion and Analysis of Financial Condition and Results of Operations under the caption Contractual Obligations. Other than the note exchanges and intended prepayment of our mortgage loan described below, there have been no material changes in our contractual obligations.

Significant borrowings and contractual obligations include the following:

Revolving Credit Facility

In February 2008, we entered into a Credit Agreement with a financial institution to provide for an available $25,000 revolving credit facility that can be used for working capital requirements and other general corporate purposes. The loan is collateralized by substantially all of Alexion Pharmaceuticals, Inc. s assets, including the pledge of the equity interests of certain direct subsidiaries, but excluding intellectual property, assets of foreign subsidiaries and assets related to our manufacturing facility in Smithfield, RI. The borrowing base is limited to the lesser of $25,000 or 80% of eligible domestic receivables. Other than letters of credit, at June 30, 2009, we had no outstanding borrowings under the revolving credit facility.

We may elect that the loans under the agreement bear interest at a rate per annum equal to (i) LIBOR plus 1.75% to 2.25% depending on Alexion s liquidity (as calculated in accordance with the agreement), or (ii) a Base Rate equal to the higher of the (A) Prime Rate then in effect and (B) the Federal Funds Rate then in effect plus 0.50%, plus an additional 0% to 0.25% depending on Alexion s liquidity. Interest is payable quarterly for Base Rate loans and, in the case of LIBOR-based loans, at the end of the applicable interest period, with the principal due on February 28, 2011, the maturity date.

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The revolving credit facility requires that we comply with quarterly financial covenants related to liquidity and profitability ratios, as well as minimum revenue requirements. Further, the agreement includes negative covenants, subject to exceptions, restricting or limiting our ability and the ability of our subsidiaries to, among other things, incur additional indebtedness, grant liens, engage in certain investment, acquisition and disposition transactions, and enter into transactions with affiliates. The agreement also contains customary representations and warranties, affirmative covenants and events of default, including payment defaults, breach of representations and warranties, covenant defaults and cross defaults. If an event of default occurs, the interest rate would increase and the administrative agent would be entitled to take various actions, including the acceleration of amounts due under the loan.

During the first quarter 2009, we determined that we were not in compliance with a capital expenditure covenant under our working capital revolving credit facility. In May 2009, our lender waived noncompliance, and we amended the credit agreement to modify the covenant. In the second quarter 2009, we determined that we were not in compliance with a negative covenant related to investments in our subsidiaries and intercompany balances. In July 2009, our lender waived noncompliance, and we amended the agreement to modify the negative covenant. Other than letters of credit, we did not borrow under this facility during the first half of 2009.

OMRF Obligation

In February 2008, we agreed to purchase certain patents related to complement-inhibition technology from Oklahoma Medical Research Foundation, or OMRF. We agreed to pay a total of $10,000, plus interest, to OMRF for the rights to the patents. We made payments of $3,000 in February 2008, $4,500 in December 2008 and $2,500 in June 2009. Interest accrued on the unpaid amount at the rate of 50% of the sum of the prime rate plus 1%, per annum.

PDL Obligation

In December 2008, we entered into a definitive license agreement with PDL BioPharma, Inc. for certain claims on its Queen patent portfolio relating to the humanization of antibodies for $25,000. The initial payment of $12,500 was paid in January 2009, with the final payment of $12,500 paid in May 2009. No additional payments are owed by Alexion to PDL under the definitive license agreement in respect of Soliris sales for any indication.

Convertible Notes

As of June 30, 2009, we held $9,918 principal amount of 1.375% Convertible Senior Notes due February 1, 2012, or the 1.375% Notes. We pay interest on these notes on a semi-annual basis on February 1 and August 1 of each year, beginning August 1, 2005. However, no principal payments are due until February 2012, except under certain circumstances such as liquidation, merger or business combination. The convertible notes payable do not contain covenants related to our financial performance.

In April and May 2009, we issued an aggregate of 5,644 shares of our common stock in exchange for $87,304 principal amount of our 1.375% Convertible Senior Notes due 2012 owned by certain note holders. The issuance of the shares was made solely in exchange of the notes pursuant to an exemption from the registration requirements of the Securities Act of 1933, as amended, under Section 3(a)(9) of such Act. We did not receive any cash proceeds as a result of the exchange, and the notes were retired and cancelled. The note holders received shares from the exchange in excess of the amount that they would have received pursuant to their conversion rights under the notes. In the second quarter of 2009, we recorded the non-cash expense of $3,395 for the fair value of the additional shares over the stated conversion rate.

The 1.375% Notes are convertible into our common stock at an initial conversion rate of 63.5828 shares of common stock (equivalent to a conversion price of approximately $15.73 per share) per $1 principal amount of the 1.375% Notes, subject to adjustment, at any time prior to the close of business on the final maturity date of the notes. We do not have the right to redeem any of the 1.375% Notes prior to maturity.

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As of June 30, 2009, the market value of the 1.375% Notes, based on quoted market prices, was estimated at $25,943. The $185,163 decrease in fair value from December 31, 2008 is primarily attributable to the exchange of $87,304 principal amount of the notes for 5,644 shares of common stock during the first half of 2009.

Mortgage Loan

We have a mortgage loan for the purchase and construction of our manufacturing facility in Smithfield, Rhode Island. As of June 30, 2009, $44,000 of the mortgage loan was outstanding. The mortgage loan bears interest at a fixed annual rate of 9.12%. The loan principal is required to be repaid in equal monthly installments of $489, starting March 2010 and until August 2017, at which time all outstanding balances are due. The loan is collateralized by the assets of our Smithfield, RI manufacturing facility. As of June 30, 2009, the estimated fair value of the mortgage loan is $45,302.

On June 30, 2009, we amended the mortgage loan agreement to permit the prepayment of the loan without penalty. The original terms of the mortgage loan permitted prepayment at any time after July 11, 2009 and each prepayment would be subject to a prepayment penalty. The amendment to the mortgage loan permits prepayment at any time after June 30, 2009 and without penalty if prepaid prior to January 5, 2010, provided no event of default exists. Alexion expects to prepay $5,000 in principal on the first business day of each month, commencing July 1, 2009 through December 1, 2009, and make a final payment of $14,000 on or prior to January 5, 2010. Alexion may prepay the entire mortgage loan at any time prior to January 5, 2010 without penalty. If Alexion does not prepay the entire principal balance on or prior to January 5, 2010, any prepayment made after such date must be accompanied by the prepayment penalty set forth in the mortgage loan agreement. In July 2009, we prepaid $5,000 of the principal balance of the mortgage loan, without penalty, resulting in an outstanding balance of $39,000.

As a condition of the loan, we are required to maintain restricted cash accounts. These accounts must maintain certain operating escrow balances. At June 30, 2009, the balance of restricted cash was $753.

The mortgage loan does not contain covenants related to our financial performance.

Lonza Agreement

We have a supply agreement with Lonza Sales AG relating to the manufacture of Soliris, which requires payments to Lonza at the inception of the contract and as product is manufactured. We are required to prepay certain amounts related to the production of Soliris, which are reflected as prepaid manufacturing costs. Once we take title to the inventory produced by Lonza, the amounts are reclassified into inventory. On an ongoing basis, we evaluate our plans to proceed with production of Soliris by Lonza, which depends upon our commercial requirements, the progress of our clinical development programs and the status of our Smithfield, Rhode Island manufacturing facility. Under an existing arrangement with Lonza, we expect to pay Lonza a royalty on net sales of Soliris manufactured at our Rhode Island facility.

We have agreed to purchase certain minimum quantities of product from Lonza under our existing arrangements. If we terminate the Lonza Agreement without cause, we will be required to pay for batches of product scheduled for manufacture under our arrangement.

MRC Agreement

In March 1996, the Company entered into a license agreement with the Medical Research Council, or MRC, whereby MRC granted to the Company worldwide non-exclusive rights to certain patents related to the humanization and production of monoclonal antibodies. We pay MRC royalties on a quarterly basis with respect to sales of Soliris. The royalty is payable until the last to expire of the patents covered by the license agreement, which is expected to be in 2015. MRC may terminate the license if Alexion files for bankruptcy or becomes insolvent, or if

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Alexion fails to perform its obligations under the agreement and such failure is not remedied within three months after delivery of notice. Under the agreement, Alexion has agreed to (a) make royalty payments with respect to sales of licensed products, (b) promote the sale of Soliris of good marketable quality, and (c) use reasonable endeavors to meet market demand for licensed products.

Item 3. Quantitative and Qualitative Disclosures about Market Risks

Interest Rate Market Risk

As of June 30, 2009, we held substantially all of our cash equivalents in money market funds with original maturity dates of three months or less.

Our outstanding long-term liabilities as of June 30, 2009 included our $9,918, 1.375% Convertible Senior Notes due February 1, 2012. As the notes bear interest at a fixed rate, our results of operations would not be impacted by interest rate changes. As of June 30, 2009, the market value of our $9,918 1.375% convertible senior notes due February 1, 2012, based on quoted market prices, was estimated at $25,943.

In July 2006, we borrowed $26,000 to finance the purchase and construction of our Smithfield, Rhode Island manufacturing facility. In July 2007, we amended the mortgage loan agreement to increase the loan amount by $18,000, resulting in an aggregate principal balance of $44,000. We repaid $5,000 in July 2009 and expect to prepay the remaining balance by January 5, 2010. From the effective date of the amendment, the mortgage loan bears interest at a fixed annual rate of 9.12%. Accordingly, any changes in the interest rate will not impact our financial statements. As of June 30, 2009, the estimated fair value of the mortgage loan is $45,302.

In February 2008, we entered into a revolving credit facility with a financial institution and may borrow up to $25,000. We may elect that the loans under the agreement bear interest at a rate per annum equal to (i) LIBOR plus 1.75% to 2.25% depending on Alexion s liquidity (as calculated in accordance with the agreement), or (ii) a Base Rate equal to the higher of the (A) Prime Rate then in effect and (B) the Federal Funds Rate then in effect plus 0.50%, plus 0% to 0.25% depending on Alexion s liquidity (as calculated in accordance with the agreement). We do not expect changes in interest rates related to our revolving credit facility to have a material effect on our financial statements.

Foreign Exchange Market Risk

As a result of our foreign operations, we face exposure to movements in foreign currency exchange rates, primarily the Euro, British Pound, Swiss Franc and Japanese Yen. The current exposures arise primarily from cash, accounts receivable, intercompany receivables and payables and product sales denominated in foreign currencies. Both positive and negative impacts to our international product sales from movements in foreign currency exchange rates are partially mitigated by the natural, opposite impact that foreign currency exchange rates have on our international operating expenses.

We currently have two programs related to our foreign currency exposure, 1) a program to limit the foreign currency exposure of our monetary assets and liabilities on our balance sheet and 2) a program to hedge a portion of our forecasted product sales to mitigate fluctuations in foreign exchange rates. Both programs utilize forward foreign exchange contracts intended to reduce, not eliminate, the impact of fluctuations in foreign currency rates.

As of June 30, 2009, we had foreign currency forward contracts with notional amounts totaling $175,789, of which $122,047 qualified for hedge accounting under FAS 133. As of June 30, 2009, our outstanding foreign currency forward contracts had a cumulative net loss of $3,616.

We do not use derivative financial instruments for speculative trading purposes. The counterparty to these forward contracts is a multinational commercial bank. The Company believes the risk of counterparty nonperformance is not material. However, we can not be assured that the financial institution will not be further impacted by the negative economic environment.

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Since our foreign currency hedges are designed to offset gains and losses on our monetary assets and liabilities, we do not expect that a hypothetical 10% adverse change fluctuation in exchange rates would result in a material change in the fair value of our foreign currency sensitive assets, which include our monetary assets and liabilities and our forward contracts. The analysis above does not consider the impact that hypothetical changes in foreign currency exchange rates would have on future transactions such as anticipated sales.

Item 4. Controls and Procedures

As of June 30, 2009, we evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2009.

There have been no changes in our internal control over financial reporting in connection with the evaluation required under paragraph (d) of Rule 13a-15 under the Exchange Act that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1A. Risk Factors

You should carefully consider the following risk factors before you decide to invest in our Company and our business because these risk factors may have a significant impact on our business, operating results, financial condition, and cash flows. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. If any of the following risks actually occurs, our business, financial condition and results of operations could be materially and adversely affected.

Risks Related to Our Lead Product Soliris

We depend heavily on the success of our lead product, Soliris, which was approved in the United States and in Europe in March 2007 and June 2007, respectively, for the treatment of PNH. If we are unable to increase sales of Soliris in the United States and Europe and commercialize Soliris in additional countries or if we are significantly delayed or limited in doing so, our business will be materially harmed.

Our ability to generate revenues will depend on commercial success of Soliris in the United States, Europe and throughout the rest of the world and whether physicians, patients and healthcare payers view Soliris as therapeutically effective and safe relative to cost. Since we launched Soliris in the United States in April 2007, almost all of our revenue has been attributed to sales of Soliris, and we expect that Soliris product sales will continue to contribute to a significant percentage or almost all of our total revenue over the next several years.

The commercial success of Soliris and our ability to generate and increase revenues will depend on several factors, including the following:

- the number of patients with PNH who are diagnosed with the disease and identified to us;
- the number of patients with PNH that may be treated with Soliris;
- successful continuation of commercial sales in the United States and in European countries where we are already selling Soliris, and successful launch in countries where we have not yet obtained marketing approval or commenced sales;
- ability to obtain and maintain sufficient coverage or reimbursement by third-party payers;
- acceptance of Soliris in the medical community;
- ability to effectively market and distribute Soliris in the United States, Europe and the rest of the world;
- receipt and maintenance of marketing approvals from the United States and foreign regulatory authorities; and
- establishment and maintenance of commercial manufacturing capabilities ourselves or through third-party manufacturers.

We obtained marketing approval for Soliris in Europe in June 2007 however such approval did not automatically authorize us to commence commercial sales in every country in the European Union. We continue discussions with appropriate authorities in different countries in Europe

so that we may, upon conclusion of such discussions, commence commercial sales in those countries. We have submitted applications for marketing authorization in countries outside the European Union and have received approval in Canada in January 2009 and Australia in February 2009. We cannot guarantee that reimbursement and other discussions and processes will be concluded successfully or on a timely basis and, as a result, sales in certain countries may be delayed or never occur, or may be subsequently reduced. If we are not successful in increasing sales of Soliris in the United States and commercializing in the rest of the world, or are significantly delayed or limited in doing so, we may experience a surplus inventory, our business will be materially harmed and we may need to significantly curtail operations.

Because the target patient population of Soliris for the treatment of PNH is small and has not been definitively determined, we must be able to successfully identify PNH patients and achieve a significant market share in order to achieve or maintain profitability.

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The prevalence of PNH patients has not been definitively determined but can be estimated at approximately 8,000 10,000 total patients in North America and Western Europe. There can be no guarantee that any of our programs will be effective at identifying PNH patients and the number of PNH patients in the United States and Europe may turn out to be lower than expected or may not be otherwise amenable to treatment with Soliris, all of which would adversely affect our results of operations and our business.

If we are unable to obtain and maintain reimbursement for Soliris from government health administration authorities, private health insurers and other organizations, Soliris may be too costly for regular use and our ability to generate revenues would be harmed.

We may not be able to sell Soliris on a profitable basis or our profitability may be reduced if we are required to sell our product at lower than anticipated prices or reimbursement is unavailable or limited in scope or amount. Soliris is significantly more expensive than traditional drug treatments and almost all patients require some form of third party coverage to afford its cost. Our future revenues and profitability will be adversely affected if we cannot depend on governmental, private third-party payers and other third-party payers, such as Medicare and Medicaid in the United States or country specific governmental organizations, to defray the cost of Soliris to the patient. If these entities refuse to provide coverage and reimbursement with respect to Soliris or determine to provide a lower level of coverage and reimbursement than anticipated, Soliris may be too costly for general use, and physicians may not prescribe it.

In certain foreign countries, pricing, coverage and level of reimbursement of prescription drugs are subject to governmental control and we may be unable to negotiate coverage, pricing, and reimbursement on terms that are favorable to us, or such coverage, pricing, and reimbursement may differ in separate regions in the same country. In some foreign countries, the proposed pricing for a drug must be approved before it may be lawfully marketed. The requirements governing drug pricing vary widely from country to country and we cannot guarantee that we will have the capabilities or resources to successfully conclude the necessary processes and commercialize Soliris in every or even most countries in which we seek to sell Soliris. Reimbursement sources are different in each country and in each country may include a combination of distinct potential payers, including private insurance and governmental payers. For example, countries in the European Union may restrict the range of medicinal products for which their national health insurance systems provide reimbursement and to control the prices of medicinal products for human use. A member state may from time to time approve a specific price for the medicinal product or it may instead adopt a system of direct or indirect controls on the profitability of the company placing the medicinal product on the market. Our results of operations may suffer if we are unable to successfully and timely conclude reimbursement, price approval or funding processes and begin to market Soliris in foreign countries or if coverage and reimbursement for Soliris in foreign countries is limited. If we discover we are not able to obtain coverage, pricing or reimbursement on terms acceptable to us or at all, or if such terms should change, in any foreign countries, we may not be able to or we may determine not to sell Soliris in such countries and our plans for geographic expansion of sales and our business may be adversely affected as a result.

Many third-party payers cover only selected drugs, making drugs that are not preferred by such payer more expensive for patients, and require prior authorization or failure on another type of treatment before covering a particular drug. Third-party payers may be especially likely to impose these obstacles to coverage for higher-priced drugs such as Soliris.

In addition to potential restrictions on coverage, the amount of reimbursement for Soliris may also reduce our profitability and worsen our financial condition. In the United States, European countries, and elsewhere, there have been, and we expect there will continue to be, actions and proposals to control and reduce healthcare costs. Government and other third-party payers are challenging the prices charged for healthcare products and increasingly limiting and attempting to limit both coverage and level of reimbursement for prescription drugs. See additional discussion below under the headings Healthcare reform measures could adversely affect our business and The current credit and financial market conditions may aggravate certain risks affecting our business.

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Even where patients have access to insurance, their insurance co-payment amounts or annual or lifetime caps on reimbursements may represent a barrier to obtaining Soliris. In the United States, Alexion has financially supported the PNH Fund of the National Organization for Rare Disorders, or NORD, which, among other things, assists patients in acquiring drugs such as Soliris. Organizations such as NORD assist patients whose insurance coverage leaves them with prohibitive co-payment amounts or other expensive financial obligations. NORD s ability to provide financial assistance to PNH patients is dependent on funding from external sources, and we cannot guarantee that such funding will be provided at adequate levels, if at all. We have also provided Soliris without charge to patients who have no insurance coverage for drugs for related charitable purposes. We are not able to predict the financial impact of the support we may provide for these and other charitable purposes; however, substantial support, or delays in patient treatment related to such support, could have a material adverse effect on our ability to maintain profitability on a quarterly or annual basis in the future.

In furtherance of our efforts to facilitate access to Soliris in the United States, we have created the Soliris OneSource Program, a treatment support service for patients with PNH and their healthcare providers. Alexion Nurse case managers provide education about PNH and Soliris and help facilitate solutions for reimbursement, coverage and access. Although case managers assist patients and healthcare providers in locating and accessing Soliris, we cannot guarantee a sufficient level of coverage, reimbursement or financial assistance.

We may not be able to gain or maintain market acceptance among the medical community or patients which would prevent us from achieving or maintaining profitability in the future.

We cannot be certain that Soliris will gain or maintain market acceptance on a country-by-country basis among physicians, patients, healthcare payers, and others. Although we have received regulatory approval for Soliris in the United States, Europe and Canada, such approvals do not guarantee future revenue. We cannot predict whether physicians, other healthcare providers, government agencies or private insurers will determine that our products are safe and therapeutically effective relative to cost. Medical doctors willingness to prescribe, and patients willingness to accept, our products depend on many factors, including prevalence and severity of adverse side effects in both clinical trials and commercial use, effectiveness of our marketing strategy and the pricing of our products, publicity concerning our products or competing products, our ability to obtain and maintain third-party coverage or reimbursement, and availability of alternative treatments, including bone marrow transplants. If Soliris fails to achieve or maintain market acceptance on a country-by-country basis, we may not be able to market and sell it successfully in such countries, which would limit our ability to generate revenue and could harm our overall business.

If we fail to comply with continuing United States and foreign regulations, we could lose our approvals to market Soliris, and our business would be seriously harmed.

We cannot guarantee that we will be able to maintain our regulatory approvals for Soliris. If we do not maintain our regulatory approvals for Soliris, the value of our company and our results of operations will be materially harmed. We and our future partners, contract manufacturers and suppliers are subject to rigorous and extensive regulation by the FDA, other federal and state agencies, and governmental authorities in other countries or group of countries. These regulations continue to apply after product approval, and cover, among other things, testing, manufacturing, quality control, labeling, advertising, promotion, risk mitigation, adverse event reporting requirements, and export of biologics. As a condition of approval for marketing our product, the FDA or other governmental authorities outside the United States may require us to conduct additional clinical trials. For example, in connection with the approval of Soliris in the United States, we have agreed to establish a PNH Registry, monitor immunogenicity, monitor compliance with vaccination requirements, and determine the effects of anticoagulant withdrawal among PNH patients receiving eculizumab. The FDA can propose to withdraw approval if new clinical data or information shows that a product is not safe for use in an approved indication or determines that such studies are inadequate. We are required to report any serious and unexpected adverse experiences and certain quality problems with Soliris to the FDA, the EMEA and certain other health agencies. We, the FDA, the EMEA or another health agency may have to notify healthcare providers of any such developments. The discovery of any previously unknown problems with Soliris, manufacturer or facility may result in restrictions on Soliris, manufacturer or manufacturing facility, including withdrawal of Soliris from the market. Certain changes to an approved product,

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including the way it is manufactured or promoted, often require prior regulatory approval before the product as modified may be marketed. Our manufacturing and other facilities and those of any third parties manufacturing Soliris, will be subject to inspection prior to grant of marketing approval and subject to continued review and periodic inspections by the regulatory authorities. Any third party we would use to manufacture Soliris for sale must also be licensed by applicable regulatory authorities.

Failure to comply with the laws, including statutes and regulations, administered by the FDA, the EMEA or other agencies could result in:

- administrative and judicial sanctions, including, warning letters;
- fines and other civil penalties;
- withdrawal of a previously granted approval;
- interruption of production;
- operating restrictions;
- delays in approving or refusal to approve Soliris or a product candidate;
- product recall or seizure;
- injunctions; and
- criminal prosecution.

The discovery of previously unknown problems with a product, including Soliris, or the facility used to produce the product could result in a regulatory authority imposing restrictions on us, or could cause us to voluntarily adopt such restrictions, including withdrawal of Soliris from the market.

If the use of Soliris harms people, or is perceived to harm patients even when such harm is unrelated to Soliris, our regulatory approvals could be revoked or otherwise negatively impacted and we could be subject to costly and damaging product liability claims.

The testing, manufacturing, marketing and sale of drugs for use in humans exposes us to product liability risks. Side effects and other problems from using Soliris could (1) lessen the frequency with which physicians decide to prescribe Soliris, (2) encourage physicians to stop prescribing Soliris to their patients who previously had been prescribed Soliris, (3) cause serious adverse events and give rise to product liability claims against us, and (4) result in our need to withdraw or recall Soliris from the marketplace. Some of these risks are unknown at this time.

We have tested Soliris in only a small number of patients. As more patients begin to use Soliris, new risks and side effects, or the rate of such risks or side effects, may be discovered, and risks previously viewed as less significant could be determined to be significant. Previously unknown risks and adverse effects of Soliris may also be discovered in connection with unapproved, or off-label, uses of Soliris. We do not

promote, or in any way support or encourage the promotion of Soliris for off-label uses in violation of relevant law, but physicians are permitted to use products for off-label purposes and we are aware of such off-label uses of Soliris. In addition, we expect to study Soliris in diseases other than PNH in controlled clinical settings, and expect independent investigators to do as well. In the event of any new risks or adverse effects discovered as new patients are treated for PNH and as Soliris is studied in or used by patients for off-label indications, regulatory authorities may delay or revoke their approvals; we may be required to conduct additional clinical trials, make changes in labeling of Soliris, reformulate Soliris or make changes and obtain new approvals for our and our suppliers manufacturing facilities. We may also experience a significant drop in the potential sales of Soliris, experience harm to our reputation and the reputation of Soliris in the marketplace or become subject to lawsuits, including class actions. Any of these results could decrease or prevent any sales of Soliris or substantially increase the costs and expenses of commercializing and marketing Soliris.

We may be sued by people who use Soliris, whether as a prescribed therapy, during a clinical trial, during an investigator initiated study, or otherwise. Many patients who use Soliris are already very ill. Any informed consents or waivers obtained from people who enroll in our trials or use Soliris may not protect us from liability or litigation. Our product liability insurance may not cover all potential types of liabilities or may not cover certain liabilities completely. Moreover, we may not be able to maintain our insurance on acceptable terms. In addition, negative publicity relating to the use of Soliris or a product candidate, or to a product liability claim, may make it

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more difficult, or impossible, for us to market and sell Soliris. As a result of these factors, a product liability claim, even if successfully defended, could have a material adverse effect on our business, financial condition or results of operations.

Patients who use Soliris already often have severe and advanced stages of disease and known as well as unknown significant pre-existing and potentially life-threatening health risks, including for example bone marrow failure. During the course of treatment, patients may suffer adverse events, including death, for reasons that may or may not be related to Soliris. Such events could subject us to costly litigation, require us to pay substantial amounts of money to injured patients, delay, negatively impact or end our opportunity to receive or maintain regulatory approval to market Soliris, or require us to suspend or abandon our commercialization efforts. Even in a circumstance in which we do not believe that an adverse event is related to Soliris, the investigation into the circumstance may be time consuming or may be inconclusive. These investigations may interrupt our sales efforts, delay our regulatory approval process in other countries, or impact and limit the type of regulatory approvals Soliris receives or maintains.

Some patients treated with Soliris for PNH or other diseases, including patients who have participated in our clinical trials, have died or suffered potentially life-threatening diseases either during or after ending their Soliris treatments. In particular, use of C5 Inhibitors, such as Soliris, is associated with an increased risk for certain types of infection, including Neisseria bacteria. Serious cases of Neisseria infection can result in severe illness, including but not limited to brain damage, loss of limbs or parts of limbs, kidney failure, or death. PNH patients in our TRIUMPH and SHEPHERD trials all received vaccination against Neisseria bacteria prior to first administration of Soliris and all patients who are prescribed Soliris in the United States and Europe are required by prescribing guidelines to be vaccinated prior to receiving their first dose; however, vaccination does not eliminate all risk of becoming infected with Neisseria bacteria. Some patients treated with Soliris, who had been vaccinated, including patients who have participated in our trials of Soliris for the treatment of PNH and other diseases, have become infected with Neisseria bacteria, including patients who have suffered serious illness or death. Each such incident is required to be reported to appropriate regulatory agencies in accordance with relevant regulations.

We are also aware of a potential risk for PNH patients who delay a dose of Soliris or discontinue their treatment of Soliris. Treatment with Soliris blocks complement and allows complement-sensitive PNH red blood cells to increase in number. If treatment with Soliris is thereafter delayed or discontinued, a greater number of red blood cells therefore would become susceptible to destruction when the patient s complement system is no longer blocked. The rapid destruction of a larger number of a patient s red blood cells may lead to numerous complications, including death. Several PNH patients in our studies of Soliris have received delayed doses or discontinued their treatment. In none of those circumstances were significant complications shown to be due to rapid destruction of a larger number of PNH red blood cells; however, we have not studied the delay or termination of treatment in enough patients to determine that such complications in the future are unlikely to occur. Additionally, such delays or discontinuations may be associated with significant complications without evidence of such rapid cell destruction. Clinical evaluations of outcomes in the post-marketing setting are required to be reported to appropriate regulatory agencies in accordance with relevant regulations. Determination of significant complications associated with the delay or discontinuation of Soliris could have a material adverse effect on our ability to sell Soliris for PNH.

Although we obtained regulatory approval of Soliris for PNH in the United States, Canada, Australia and Europe, we may be unable to obtain regulatory approval for Soliris in any other territory.

Governments in countries outside the United States and Europe also regulate drugs distributed in such countries and facilities in such countries where such drugs are manufactured, and obtaining their approvals can also be lengthy, expensive and highly uncertain. The approval process varies from country to country and the requirements governing the conduct of clinical trials, product manufacturing, product licensing, pricing and reimbursement vary greatly from country to country. In certain jurisdictions, we are required to finalize operational, reimbursement, price approval and funding processes prior to marketing our products. Soliris became commercially available in certain countries in Europe in the fourth quarter of 2007. We received regulatory approval for Soliris for treatment of patients with PNH in Canada in January 2009 and Australia in February 2009. We may not receive regulatory approval for Soliris outside the United States, Canada, Australia and Europe for at least the next several years, if ever.

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Regulatory agencies may require additional information or data with respect to our submissions for Soliris for PNH. We may have to conduct additional lengthy clinical testing and other costly and time-consuming procedures to satisfy foreign regulatory agencies. Even with approval of Soliris by the FDA, Health Canada, Therapeutic Goods Administration in Australia, and the E.C., other regulatory agencies may not agree with our interpretations of our clinical trial data for Soliris and may decide that our results are not adequate to support approval for marketing of Soliris. In those circumstances, we would not be able to obtain regulatory approval in such country on a timely basis, if ever. Even if approval is granted in such country, the approval may require limitations on the indicated uses for which the drug may be marketed. The foreign regulatory approval process includes all of the risks associated with FDA approval as well as country-specific regulations. We must obtain approval of a product by the comparable regulatory authorities of foreign countries before we can commence clinical trials or marketing of the product in those countries. For example, we were required to conduct clinical studies with Soliris in patients with PNH in Japan; however, there is no assurance that the Japanese regulatory agency will find these studies sufficient for registration of Soliris in Japan.

We are completely dependent on a single third party to manufacture commercial quantities of Soliris and our commercialization of Soliris may be stopped, delayed or made less profitable if such third party fails to provide us with sufficient quantities of Soliris.

Only Lonza Sales AG, or Lonza, is currently capable of manufacturing commercial quantities of Soliris. We will not be capable of manufacturing Soliris for commercial sale, on our own, until such time as we have requested and received the required regulatory approvals for our manufacturing facility in Rhode Island, if ever. Therefore, we anticipate that we will depend entirely on one company, Lonza, to manufacture Soliris for commercial sale until that time. We cannot be certain that Lonza will be able to perform uninterrupted supply chain services. The failure of Lonza to manufacture appropriate supplies of Soliris, on a timely basis, or at all, may prevent or interrupt the commercialization of Soliris. If Lonza were unable to perform its services for any period, we may incur substantial loss of sales. If we are forced to find an alternative supplier for Soliris, in addition to loss of sales, we may also incur significant costs in establishing a new arrangement.

We are dependent upon a small number of customers for a significant portion of our revenue, and the loss of, or significant reduction or cancellation in sales to, any one of these customers could adversely affect our operations and financial condition.

In the United States, we sell Soliris to distributors who in turn sell to patient health-care providers. We do not promote Soliris to these distributors and they do not set or determine demand for Soliris. For the three months ended June 30, 2009, our single largest customer, Amerisource Bergen, accounted for 19.2% of our Soliris net product sales, and our three largest customers accounted for approximately 34.3% of our net product sales. As of June 30, 2009, one individual customer accounted for 18.8% of the accounts receivable balance. We expect such customer concentration to continue for the foreseeable future. Our ability to successfully commercialize Soliris will depend, in part, on the extent to which we are able to provide adequate distribution of Soliris to patients. Although a number of specialty distributors and specialty pharmacies, which supply physician office clinics, hospital outpatient clinics, infusion clinics, home health care providers, and governmental organizations, distribute Soliris, they generally carry a very limited inventory and may be reluctant to distribute Soliris in the future if demand for the product does not increase. Further, it is possible that our distributors could decide to change their policies or fees, or both, at some time in the future. This could result in their refusal to distribute smaller volume products such as Soliris, or cause higher product distribution costs, lower margins or the need to find alternative methods of distributing our product. Although we believe we can find alternative distributors on a relatively short notice, our revenue during that period of time may suffer and we may incur additional costs to replace a distributor. The loss of any large customer, a significant reduction in sales we make to them, any cancellation of orders they have made with us or any failure to pay for the products we have shipped to them could materially and adversely affect our results of operations and financial condition.

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If we are unable to establish and maintain effective sales, marketing and distribution capabilities, or to enter into agreements with third parties to do so, we will be unable to successfully commercialize Soliris.

We are marketing and selling Soliris ourselves in the United States and through our subsidiaries in Europe, but have only limited experience thus far with marketing, sales or distribution of drug products. We have established commercial capabilities in the United States and in Europe. If we are unable to establish and/or expand the capabilities to sell, market and distribute Soliris, either through our own capabilities or by entering into agreements with others, or to maintain such capabilities in countries where we have already commenced commercial sales, we will not be able to successfully sell Soliris. In that event, we will not be able to generate significant revenues. We cannot guarantee that we will be able to establish and maintain our own capabilities or enter into and maintain any marketing or distribution agreements with third-party providers on acceptable terms, if at all. Even if we hire the qualified sales and marketing personnel we need in the United States and in Europe to support our objectives, or enter into marketing and distribution agreements with third parties on acceptable terms, we may not do so in an efficient manner or on a timely basis. We may not be able to correctly judge the size and experience of the sales and marketing force and the scale of distribution capabilities necessary to successfully market and sell Soliris. Establishing and maintaining sales, marketing and distribution capabilities are expensive and time-consuming. Our expenses associated with building up and maintaining the sales force and distribution capabilities around the world may be disproportional compared to the revenues we may be able to generate on sales of Soliris. We cannot guarantee that we will be successful in commercializing Soliris.

If we market Soliris in a manner that violates health care fraud and abuse laws, we may be subject to civil or criminal penalties.

In addition to FDA and related regulatory requirements, we are subject to health care fraud and abuse laws, such as the federal False Claims Act, the anti-kickback provisions of the federal Social Security Act, and other state and federal laws and regulations. Federal and state anti-kickback laws prohibit, among other things, knowingly and willfully offering, paying, soliciting or receiving remuneration to induce, or in return for purchasing, leasing, ordering or arranging for the purchase, lease or order of any health care item or service reimbursable under Medicare, Medicaid, or other federally or state financed health care programs. This statute has been interpreted to apply to arrangements between pharmaceutical manufacturers on the one hand and prescribers, patients, purchasers and formulary managers on the other. Although there are a number of statutory exemptions and regulatory safe harbors protecting certain common activities from prosecution, the exemptions and safe harbors are drawn narrowly, and practices that involve remuneration intended to induce prescribing, purchasing, or recommending may be subject to scrutiny if they do not qualify for an exemption or safe harbor.

Federal false claims laws prohibit any person from knowingly presenting, or causing to be presented, a false claim for payment to the federal government, or knowingly making, or causing to be made, a false statement to get a false claim paid. Pharmaceutical companies have been prosecuted under these laws for a variety of alleged promotional and marketing activities, such as allegedly providing free product to customers with the expectation that the customers would bill federal programs for the product; reporting to pricing services inflated average wholesale prices that were then used by federal programs to set reimbursement rates; engaging in promotion for uses that the FDA has not approved, or off-label uses, that caused claims to be submitted to Medicaid for non-covered off-label uses; and submitting inflated best price information to the Medicaid Rebate Program.

Although physicians are permitted to, based on their medical judgment, prescribe products for indications other than those cleared or approved by the FDA, manufacturers are prohibited from promoting their products for such off-label uses. We market Soliris for PNH and provide promotional materials and training programs to physicians regarding the use of Soliris for PNH. Although we believe our marketing, promotional materials and training programs for physicians do not constitute off-label promotion of Soliris, the FDA may disagree. If the FDA determines that our promotional materials, training or other activities constitute off-label promotion of Soliris, it could request that we modify our training or promotional materials or other activities or subject us to regulatory enforcement actions, including the issuance of a warning letter, injunction, seizure, civil fine and criminal penalties. It is also possible that other federal, state or foreign enforcement authorities might take action if they believe that the alleged improper promotion led to the submission and payment of claims for an unapproved use, which could result

in significant fines or penalties under other statutory authorities, such as laws prohibiting false claims for reimbursement. Even if it is later determined we are not in violation of these laws, we may be faced with negative publicity, incur significant expenses defending our position and have to divert significant management resources from other matters.

The majority of states also have statutes or regulations similar to the federal anti-kickback law and false claims laws, which apply to items and services reimbursed under Medicaid and other state programs, or, in several states, apply regardless of the payer. Sanctions under these federal and state laws may include civil monetary penalties, exclusion of a manufacturer s products from reimbursement under government programs, criminal fines, and imprisonment. Even if we are not determined to have violated these laws, government investigations into these issues typically require the expenditure of significant resources and generate negative publicity, which would also harm our financial condition. Because of the breadth of these laws and the narrowness of the safe harbors and because government scrutiny in this area is high, it is possible that some of our business activities could come under that scrutiny.

In recent years, several states and localities, including California, the District of Columbia, Maine, Minnesota, Nevada, New Mexico, Vermont, and West Virginia, have enacted legislation requiring pharmaceutical companies to establish marketing compliance programs, and file periodic reports with the state or make periodic public disclosures on sales, marketing, pricing, clinical trials, and other activities. Similar legislation is being considered in other states. Many of these requirements are new and uncertain, and the penalties for failure to comply with these requirements are unclear. Nonetheless, if we are found not to be in full compliance with these laws, we could face enforcement action and fines and other penalties, and could receive adverse publicity.

Risks Related to Development, Clinical Testing and Regulatory Approval of Our Product Candidates, Including Eculizumab for Indications Other than PNH

None of our product candidates except for Soliris has received regulatory approvals. Soliris has not been approved for any indication other than for the treatment of patients with PNH. If we are unable to obtain regulatory approvals to market one or more of our product candidates, or Soliris for other indications, our business may be adversely affected.

All of our product candidates except Soliris are in early stages of development, and we do not expect our other product candidates to be commercially available for several years, if at all. Similarly, Soliris has not been approved for any indication other than for the treatment of patients with PNH, and we do not expect approval for use of Soliris in other indications for several years, if at all. Our product candidates are subject to strict regulation by regulatory authorities in the United States and in other countries. We cannot market any product candidate until we have completed all necessary preclinical studies and clinical trials and have obtained the necessary regulatory approvals. We do not know whether regulatory agencies will grant approval for any of our product candidates. Even if we complete preclinical studies and clinical trials successfully, we may not be able to obtain regulatory approvals or we may not receive approvals to make claims about our products that we believe to be necessary to effectively market our products. Data obtained from preclinical studies and clinical trials are subject to varying interpretations that could delay, limit or prevent regulatory approval, and failure to comply with regulatory requirements or inadequate manufacturing processes are examples of other problems that could prevent approval. In addition, we may encounter delays or rejections due to additional government regulation from future legislation, administrative action or changes in the FDA policy. Even if the FDA approves a product, the approval will be limited to those indications covered in the approval.

Outside the United States, our ability to market any of our potential products is dependent upon receiving marketing approvals from the appropriate regulatory authorities. These foreign regulatory approval processes include all of the risks associated with the FDA approval process described above. If we are unable to receive regulatory approvals, we will be unable to commercialize our product candidates, and our business may be adversely affected.

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Completion of preclinical studies or clinical trials does not guarantee advancement to the next phase of development.

Completion of preclinical studies or clinical trials does not guarantee that we will initiate additional studies or trials for our product candidates, that if the studies or trials are initiated what the scope and phase of the trial will be or that they will be completed, or that if the studies or trials are completed, that the results will provide a sufficient basis to proceed with further studies or trials or to apply for or receive regulatory approvals or to commercialize products. Results of clinical trials could be inconclusive, requiring additional or repeat trials. If the results achieved in our clinical trials are insufficient to proceed to further trials or to regulatory approval of our product candidates, our company could be materially adversely affected. Failure of a preclinical study or a clinical trial to achieve its pre-specified primary endpoint generally increases the likelihood that additional studies or trials will be required if we determine to continue development of the product candidate, reduces the likelihood of timely development of and regulatory approval to market the product candidate, and may decrease the chances for successfully achieving the primary endpoint in scientifically similar indications.

There are many reasons why drug testing could be delayed or terminated.

For human trials, patients must be recruited and each product candidate must be tested at various doses and formulations for each clinical indication. In addition, to ensure safety and effectiveness, the effect of drugs often must be studied over a long period of time, especially for the chronic diseases that we are studying. Unfavorable results or insufficient patient enrollment in our clinical trials could delay or cause us to abandon a product development program. We may decide to abandon development of a product candidate at any time, or we may have to spend considerable resources repeating clinical trials or conducting additional trials, either of which would increase costs and delay any revenue from those product candidates, if any.

Additional factors that can cause delay, impairment or termination of our clinical trials or our product development efforts include:

- slow patient enrollment, including for example due to the rarity of the disease being studied;
- long treatment time required to demonstrate effectiveness;
- lack of sufficient supplies of the product candidate;
- disruption of operations at the clinical trial sites;
- adverse medical events or side effects in treated patients;
- the failure of patients taking the placebo to continue to participate in our clinical trials;
- insufficient clinical trial data to support effectiveness of the product candidates;
- lack of effectiveness or safety of the product candidate being tested;

lack of sufficient funds;

inability to manufacture sufficient quantities of the product candidate for development or commercialization activities in a timely and cost-efficient manner; or

failure to obtain the necessary regulatory approvals for the product candidate or the approvals for the facilities in which such product candidate is manufactured.

The regulatory approval process is costly and lengthy and we may not be able to successfully obtain all required regulatory approvals.

The preclinical development, clinical trials, manufacturing, marketing and labeling of pharmaceuticals are all subject to extensive regulation by numerous governmental authorities and agencies in the United States and other countries. We must obtain regulatory approval for each of our product candidates before marketing or selling any of them. It is not possible to predict how long the approval processes of the FDA or any other applicable federal or foreign regulatory authority or agency for any of our product candidates will take or whether any such approvals ultimately will be granted. The FDA and foreign regulatory agencies have substantial discretion in the drug approval process, and positive results in preclinical testing or early phases of clinical studies offer no assurance of success in later phases of the approval process. The approval process varies from country to country and the requirements governing the conduct of clinical trials, product manufacturing, product licensing, pricing and reimbursement vary greatly from country to country. Generally, preclinical and clinical testing of product candidates can take many

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years and require the expenditure of substantial resources, and the data obtained from these tests and trials can be susceptible to varying interpretations that could delay, limit or prevent regulatory approval. If we encounter significant delays in the regulatory process that result in excessive costs, this may prevent us from continuing to develop our product candidates. Any delay in obtaining, or failure to obtain, approvals could adversely affect the marketing of our products and our ability to generate product revenue. The risks associated with the approval process include:

- failure of our product candidates to meet a regulatory agency s requirements for safety, efficacy and quality;
- limitation on the indicated uses for which a product may be marketed;
- unforeseen safety issues or side effects; and
- governmental or regulatory delays and changes in regulatory requirements and guidelines.

Even if our drug candidates obtain regulatory approval, they may not gain market acceptance among physicians, patients and health care payers.

Physicians may elect not to recommend our drugs even if they receive marketing approval for a variety of reasons, including the timing of the market introduction of competitive drugs; lower demonstrated clinical safety and efficacy compared to other drugs; lack of cost-effectiveness; lack of availability of reimbursement from third-party payers; convenience and ease of administration; prevalence and severity of adverse side effects; other potential advantages of alternative treatment methods; and ineffective marketing and distribution support. Sales of pharmaceutical products depend in significant part on the coverage and reimbursement policies of government programs, including Medicare and Medicaid in the United States and programs in other countries, and other third-party payers. These health insurance programs may restrict coverage of some products by using payor formularies under which only selected drugs are covered, variable co-payments that make drugs that are not preferred by the payor more expensive for patients, and by using utilization management controls, such as requirements for prior authorization or failure on another type of treatment. Payors may especially impose these obstacles to coverage for higher-priced drugs, and consequently Soliris may be subject to payor-driven restrictions. In addition, in some foreign countries, the proposed pricing for a drug must be approved before it may be lawfully marketed. The requirements governing drug pricing vary widely from country to country. For example, countries in the European Union may restrict the range of medicinal products for which their national health insurance systems provide reimbursement and to control the prices and/or reimbursement of medicinal products for human use. A member state may approve a specific price or level of reimbursement for the medicinal product, or it may instead adopt a system of direct or indirect controls on the profitability of the company placing the medicinal product on the market. The reimbursement or budget identified by a government or non-government payor for Soliris in an indication other than PNH, if obtained, may be adversely affected by the reimbursement or budget for Soliris in PNH and/or adversely affect the reimbursement or budget for Soliris in PNH by that payor.

Inability to contract with third-party manufacturers and other third parties on commercially reasonable terms, or failure or delay by us or , our third-party manufacturers, in manufacturing or other third party providers to manufacture and provide other services with respect to our drug products in the volumes and quality required, would have a material adverse effect on our business.

Clinical quantities of eculizumab are manufactured by us in our Rhode Island facility and by Lonza. Clinical quantities of CD200 are manufactured solely by us in Rhode Island. Manufacture of our drug products is highly technical and only a small number of companies have the ability and capacity to manufacture our drug products for our development and commercialization needs. We cannot be certain that any third party will be able or willing to honor the terms of its agreement, including any obligations to manufacture the drug products in accordance with regulatory requirements and to our quality specifications and volume requirements. Due to the highly technical requirements of manufacturing our drug products, our third-party collaborators and we may be unable to manufacture our drug products despite their and our efforts.

Manufacture of drug products, including the need to develop and utilize manufacturing processes that consistently produce our drug products to their required quality specifications, is highly regulated by the FDA and other domestic and foreign authorities. Regulatory authorities must approve the facilities in which our products are

manufactured prior to granting marketing approval for any product candidate. Manufacturing facilities are also subject to ongoing inspections, and minor changes in manufacturing processes may require additional regulatory approvals. We cannot assure you that we or our third-party collaborators will successfully comply with all requirements and regulations, which failure would have a material adverse effect on our business.

We currently have no experience or capacity for manufacturing drug products in volumes that would be necessary to support commercial sales, and we can provide no assurance that we will be able to do so successfully. We depend on a single manufacturer for commercial supply of Soliris. We acquired a commercial-scale manufacturing plant in Smithfield, Rhode Island in July 2006. However, that plant is not currently approved by the FDA or other regulatory agencies to manufacture Soliris. We expect that it will be at least 2010 before product from the plant is approved for commercial sale in the United States. We have no experience in developing commercial-scale manufacturing similar to anticipated production in Smithfield, Rhode Island. We can provide no assurance that we will be able to develop the Smithfield, Rhode Island site into a plant capable of manufacturing our drug products under conditions required by the FDA or foreign regulatory agencies on a timely basis, if at all. Our plant in Smithfield, Rhode Island will be subject to FDA inspection and approval before we can begin sales of Soliris or other drug products manufactured in this facility, and we will continue to be subject to ongoing FDA inspections thereafter. Our Smithfield, Rhode Island plant will also be subject to European regulatory inspection and approval before we can sell Soliris or any other drug product in Europe that is manufactured in this facility and we will continue to be subject to ongoing European regulatory inspection thereafter.

We, and our outside manufacturers, may experience higher manufacturing failure rates than in the past, if and when, we attempt to substantially increase production volume. If we experience interruptions in the manufacture of our products, our drug development and commercialization efforts will be delayed. If any of our outside manufacturers stops manufacturing our products or reduces the amount manufactured, or is otherwise unable to manufacture our required amounts at our required quality, we will need to find other alternatives, which is likely to be expensive and time consuming. Even if we are able to find alternatives they may ultimately be insufficient for our needs. As a result, our ability to conduct testing and drug trials and our plans for commercialization would be materially adversely affected. Submission of products and new development programs for regulatory approval, as well as our plans for commercialization, would be delayed or suspended. Our competitive position and our prospects for achieving or maintaining profitability would be materially and adversely affected.

Due to the nature of the current market for third-party commercial manufacturing, many arrangements require substantial penalty payments by the customer for failure to use the manufacturing capacity for which it contracted. Penalty payments under these agreements typically decrease over the life of the agreement, and may be substantial initially and de minimis or non-existent in the final period. The payment of a substantial penalty would harm our financial condition.

In addition to depending on a single manufacturer for commercial supply of Soliris, we also depend on a few outside vendors for other services with respect to our clinical and commercial requirements, including product finishing, packaging, vialing and labeling. We do not have control over a third-party manufacturer s, vialer s or any other third party provider s compliance with the rules and regulations of the FDA, EMEA or any other applicable regulations or standards. Any difficulties or delays in our third party manufacturing and supply of Soliris and other product candidates, or any failure of our third party providers to maintain compliance with the applicable regulations and standards could increase our costs, constrain our ability to satisfy demand for Soliris from customers, cause us to lose revenue, make us postpone or cancel clinical trials, or cause our products to be recalled or withdrawn.

Risks Related to Intellectual Property

If we cannot protect the confidentiality and proprietary nature of our trade secrets, and other intellectual property, our business and competitive position will be harmed.

Our business requires using sensitive technology, techniques and proprietary compounds that we protect as trade secrets. However, we may also rely heavily on collaboration with suppliers, outside scientists and other drug companies. Collaboration presents a strong risk of exposing our trade secrets. If our trade secrets were exposed, it would help our competitors and adversely affect our business prospects.

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In order to protect our drugs and technology more effectively, we need to obtain and maintain patents covering the drugs and technologies we develop. We may obtain patents or the right to practice patents through ownership or license. Soliris and our drug candidates are expensive and time-consuming to test and develop. Without patent protection, competitors may copy our methods, or the chemical structure or other aspects of our drugs. Even if we obtain and maintain patents, the patents may not be broad enough to protect our drugs from copycat products.

If we are found to be infringing on patents owned by others, we may be forced to pay damages to the patent owner and/or obtain a license to continue the manufacture, sale or development of our drugs. If we cannot obtain a license, we may be prevented from the manufacture, sale or development of our drugs, including Soliris, which would adversely affect our business.

Parts of our technology, techniques and proprietary compounds and potential drug candidates, including those which are or may be in-licensed, may be found to infringe patents owned by or granted to others. We previously reported that three civil actions were filed against us relating to the commercialization of Soliris and the intellectual property rights of third parties. Each of these cases was resolved in 2008, however, additional third parties may claim that the manufacture, use or sale of Soliris or other drugs under development infringes patents owned or granted to such third parties. We are aware of broad patents owned by others relating to the manufacture, use and sale of recombinant humanized antibodies, recombinant human antibodies, and recombinant human single chain antibodies. Soliris and many of our product candidates are either genetically engineered antibodies, including recombinant humanized antibodies, recombinant human antibodies, or recombinant human single chain antibodies. In addition to the actions described above, we have received notices from the owners of some of these patents claiming that their patents may be infringed by the development, manufacture or sale of Soliris or some of our drug candidates. We are also aware of other patents owned by third parties that might be claimed by such third parties to be infringed by the development and commercialization of Soliris and some of our drug candidates. In respect to some of these patents, we have obtained licenses, or expect to obtain licenses. However, with regard to such other patents, we have determined in our judgment that:

- Soliris and our product candidates do not infringe the patents;
- the patents are not valid; or
- we have identified and are testing various modifications that we believe should not infringe the patents and which should permit commercialization of our product candidates.

Any holder of these patents or other patents covering similar technology could sue us for damages and seek to prevent us from manufacturing, selling or developing our drugs. Legal disputes can be costly and time consuming to defend. If we cannot successfully defend against any future actions or conflicts, if they arise, we may incur substantial legal costs and may be liable for damages, be required to obtain costly licenses or need to stop manufacturing, using or selling Soliris, which would adversely affect our business. A required license may be costly or may not be available on acceptable terms, if at all. A costly license, or inability to obtain a necessary license, could have a material adverse effect on our business.

There can be no assurance that we would prevail in a patent infringement action; that we would be able to obtain a license to any third-party patent on commercially reasonable terms; successfully develop non-infringing alternatives on a timely basis; or license alternative non-infringing technology, if any exists, on commercially reasonable terms. Any impediment to our ability to manufacture or sell approved forms of Soliris or our product candidates could have a material adverse effect on our business and prospects.

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Risks Related to Our Operations

We have had a history of losses and may not be able to maintain profitability on a quarterly or annual basis in the future.

Until the quarter ended June 30, 2008, we had never been profitable since we started our company in January 1992. We may not be able to generate sufficient revenues to achieve continued profitability in any subsequent quarters. Even if we do achieve profitability in any subsequent quarters, we may not be able to sustain or increase profitability on a quarterly or annual basis. You should not consider our revenue growth in recent periods as indicative of our future performance. Our revenue in future periods could decline. Because we have only limited experience thus far with marketing, sales and distribution of Soliris, we have limited insight into the trends that may emerge and affect us. We may make errors in predicting and reacting to relevant business trends, which could harm our business. As of December 31, 2008, we had an accumulated deficit of approximately $696,000. Since we began our business, we have focused on research and development of product candidates. We launched Soliris for sale in the United States during April 2007 and began commercial sales in Europe during the fourth quarter of 2007. We cannot guarantee that we will be successful in marketing and selling Soliris in countries or regions where we have obtained marketing approval, including the United States and Europe, on a continued basis, and we do not know when we will have Soliris available for sale in other countries and regions, if ever. All of our other product candidates are still in the early stages of research and development. We will have substantial expenses as we continue our research and development efforts, continue to conduct clinical trials, and continue to develop manufacturing, sales, marketing and distribution capabilities in the United States and abroad. Our future profitability depends on our ability to successfully market Soliris in the United States and Europe, on receiving regulatory, pricing, coverage, and reimbursement approvals of Soliris in other countries and regions, our ability to successfully market Soliris in other countries and regions, and our ability to successfully manufacture and commercialize our drug candidates. The extent and the timing of our future losses and our profitability are highly uncertain.

If our competitors get to the marketplace before we do, or with better or cheaper drugs, Soliris and our product candidates may not be profitable to continue to pursue.

Both the FDA and the European Medicines Evaluation Agency, or EMEA, have granted orphan drug designation for Soliris in the treatment of PNH, which entitles us to exclusivity for seven years in the United States and for ten years in Europe. However, if a competitive product that is the same as Soliris, as defined under the applicable regulations, is shown to be clinically superior to Soliris in the treatment of PNH, or if a competitive product is different from Soliris, as defined under the applicable regulations, the orphan drug exclusivity we have obtained may not block the approval of such competitive product. Several biotechnology and pharmaceutical companies throughout the world have programs to develop complement inhibitor therapies or have publicly announced their intentions to develop drugs which target the inflammatory effects of complement in the immune system. Other companies have publicly announced intentions to develop therapeutic human antibodies from libraries of human antibody genes or therapeutic human antibodies from mice that have been bred to include some human antibody genes. A number of biotechnology and pharmaceutical companies are developing new products for the treatment of the same diseases being targeted by us. These and other companies, many of which have significantly greater resources than us, may develop, manufacture, and market better or cheaper drugs than Soliris or our product candidates. They may establish themselves in the marketplace before Alexion for Soliris for other indications or for any of our other product candidates. Other pharmaceutical companies also compete with us to attract academic research institutions as drug development partners, including for licensing these institutions proprietary technology. If our competitors successfully enter into such arrangements with academic institutions, we will be precluded from pursuing those unique opportunities and may not be able to find equivalent opportunities elsewhere.

If we fail to obtain the capital necessary to fund our operations, we will be unable to continue the commercialization of Soliris or continue or complete our product development.

We believe that revenues and collections from sales of Soliris along with our existing cash and cash equivalents will provide sufficient capital to fund our operations and product development for at least twelve months. We may need to raise additional capital before or after that time to complete or continue the development or commercialization of our products and product candidates. We are currently selling or preparing for the commercialization of Soliris in the United States, Europe, Canada, Latin America and Asia-Pacific, evaluating and preparing regulatory submissions for Soliris in several countries, and conducting, preparing or evaluating several clinical trials. Funding needs may shift between projects and potentially accelerate and increase as we continue launch and commercialization activities throughout the world and as we initiate or continue clinical trials for our product candidates.

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ALEXION PHARMACEUTICALS, INC.

Additional financing could take the form of public or private debt or equity offerings, equity line facilities, bank loans, collaborative research and development arrangements with corporate partners and/or the sale or licensing of some of our property. The amount of capital we may need depends on many factors, including:

- the cost necessary to sell, market and distribute Soliris;
- the rate of new patient sales and drug utilization by treated patients;
- the time and cost necessary to obtain and maintain regulatory approvals for Soliris and for eculizumab for other indications in multiple countries;
- the ability to obtain and maintain reimbursement approvals and funding for Soliris and the time necessary to obtain such approvals and funding;
- the time and cost necessary to develop sales, marketing and distribution capabilities outside the United States;
- the time and cost necessary to purchase or to further develop manufacturing processes, arrange for contract manufacturing or build manufacturing facilities and obtain and maintain the necessary regulatory approvals for those facilities;
- changes in applicable governmental regulatory policies or requests by regulatory agencies for additional information or data;
- the progress, timing and scope of our research and development programs;
- the progress, timing and scope of our preclinical studies and clinical trials; and
- any new collaborative, licensing or other commercial relationships that we may establish.

We may not receive funding when we need it or funding may only be available on unfavorable terms. Financial markets in the U.S., Europe and the rest of the world have been experiencing significant volatility in security prices, substantially diminished liquidity and credit availability, rating downgrades of certain investments and declining valuations of others. There can be no assurance that we will be able to access credit or equity markets in order to finance our operations in the United States or Europe, grow our operations in any territory, or expand development programs for of our product candidates, or that there will not be a further deterioration in financial markets and confidence in economies. If we cannot raise adequate funds to satisfy our capital requirements, we may have to delay, scale-back or eliminate our research and development activities or future operations. We might have to license our technology to others or relinquish commercialization rights. This could result in sharing revenues that we might otherwise retain for ourselves. Any of these actions would harm our business.

If we fail to recruit and retain personnel, we may not be able to implement our business strategy.

We are highly dependent upon the efforts of our senior management and scientific personnel, particularly Dr. Leonard Bell, M.D., our Chief Executive Officer and a member of our Board of Directors and Stephen P. Squinto, Ph.D., our Executive Vice President and Head of Research and Development. There is intense competition in the biopharmaceutical industry for qualified scientific and technical personnel. Since our business is science-oriented and specialized, we need to continue to attract and retain such people. We may not be able to continue to attract and retain the qualified personnel necessary for developing our business. We have employment agreements with Dr. Bell and Dr. Squinto. None of our key personnel is nearing retirement age or to our knowledge, planning to retire. To our knowledge, there is no tension between any of our key personnel and the Board of Directors. If we are unable to retain and recruit highly qualified personnel, our ability to execute our business plan will be materially and adversely affected.

In particular, we highly value the services of Dr. Bell, our Chief Executive Officer. The loss of his services could materially and adversely affect our ability to achieve our objectives.

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ALEXION PHARMACEUTICALS, INC.

We are significantly leveraged.

On June 30, 2009, we had outstanding $9,918 principal amount of 1.375% convertible senior notes which will mature on February 1, 2012. Our subsidiary Alexion Manufacturing borrowed $44,000 to finance the purchase and construction of our Smithfield, Rhode Island manufacturing facility. The loan is guaranteed by us and bears a fixed annual rate of 9.12%. The loan principal is required to be repaid in equal monthly installments of $489, starting March 2010 and until August 2017, at which time all outstanding balances are due. In June 2009, Alexion Manufacturing amended the mortgage loan to permit prepayment of the entire principal amount over six months and without penalty. We are party to a revolving credit facility with Bank of America and may borrow up to $25,000, with up to a $5,000 sublimit for letters of credit that can be used for working capital requirements and other general corporate purposes. The loan is collateralized by substantially all of our assets, including the pledge of the equity interests of certain direct subsidiaries, but excluding intellectual property, assets of foreign subsidiaries and assets related to our manufacturing facility in Smithfield, Rhode Island. We may elect that the loans under the agreement bear interest at a rate per annum equal to (i) LIBOR plus 1.75% to 2.25% depending on our liquidity (as calculated in accordance with the agreement), or (ii) a Base Rate equal to the higher of the (A) Prime Rate then in effect and (B) the Federal Funds Rate then in effect plus 0.50%, plus 0% to 0.25% depending on our liquidity (as calculated in accordance with the agreement). Interest is payable quarterly for Base Rate loans and, in the case of LIBOR-based loans, at the end of the applicable interest period, with the principal due on February 28, 2011, the maturity date.

Our 1.375% convertible senior notes, the mortgage loan, and the revolving credit facility, remain outstanding or available, and the degree to which we are leveraged could, among other things:

- make it difficult for us to make payments on our notes and our loans;
- make it difficult for us to obtain financing for acquisitions or in-licensing opportunities or other purposes on favorable terms, if at all;
- make us more vulnerable to industry downturns and competitive pressures; and
- limit our flexibility in planning for, or reacting to changes in, our business.

Our ability to meet our debt service obligations, including our compliance with the applicable financial and other covenants required by these arrangements, will depend upon our future performance, which will be subject to financial, business and other factors affecting our operations, many of which are beyond our control.

We are subject to environmental laws and potential exposure to environmental liabilities.

We are subject to various federal, state and local environmental laws and regulations that govern our operations, including the handling and disposal of non-hazardous and hazardous wastes, including medical and biological wastes, and emissions and discharges into the environment, including air, soils and water sources. Failure to comply with such laws and regulations could result in costs for corrective action, penalties or the imposition of other liabilities. We also are subject to laws and regulations that impose liability and clean-up responsibility for releases of hazardous substances into the environment. Under certain of these laws and regulations, a current or previous owner or operator of property may be liable for the costs of remediating its property or locations to which wastes were sent from its facilities, without regard to whether the owner or operator knew of, or necessarily caused, the contamination. Such obligations and liabilities, which to date have not been material, could have a material impact on our business and financial condition.

We may expand our business through acquisitions or in-licensing opportunities that could disrupt our business and harm our financial condition.

Our business strategy includes expanding our products and capabilities, and we may seek acquisitions or in-licensing of business or products to do so. Acquisitions of new businesses or products and in-licensing of new products involve numerous risks, including:

substantial cash expenditures;

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ALEXION PHARMACEUTICALS, INC.

potentially dilutive issuance of equity securities;

incurrence of debt and contingent liabilities, some of which may be difficult or impossible to identify at the time of acquisition;

difficulties in assimilating the operations of the acquired companies;

diverting our management s attention away from other business concerns;

risks of entering markets in which we have limited or no direct experience; and

the potential loss of our key employees or key employees of the acquired companies.

We compete with pharmaceutical companies that have significantly greater resources than us for many of the same acquisition and in-licensing opportunities. Such pharmaceutical companies that are less leveraged and have better access to capital resources may preclude us from completing any acquisition or in-licensing. Even if we are able to complete an acquisition or in-licensing, we cannot assure you that any acquisition or in-licensing of new products will result in short-term or long-term benefits to us. We may incorrectly judge the value or worth of an acquired company or business or an acquired or in-licensed product. In addition, our future success would depend in part on our ability to manage the rapid growth associated with any such acquisitions or in-licensing. We cannot assure you that we will be able to make the combination of our business with that of acquired businesses or companies work or be successful. We may not be able to acquire the rights to additional product candidates and approved products on terms that we find acceptable, or at all. Furthermore, the development or expansion of our business, any acquired business or any acquired or in-licensed products may require a substantial capital investment by us. We may not have these necessary funds or they might not be available to us on acceptable terms or at all. We may also seek to raise funds by selling shares of our capital stock, which could dilute current stockholders ownership interest in our company, or securities convertible into our capital stock, which could dilute current stockholders ownership interest in our company upon conversion.

Our ability to use net operating loss carry forwards to reduce future tax payments may be limited if there is a change in ownership of Alexion, or if taxable income does not reach sufficient levels.

As of December 31, 2008, we have approximately $745,000 of U.S. Federal net operating loss carryforwards (NOLs) available to reduce taxable income in future years. A portion of these NOLs are currently subject to an annual limitation under section 382 of the Internal Revenue Code of 1986, as amended.

Our ability to utilize the NOLs may be further limited if we undergo an ownership change, as defined in section 382. This ownership change could be triggered by substantial changes in the ownership of our outstanding stock, which are generally outside of our control. An ownership change would exist if the stockholders, or group of stockholders, who own or have owned, directly or indirectly, 5% or more of the value of our stock, or are otherwise treated as 5% stockholders under section 382 and the regulations promulgated there under, increase their aggregate percentage ownership of our stock by more than 50 percentage points over the lowest percentage of our stock owned by these stockholders at any time during the testing period, which is generally the three-year period preceding the potential ownership change. In the event of an ownership change, section 382 imposes an annual limitation on the amount of post-ownership change taxable income a corporation may offset with pre-ownership change NOLs. The limitation imposed by section 382 for any post-change year would be determined by multiplying the value of our stock immediately before the ownership change (subject to certain adjustments) by the applicable long-term tax-exempt rate. Any unused annual limitation may be carried over to later years, and the limitation may under certain circumstances be increased by built-in gains which may be present with respect to assets held by us at the time of the ownership change that are recognized in the five-year period after the ownership change. Our use of NOLs arising after the date of an ownership change would not be affected.

In addition, the ability to use net operating loss carryforwards will be dependent on our ability to generate taxable income. The net operating loss carryforwards may expire before we generate sufficient taxable income. NOLs totaling $3,800 expired in the year ended December 31, 2007. No

NOLs expired during the year-ended December 31, 2008.

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ALEXION PHARMACEUTICALS, INC.

We may have exposure to additional tax liabilities which could have a material impact on our results of operations and financial position.

As a company with international operations, we are subject to income taxes, as well as non-income based taxes, in both the United States and various foreign jurisdictions. Significant judgment is required in determining our worldwide tax liabilities. Although we believe our estimates are reasonable, the ultimate outcome with respect to the taxes we owe may differ from the amounts recorded in our financial statements. If the Internal Revenue Service, or other taxing authority, disagrees with the positions taken by our company, we could have additional tax liability and this could have a material impact on our results of operations and financial position. In addition, the United States government and other governments are considering and may adopt tax reform measures that significantly increase our worldwide tax liabilities and materially harm our business, financial condition and results of operations.

Our international sales and operations are subject to the economic, political, legal and business conditions in the countries in which we do business, and our failure to operate successfully or adapt to changes in these conditions could cause our international sales and operations to be limited or disrupted.

Over the past few years, we have significantly expanded our international operations and expect to continue to do so in the future. Our operations in foreign countries subject us to the following additional risks:

- fluctuations in currency exchange rates;
- economic problems or political instability that disrupts foreign healthcare payment systems;
- difficulties or inability to obtain financing in international markets;
- unexpected changes in tariffs, trade barriers and regulatory requirements;
- difficulties enforcing contractual and intellectual property rights;
- changes in laws, regulations or enforcement practices with respect to our business, including without limitation laws relating to reimbursement, competition, pricing and sales and marketing of our products;
- trade restrictions and restrictions on direct investments by foreign entities;
- compliance with tax, employment and labor laws;
- costs and difficulties in staffing, managing and monitoring international operations; and
- longer payment cycles.

We conduct a substantial portion of our business in currencies other than the U.S. dollar, primarily Euros. While we attempt to hedge certain currency risks, currency fluctuations between the U.S. dollar and the currencies in which we do business have caused foreign currency transaction gains and losses in the past and will likely do so in the future. Likewise, past currency fluctuations have at times resulted in foreign currency transaction gains, and there can be no assurance that these gains can be reproduced.

The current credit and financial market conditions may aggravate certain risks affecting our business.

Sales of Soliris are dependent, in large part, on reimbursement from government health administration organizations and private and governmental third-party payers, and also co-payments from individual patients in certain situations. As a result of the current credit and financial market conditions, and the overall financial climate, these governmental organizations and payors, and/or individuals, may reduce or delay initiation of treatment, may be unable to satisfy their reimbursement obligations, may delay payment or may seek to reduce reimbursement for Soliris in the future, which could have a material adverse effect on our business and results of operations.

Additionally, we rely upon third-parties for certain parts of our business, including Lonza, our sole manufacturer of Soliris, licensees, wholesale distributors of Soliris, contract clinical trial providers, contract manufacturers and other third-party suppliers and financial institutions. Because of the recent volatility in the financial markets, there may be a disruption or delay in the performance or satisfaction of commitments to us by these third parties which could have a material adverse effect on our business and results of operations.

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ALEXION PHARMACEUTICALS, INC.

Healthcare reform measures could adversely affect our business.

The United States government and governments in foreign countries have shown significant interest in pursuing healthcare reform in order to reduce costs of healthcare. Any government-adopted reform measures could adversely impact the pricing of Soliris or the amount of reimbursement available for Soliris from governmental agencies or other third-party payors. The pricing and reimbursement environment for Soliris may become more challenging due to, among other reasons, policies of the administration or new healthcare legislation passed by Congress, or other changes in policy in the United States or in foreign countries. While we cannot predict what, if any, legislative or regulatory proposals will be adopted, the announcement or adoption of such proposals could delay or prevent our entry into new markets, affect our reimbursement or sales in the markets where we are already selling Soliris and materially harm our business, financial condition and results of operations.

Risks Related to Our Common Stock

If the trading price of our common stock continues to fluctuate in a wide range, our stockholders will suffer considerable uncertainty with respect to an investment in our common stock.

The trading price of our common stock has been volatile and may continue to be volatile in the future. Factors such as announcements of fluctuations in our or our competitors operating results or clinical or scientific results, fluctuations in the trading prices or business prospects of our competitors and collaborators, changes in our prospects, particularly with respect to sales of Soliris, and market conditions for biopharmaceutical stocks in general could have a significant impact on the future trading prices of our common stock and our convertible senior notes. In particular, the trading price of the common stock of many biopharmaceutical companies, including ours, has experienced extreme price and volume fluctuations, which have at times been unrelated to the operating performance of the companies whose stocks were affected. This is due to several factors, including general market conditions, sales of Soliris, the announcement of the results of our clinical trials or product development and the results of our efforts to obtain regulatory approval for our products. In particular, between January 1, 2007 and December 31, 2008, the closing sales price of our common stock fluctuated from a low of $17.89 per share to a high of $47.51 per share, as reported after giving effect to the forward two-for-one stock split effected on August 22, 2008. While we cannot predict our future performance, if our stock price continues to fluctuate in a wide range, an investment in our common stock may result in considerable uncertainty for an investor.

Anti-takeover provisions of Delaware law, provisions in our charter and bylaws and our stockholders rights plan, or poison pill, could make a third-party acquisition of us difficult and may frustrate any attempt to remove or replace our current management.

Because we are a Delaware corporation, the anti-takeover provisions of Delaware law could make it more difficult for a third party to acquire control of us, even if the change in control would be beneficial to stockholders. We are subject to the provisions of Section 203 of the Delaware General Laws, which prohibits a person who owns in excess of 15% of our outstanding voting stock from merging or combining with us for a period of three years after the date of the transaction in which the person acquired in excess of 15% of our outstanding voting stock, unless the merger or combination is approved in a prescribed manner.

Our corporate charter and by-law provisions and stockholder rights plan may discourage certain types of transactions involving an actual or potential change of control that might be beneficial to Alexion or its stockholders. Our bylaws provide that special meetings of our stockholders may be called only by the Chairman of the Board, the President, the Secretary, or a majority of the Board of Directors, or upon the written request of stockholders who together own of record 50% of the outstanding stock of all classes entitled to vote at such meeting. Our bylaws also specify that the authorized number of directors may be changed only by resolution of the board of directors. Our certificate does not include a provision for cumulative vonbsp;

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Initial Koncepts, Inc.

Statements of Operations and Comprehensive Income (Loss)

	For the Year Ended	
	December 31, 2013	**December 31, 2012**
Revenues	$ 9,200,313	$ 6,330,895
Cost of revenues	6,074,067	4,083,142
Gross margin	3,126,246	2,247,753
Operating expenses		
Compensation	2,721,131	1,317,276
Consulting fees	14,063	18,644
Professional fees	47,877	7,919
Selling, general and administrative	1,006,157	459,766
Total operating expenses	3,789,228	1,803,605
Income (loss) from operations	(662,982)	444,148
Other income (expense)		
Interest and dividend income	129	171
Interest expense	(154,549)	(88,033)
Loss on disposition of fixed assets		(1,653)
Net gain (loss) on sale of marketable securities	4,817	(653)
Other income (expense)	22	
Other income (expense), net	(149,581)	(90,168)
Income (loss) before income tax provision	(812,563)	353,980
Income tax provision		
Net income (loss)	(812,563)	353,980
Other comprehensive income (loss):		
Net unrealized gain on marketable securities	(1,717)	1,717
Other comprehensive income (loss)	(1,717)	1,717
Comprehensive income (loss)	$ (814,280)	$ 355,697

See accompanying notes to the financial statements

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Initial Koncepts, Inc.

Statement of Stockholder s Equity (Deficit)

For the Year Ended December 31, 2013 and 2012

	Common stock par value $0.01		Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity (Deficit)
	Shares	Amount			
Balance, December 31, 2011	300,000	$ 3,000	$ 47,405	$	$ 50,405
Distributions to shareholder			(78,800)		(78,800)
Comprehensive income (loss):					
Net income			353,980		353,980
Net unrealized gain on marketable securities				1,717	1,717
Total comprehensive income (loss)					355,697
Balance, December 31, 2012	300,000	3,000	322,585	1,717	327,302
Distributions to shareholder			(49,972)		(49,972)
Comprehensive income (loss):					
Net loss			(812,563)		(812,563)
Change in net unrealized gain on marketable securities				(1,717)	(1,717)
Total comprehensive income (loss)					(814,280)
Balance, December 31, 2013	**300,000**	**$ 3,000**	**$ (539,950)**	**$**	**$ (536,950)**

See accompanying notes to the financial statements

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Initial Koncepts, Inc.

Statements of Cash Flows

	For the Year Ended	
	December 31, 2013	**December 31, 2012**
Cash Flows From Operating Activities:		
Net income (loss)	$ (812,563)	$ 353,980
Adjustments to reconcile net income (loss) to net cash used in operating activities		
Depreciation and amortization	39,170	19,417
Amortization of debt issuance costs	1,753	8,762
(Gain) loss on sale of marketable securities	(4,817)	653
Loss on disposition of fixed assets		1,653
Changes in operating assets and liabilities:		
Restricted cash	(110,499)	
Accounts receivable	(208,944)	(484,630)
Unbilled revenues	(123,894)	(7,950)
Prepaid expenses and other current assets	20,255	(42,458)
Security deposits	(22,808)	(21,300)
Accounts payable and accrued liabilities	435,872	116,023
Deferred rent	73,192	
Net Cash Used in Operating Activities	(713,283)	(55,850)
Cash Flows From Investing Activities:		
Purchase of marketable securities		(126,182)
Proceeds from sale of marketable securities	27,748	76,074
Loans to related parties	(27,935)	(65,230)
Net Cash Used in Investing Activities	(187)	(115,338)
Cash Flows From Financing Activities:		
Advances from (repayments to) line of credit	253,336	500,494
Proceeds from (repayments to) factoring	106,120	(49,519)
Distributions to shareholder	(49,972)	(58,800)
Payment of capital lease	(36,983)	(19,469)
Proceeds from notes payable	375,000	55,000
Repayment of notes payable	(6,600)	(241,050)
Debt issue costs paid in cash		(10,515)
Net Cash Provided by Financing Activities	640,901	176,141
Net change in cash	(72,569)	4,953
Cash at beginning of year	78,180	73,227

Cash at end of year	**$ 5,611**	**$ 78,180**
Supplemental disclosures of cash flow information:		
Interest paid	$ 154,549	$ 88,033
Income tax paid	$	$
Supplemental disclosure of non-cash investing and financing activities:		
Capital lease of computer equipment	$ 182,303	$ 29,364
Factor paid via line of credit	$	$ 10,345
Line of credit paid via factor	$ 764,175	$
Shareholder personal loan paid via profit distribution	$	$ 20,000
Net unrealized gain on marketable securities	$	$ 1,717
Change in net unrealized gain (loss) on marketable securities to realized	$ 1,717	$

See accompanying notes to the financial statements

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Initial Koncepts, Inc.

December 31, 2013 and 2012

Notes to the Financial Statements

Note 1 Organization and Operations

Initial Koncepts, Inc. (DBA Six Dimensions)

Initial Koncepts, Inc. (the Company) was incorporated under the laws of the State of California on February 9, 2004. The Company provides enterprise implementation and integration consulting and staffing services.

Note 2 Significant and Critical Accounting Policies and Practices

The Management of the Company is responsible for the selection and use of appropriate accounting policies and the appropriateness of accounting policies and their application. Critical accounting policies and practices are those that are both most important to the portrayal of the Company s financial condition and results and require management s most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain. The Company s significant and critical accounting policies and practices are disclosed below as required by generally accepted accounting principles.

Basis of Presentation

The Company s financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Use of Estimates and Assumptions and Critical Accounting Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date(s) of the financial statements and the reported amounts of revenues and expenses during the reporting period(s).

Critical accounting estimates are estimates for which (a) the nature of the estimate is material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change and (b) the impact of the estimate on financial condition or operating performance is material. The Company s critical accounting estimates and assumptions affecting the financial statements were:

(i) *Assumption as a going concern*: Management assumes that the Company will continue as a going concern, which contemplates continuity of operations, realization of assets, and liquidation of liabilities in the normal course of business;

(ii) *Allowance for doubtful accounts*: Management s estimate of the allowance for doubtful accounts is based on historical sales, historical loss levels, and an analysis of the collectability of individual accounts; and general

economic conditions that may affect a client s ability to pay. The Company evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole;

(iii) *Fair value of long-lived assets*: Fair value is generally determined using the asset s expected future discounted cash flows or market value, if readily determinable. If long-lived assets are determined to be recoverable, but the newly determined remaining estimated useful lives are shorter than originally estimated, the net book values of the long-lived assets are depreciated over the newly determined remaining estimated useful lives. The Company considers the following to be some examples of important indicators that may trigger an impairment review: (i) significant under-performance or losses of assets relative to expected historical or projected future operating results; (ii) significant changes in

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the manner or use of assets or in the Company s overall strategy with respect to the manner or use of the acquired assets or changes in the Company s overall business strategy; (iii) significant negative industry or economic trends; (iv) increased competitive pressures; (v) a significant decline in the Company s stock price for a sustained period of time; and (vi) regulatory changes. The Company evaluates acquired assets for potential impairment indicators at least annually and more frequently upon the occurrence of such events;

(iv) *Valuation allowance for deferred tax assets*: Management assumes that the realization of the Company s net deferred tax assets resulting from its net operating loss (NOL) carry-forwards for Federal income tax purposes that may be offset against future taxable income was not considered more likely than not and accordingly, the potential tax benefits of the net loss carry-forwards are offset by a full valuation allowance. Management made this assumption based on (a) the Company has incurred recurring losses, (b) general economic conditions, and (c) its ability to raise additional funds to support its daily operations by way of a public or private offering, among other factors;

These significant accounting estimates or assumptions bear the risk of change due to the fact that there are uncertainties attached to these estimates or assumptions, and certain estimates or assumptions are difficult to measure or value.

Management bases its estimates on historical experience and on various assumptions that are believed to be reasonable in relation to the financial statements taken as a whole under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources.

Management regularly evaluates the key factors and assumptions used to develop the estimates utilizing currently available information, changes in facts and circumstances, historical experience and reasonable assumptions. After such evaluations, if deemed appropriate, those estimates are adjusted accordingly.

Actual results could differ from those estimates.

Fair Value of Financial Instruments

The Company follows paragraph 825-10-50-10 of the FASB Accounting Standards Codification for disclosures about fair value of its financial instruments and has adopted paragraph 820-10-35-37 of the FASB Accounting Standards Codification (Paragraph 820-10-35-37) to measure the fair value of its financial instruments. Paragraph 820-10-35-37 establishes a framework for measuring fair value in accounting principles generally accepted in the United States of America (U.S. GAAP), and expands disclosures about fair value measurements. To increase consistency and comparability in fair value measurements and related disclosures, Paragraph 820-10-35-37 establishes a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value into three (3) broad levels. The three (3) levels of fair value hierarchy defined by Paragraph 820-10-35-37 are described below:

Level 1	Quoted market prices available in active markets for identical assets or liabilities as of the reporting date.
Level 2	Pricing inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date.
Level 3	Pricing inputs that are generally observable inputs and not corroborated by market data.

Financial assets are considered Level 3 when their fair values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable.

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The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. If the inputs used to measure the financial assets and liabilities fall within more than one level described above, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

The carrying amounts of the Company s financial assets and liabilities, such as cash, accounts receivable, unbilled revenues, prepaid expense and other current assets, accounts payable and accrued liabilities, and due to factor, approximate their fair values because of the short maturity of these instruments.

The Company s capital lease liability and notes payable approximate the fair value of such instruments based upon management s best estimate of interest rates that would be available to the Company for similar financial arrangements at December 31, 2013 and 2012.

The Company s Level 1 financial assets consist of marketable equity securities available for sale, that are traded in active markets with sufficient volume and frequency of transactions. The fair values of these assets were determined from quoted prices in active markets for identical assets.

Transactions involving related parties cannot be presumed to be carried out on an arm s-length basis, as the requisite conditions of competitive, free-market dealings may not exist. Representations about transactions with related parties, if made, shall not imply that the related party transactions were consummated on terms equivalent to those that prevail in arm s-length transactions unless such representations can be substantiated.

Fair Value of Financial Assets and Liabilities Measured on a Recurring Basis

Level 1 Financial Assets Marketable Equity Securities

The Company uses Level 1 of the fair value hierarchy to measure the fair value of equity securities at every reporting period and reports unrealized gains or losses (those which are considered temporary), net of taxes, as a separate component of stockholders equity that are attributable to the change in the fair value of the equity securities.

Financial assets and liabilities measured at fair value on a recurring basis are summarized below and disclosed on the balance sheets as follows:

		Fair Value Measurement Using			
December 31, 2013		**Level 1**	**Level 2**	**Level 3**	**Total**
Marketable securities	Common stocks	$	$	$	$

		Fair Value Measurement Using			
December 31, 2012		**Level 1**	**Level 2**	**Level 3**	**Total**
Marketable securities	Common stocks	$ 24,648	$	$	$ 24,648

Carrying Value, Recoverability and Impairment of Long-Lived Assets

The Company has adopted paragraph 360-10-35-17 of the FASB Accounting Standards Codification for its long-lived assets. The Company s long-lived assets, which include property and equipment and intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be

recoverable.

The Company assesses the recoverability of its long-lived assets by comparing the projected undiscounted net cash flows associated with the related long-lived asset or group of long-lived assets over their remaining estimated useful lives against their respective carrying amounts. Impairment, if any, is based on the excess of the carrying amount over the fair value of those assets. Fair value is generally determined using the asset s expected

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future discounted cash flows or market value, if readily determinable. When long-lived assets are determined to be recoverable, but the newly determined remaining estimated useful lives are shorter than originally estimated, the net book values of the long-lived assets are depreciated over the newly determined remaining estimated useful lives.

The Company considers the following to be some examples of important indicators that may trigger an impairment review: (i) significant under-performance or losses of assets relative to expected historical or projected future operating results; (ii) significant changes in the manner or use of assets or in the Company s overall strategy with respect to the manner or use of the acquired assets or changes in the Company s overall business strategy; (iii) significant negative industry or economic trends; (iv) increased competitive pressures; (v) a significant decline in the Company s stock price for a sustained period of time; and (vi) regulatory changes. The Company evaluates acquired assets for potential impairment indicators at least annually and more frequently upon the occurrence of such events.

The key assumptions used in management s estimates of projected cash flow deal largely with forecasts of sales levels, gross margins, and operating costs of the manufacturing facilities. These forecasts are typically based on historical trends and take into account recent developments as well as management s plans and intentions. Any difficulty in manufacturing or sourcing raw materials on a cost effective basis would significantly impact the projected future cash flows of the Company s manufacturing facilities and potentially lead to an impairment charge for long-lived assets. Other factors, such as increased competition or a decrease in the desirability of the Company s products, could lead to lower projected sales levels, which would adversely impact cash flows. A significant change in cash flows in the future could result in an impairment of long lived assets.

The impairment charges, if any, is included in operating expenses in the accompanying statements of operations.

Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents.

Marketable Debt and Equity Securities, Available for Sale

The Company accounts for marketable debt and equity securities, available for sale, in accordance with sub-topic 320-10 of the FASB Accounting Standards Codification (Sub-topic 320-10).

Pursuant to Paragraph 320-10-35-1, investments in debt securities that are classified as available for sale and equity securities that have readily determinable fair values that are classified as available for sale shall be measured subsequently at fair value in the consolidated balance sheets at each balance sheet date. Unrealized holding gains and losses for available-for-sale securities (including those classified as current assets) shall be excluded from earnings and reported in other comprehensive income until realized except an available-for-sale security that is designated as being hedged in a fair value hedge, from which all or a portion of the unrealized holding gain and loss of shall be recognized in earnings during the period of the hedge, pursuant to paragraphs 815-25-35-1 through 815-25-35-4.

The Company follows Paragraphs 320-10-35-17 through 34E and assess whether an investment is impaired in each reporting period. An investment is impaired if the fair value of the investment is less than its cost. Impairment indicators include, but are not limited to the following: a. a significant deterioration in the earnings performance, credit rating, asset quality, or business prospects of the investee; b. a significant adverse change in the regulatory, economic, or technological environment of the investee; c. a significant adverse change in the general market condition of either the geographic area or the industry in which the investee operates; d. a bona fide offer to purchase

(whether solicited or unsolicited), an offer by the investee to sell, or a completed auction process for the same or similar security for an amount less than the cost of the investment; e. factors that raise

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significant concerns about the investee s ability to continue as a going concern, such as negative cash flows from operations, working capital deficiencies, or noncompliance with statutory capital requirements or debt covenants. If the fair value of an investment is less than its cost basis at the balance sheet date of the reporting period for which impairment is assessed, the impairment is either temporary or other than temporary. Pursuant to Paragraph 320-10-35-34, if it is determined that the impairment is other than temporary, then an impairment loss shall be recognized in earnings equal to the entire difference between the investment s cost and its fair value at the balance sheet date of the reporting period for which the assessment is made. The measurement of the impairment shall not include partial recoveries after the balance sheet date. The fair value of the investment would then become the new basis of the investment and shall not be adjusted for subsequent recoveries in fair value. For presentation purpose, the entity shall recognize and present the total other-than-temporary impairment in the statement of earnings with an offset for the amount of the total other-than-temporary impairment that is recognized in other comprehensive income, in accordance with paragraph 320-10-35-34D, if any, pursuant to Paragraph 320-10-45-8A; and separately present, in the financial statement in which the components of accumulated other comprehensive income are reported, amounts recognized therein related to held-to-maturity and available-for-sale debt securities for which a portion of an other-than-temporary impairment has been recognized in earnings pursuant to Paragraph 320-10-45-9A. Pursuant to Paragraphs 320-10-35-36 and 37 the entire change in the fair value of foreign-currency-denominated available-for-sale debt securities shall be reported in other comprehensive income and An entity holding a foreign-currency-denominated available-for-sale debt security is required to consider, among other things, changes in market interest rates and foreign exchange rates since acquisition in determining whether an other-than-temporary impairment has occurred.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at the invoiced amount, net of an allowance for doubtful accounts. The Company follows paragraph 310-10-50-9 of the FASB Accounting Standards Codification to estimate the allowance for doubtful accounts. The Company performs on-going credit evaluations of its customers and adjusts credit limits based upon payment history and the customer s current credit worthiness, as determined by the review of their current credit information; and determines the allowance for doubtful accounts based on historical write-off experience, customer specific facts and economic conditions.

Pursuant to paragraph 310-10-50-2 of the FASB Accounting Standards Codification account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company has adopted paragraph 310-10-50-6 of the FASB Accounting Standards Codification and determine when receivables are past due or delinquent based on how recently payments have been received.

Outstanding account balances are reviewed individually for collectability. The allowance for doubtful accounts is the Company s best estimate of the amount of probable credit losses in the Company s existing accounts receivable. Bad debt expense is included in general and administrative expenses, if any.

There was no allowance for doubtful accounts at December 31, 2013 or 2012, or bad debt expense for the reporting periods then ended.

The Company does not have any off-balance-sheet credit exposure to its customers.

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Property and Equipment

Property and equipment is recorded at cost. Expenditures for major additions and betterments are capitalized. Maintenance and repairs are charged to operations as incurred. Depreciation of property and equipment is computed by the straight-line method (after taking into account their respective estimated residual values) over the estimated useful lives of the respective assets as follows:

	Estimated Useful Life (Years)
Computers	3-5
Computers and related equipment under capital lease	*

(*) Amortized on a straight-line basis over the term of the lease or the estimated useful lives, whichever is shorter. Upon sale or retirement of property and equipment, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is reflected in statements of operations.

Leases

Lease agreements are evaluated to determine whether they are capital leases or operating leases in accordance with paragraph 840-10-25-1 of the FASB Accounting Standards Codification (Paragraph 840-10-25-1). Pursuant to Paragraph 840-10-25-1 A lessee and a lessor shall consider whether a lease meets any of the following four criteria as part of classifying the lease at its inception under the guidance in the Lessees Subsection of this Section (for the lessee) and the Lessors Subsection of this Section (for the lessor): a. Transfer of ownership. The lease transfers ownership of the property to the lessee by the end of the lease term. This criterion is met in situations in which the lease agreement provides for the transfer of title at or shortly after the end of the lease term in exchange for the payment of a nominal fee, for example, the minimum required by statutory regulation to transfer title. b. Bargain purchase option. The lease contains a bargain purchase option. c. Lease term. The lease term is equal to 75 percent or more of the estimated economic life of the leased property. d. Minimum lease payments. The present value at the beginning of the lease term of the minimum lease payments, excluding that portion of the payments representing executory costs such as insurance, maintenance, and taxes to be paid by the lessor, including any profit thereon, equals or exceeds 90 percent of the excess of the fair value of the leased property to the lessor at lease inception over any related investment tax credit retained by the lessor and expected to be realized by the lessor. In accordance with paragraphs 840-10-25-29 and 840-10-25-30, if at its inception a lease meets any of the four lease classification criteria in Paragraph 840-10-25-1, the lease shall be classified by the lessee as a capital lease; and if none of the four criteria in Paragraph 840-10-25-1 are met, the lease shall be classified by the lessee as an operating lease. Pursuant to Paragraph 840-10-25-31 a lessee shall compute the present value of the minimum lease payments using the lessee s incremental borrowing rate unless both of the following conditions are met, in which circumstance the lessee shall use the implicit rate: a. It is practicable for the lessee to learn the implicit rate computed by the lessor. b. The implicit rate computed by the lessor is less than the lessee s incremental borrowing rate. Capital lease assets are depreciated on a straight line method, over the capital lease assets estimated useful lives consistent with the Company s normal depreciation policy for tangible fixed assets. Interest charges are expensed over the period of the lease in relation to the carrying value of the capital lease obligation.

Operating leases primarily relate to the Company s leases of office spaces. When the terms of an operating lease include tenant improvement allowances, periods of free rent, rent concessions, and/or rent escalation amounts, the Company establishes a deferred rent liability for the difference between the scheduled rent payment and the straight-line rent expense recognized, which is amortized over the underlying lease term on a straight-line basis as a reduction of rent expense.

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Intangible Assets Other Than Goodwill

The Company has adopted Subtopic 350-30 of the FASB Accounting Standards Codification for intangible assets other than goodwill. Under the requirements, the Company amortizes the acquisition costs of intangible assets other than goodwill on a straight-line basis over their estimated useful lives, the terms of the exclusive licenses and/or agreements, or the terms of legal lives of the intangible assets, whichever is shorter. Upon becoming fully amortized, the related cost and accumulated amortization are removed from the accounts.

Research and Development and Capitalized Software Development Costs

The Company has adopted paragraph 985-20-05-01 of the FASB Accounting Standards Codification (Paragraph 985-20-05-01) for the costs of computer software to be sold or licensed. Paragraph 985-20-05-01 requires research and development costs incurred in the process of software development before establishment of technological feasibility being expensed as incurred and capitalization of software development costs incurred subsequent to establishment of technological feasibility and prior to the availability of the product for general release to customers. Systematic amortization of capitalized software development costs begins when a product is available for general release to customers and is computed on a product-by-product basis at a rate not less than straight-line basis over the product s remaining estimated economic life of three (3) years.

Related Parties

The Company follows subtopic 850-10 of the FASB Accounting Standards Codification for the identification of related parties and disclosure of related party transactions.

Pursuant to Section 850-10-20 the related parties include a. affiliates of the Company; b. entities for which investments in their equity securities would be required, absent the election of the fair value option under the Fair Value Option Subsection of Section 825-10-15, to be accounted for by the equity method by the investing entity; c. trusts for the benefit of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management; d. principal owners of the Company; e. management of the Company; f. other parties with which the Company may deal if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests; and g. other parties that can significantly influence the management or operating policies of the transacting parties or that have an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

The financial statements shall include disclosures of material related party transactions, other than compensation arrangements, expense allowances, and other similar items in the ordinary course of business. However, disclosure of transactions that are eliminated in the preparation of combined financial statements is not required in those statements. The disclosures shall include: a. the nature of the relationship(s) involved; b. a description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which income statements are presented, and such other information deemed necessary to an understanding of the effects of the transactions on the financial statements; c. the dollar amounts of transactions for each of the periods for which income statements are presented and the effects of any change in the method of establishing the terms from that used in the preceding period; and d. amounts due from or to related parties as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement.

Commitment and Contingencies

The Company follows subtopic 450-20 of the FASB Accounting Standards Codification to report accounting for contingencies. Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. The

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Company assesses such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company s financial statements. If the assessment indicates that a potential material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, and an estimate of the range of possible losses, if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the guarantees would be disclosed. Management does not believe, based upon information available at this time, that these matters will have a material adverse effect on the Company s financial position, results of operations or cash flows. However, there is no assurance that such matters will not materially and adversely affect the Company s business, financial position, and results of operations or cash flows.

Revenue Recognition

The Company follows paragraph 605-10-S99-1 of the FASB Accounting Standards Codification for revenue recognition. The Company will recognize revenue from the provision of professional services when it is realized or realizable and earned. The Company considers revenue realized or realizable and earned when all of the following criteria are met: (i) persuasive evidence of an arrangement exists, (ii) the services have been rendered to the customer, (iii) the sales price is fixed or determinable, and (iv) collectability is reasonably assured. Appropriate allowances for returns and discounts are recorded concurrent with revenue recognition.

Revenues recognized in excess of the amounts as yet invoiced to clients are classified as unbilled revenues.

Income Tax Provision

The Company is taxed as an S Corporation under the Internal Revenue Code and applicable state statutes. Under an S Corporation election, the income of the Company flows through to the stockholders to be taxed at the individual level rather than the corporate level. Accordingly, the Company has no tax liability at the federal level (with limited exceptions) as long as the S Corporation election is in effect.

In addition, the Company has elected to be treated as a Subchapter S corporation for Arizona, California, Colorado, Kentucky, Massachusetts, Ohio and Virginia corporate income tax purposes. This treatment imposes individual income taxes on the shareholder s respective shares of corporate profits and results in a significantly reduced corporate level state tax.

The income allocable to each shareholder is subject to examination by federal and state taxing authorities. In the event of an examination of the income tax returns, the tax liability of the stockholders could be changed if an adjustment in the income is ultimately determined by the taxing authorities.

Accordingly, these financial statements do not reflect a provision for income taxes. Minimum and franchise taxes assessed by states and local agencies are reported in selling, general and administrative expenses in the statement of operations.

Certain transactions of the Company may be subject to accounting methods for federal income tax purposes that differ significantly from the accounting methods used in preparing the statements in accordance with generally accepted accounting principles. Accordingly, the taxable income of the Company reported for federal income tax purposes may differ from net income in these financial statements.

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Pro Forma Income Tax Information (Unaudited)

The Company is taxed as an S corporation. The operating results of Initial Koncepts were included in the income tax returns of the stockholder of an S corporation for income tax purposes. The unaudited pro forma income tax rate, income tax provision, deferred tax assets, and the valuation allowance of deferred tax assets included in the accompanying consolidated statements of operations and the income tax provision note reflect the provision for income tax which would have been recorded as if Initial Koncepts had been incorporated as a C Corporation as of the beginning of the first date presented.

Cash Flows Reporting

The Company adopted paragraph 230-10-45-24 of the FASB Accounting Standards Codification for cash flows reporting, classifies cash receipts and payments according to whether they stem from operating, investing, or financing activities and provides definitions of each category, and uses the indirect or reconciliation method (Indirect method) as defined by paragraph 230-10-45-25 of the FASB Accounting Standards Codification to report net cash flow from operating activities by adjusting net income to reconcile it to net cash flow from operating activities by removing the effects of (a) all deferrals of past operating cash receipts and payments and all accruals of expected future operating cash receipts and payments and (b) all items that are included in net income that do not affect operating cash receipts and payments. The Company reports the reporting currency equivalent of foreign currency cash flows, using the current exchange rate at the time of the cash flows and the effect of exchange rate changes on cash held in foreign currencies is reported as a separate item in the reconciliation of beginning and ending balances of cash and cash equivalents and separately provides information about investing and financing activities not resulting in cash receipts or payments in the period pursuant to paragraph 830-230-45-1 of the FASB Accounting Standards Codification.

Comprehensive Income (Loss)

The Company has applied section 220-10-45 of the FASB Accounting Standards Codification. This statement establishes rules for the reporting of comprehensive income and its components. Comprehensive income (loss), for the Company, consists of net income (loss), and change in unrealized gain (loss) of marketable equity securities.

Subsequent Events

The Company follows the guidance in Section 855-10-50 of the FASB Accounting Standards Codification for the disclosure of subsequent events. The Company will evaluate subsequent events through the date when the financial statements are issued. Pursuant to ASU 2010-09 of the FASB Accounting Standards Codification, the Company as an SEC filer considers its financial statements issued when they are widely distributed to users, such as through filing them on EDGAR.

Recently Issued Accounting Pronouncements

In April 2014, the FASB issued ASU No. 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.* The amendments in this Update change the requirements for reporting discontinued operations in Subtopic 205-20.

Under the new guidance, a discontinued operation is defined as a disposal of a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has (or will have) a major effect

on an entity s operations and financial results. The ASU states that a strategic shift could include a disposal of (i) a major geographical area of operations, (ii) a major line of business, (iii) a major equity method investment, or (iv) other major parts of an entity. Although major is not defined, the standard provides examples of when a disposal qualifies as a discontinued operation.

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The ASU also requires additional disclosures about discontinued operations that will provide more information about the assets, liabilities, income and expenses of discontinued operations. In addition, the ASU requires disclosure of the pre-tax profit or loss attributable to a disposal of an individually significant component of an entity that does not qualify for discontinued operations presentation in the financial statements.

The ASU is effective for public business entities for annual periods beginning on or after December 15, 2014, and interim periods within those years.

Management does not believe that any other recently issued, but not yet effective accounting pronouncements, if adopted, would have a material effect on the accompanying financial statements.

Note 3 Going Concern

The financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates continuity of operations, realization of assets, and liquidation of liabilities in the normal course of business.

As reflected in the financial statements, the Company had an accumulated deficit at December 31, 2013, a net loss and net cash used in operating activities for the reporting period then ended. These factors raise substantial doubt about the Company s ability to continue as a going concern.

The Company is attempting to further implement its business plan and generate sufficient revenue; however, the Company s cash position may not be sufficient to support its daily operations. While the Company believes in the viability of its strategy to further implement its business plan and generate sufficient revenue and in its ability to raise additional funds by way of a public or private offering, there can be no assurances to that effect. The ability of the Company to continue as a going concern is dependent upon its ability to further implement its business plan and generate sufficient revenue and its ability to raise additional funds by way of a public or private offering.

The financial statements do not include any adjustments related to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Note 4 Marketable Equity Securities

The Company did not hold any marketable equity securities at December 31, 2013. At December 31, 2012 all of the Company s marketable equity securities were classified as available-for-sale and their estimated fair values were $24,648.

Marketable equity securities consisted of the following at December 31, 2012:

	Available-for-Sale Securities as of December 31, 2012			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available for Sale				
Common Stocks	$ 22,931	$ 3,440	$ (1,723)	$ 24,648

The change in net unrealized holding gain (loss) on securities available for sale that has been included as a separate component of stockholders equity for the year ended December 31, 2013 and 2012 was $- and $1,717, respectively.

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Note 5 Property and Equipment

Property and equipment, stated at cost, less accumulated depreciation consisted of the following:

	Estimated Useful Life (Years)	December 31, 2013	December 31, 2012
Computers and related equipment under capital lease	*	$ 80,400	$ 66,979
		80,400	66,979
Less accumulated depreciation and amortization		(51,367)	(26,271)
		$ 29,033	$ 40,708

* To be amortized over the term of the lease or its estimated useful life, whichever is shorter.

(i) Impairment

The Company completed its annual impairment testing of property and equipment and determined that there was no impairment as the fair value of property, plant and equipment, substantially exceeded their carrying values at December 31, 2013.

(ii) Depreciation and Amortization Expense

Depreciation and amortization expense was $25,096 and $19,417 for the year ended December 31, 2013 and 2012, respectively.

Note 6 Capitalized Software

Capitalized software, stated at cost, less accumulated amortization consisted of the following:

	Estimated Useful Life (Years)	December 31, 2013	December 31, 2012
Capitalized software under lease	*	$ 168,882	$
Less accumulated amortization		(14,074)	( )
		$ 154,808	$

* To be amortized over the term of the lease or its estimated useful life, whichever is shorter.

(i) Impairment

The Company completed its annual impairment testing of the capitalized software and determined that there was no impairment as the fair value of property, plant and equipment, substantially exceeded their carrying values at December 31, 2013.

(ii) Amortization Expense

Amortization expense amounted to $14,074 and $0 for the year ended December 31, 2013 and 2012, respectively.

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Amortization expense for the next five years is as follows:

Fiscal Year ending December 31:	
2014	$ 56,294
2015	56,294
2016	42,220
	$ 154,808

Note 7 Related Party Transactions:

Due from Related Party

The Company has a loan outstanding to its sole-shareholder. During the year ended December 31, 2013 and 2012 the Company advanced monies totaling $27,935 and $65,230 to this individual, respectively. This receivable does not bear interest and a definite repayment schedule did not exist at the date of this report. The balance as of December 31, 2013 and 2012 was $410,130 and $382,195, respectively.

On March 31, 2014, the loan balance was eliminated as the Company treated the loan balance as a stockholder distribution.

Storage Lease

The Company presently leases a storage facility on a month to month basis from a related company. Monthly rental payments are $600. Rent expense totaled $7,200 each for the year ended December 31, 2013 and 2012, respectively.

Note 8 Letter of Credit and Restricted Cash

The Company has secured a standby letter of credit for the benefit of RFR/SF17 State Street L.P. for the required security deposit on their office facility in New York.

The Bank letter of credit is in the amount of $110,421.50. The letter of credit expires on July 01, 2014 and contains automatic renewal periods of one year.

The fair value of this letter of credit approximates the contract value. The letter of credit was collateralized by $110,499 of cash at December 31, 2013, which was reported as restricted on the balance sheets.

Note 9 Line of Credit

In February 2012 the Company established a revolving working capital line of credit (the facility) available through First Community Financial. The credit line is limited to total borrowings of $750,000. The initial contract term will be for one year, and will be renewable on an annual basis thereafter. Interest is computed using the rate of 2.50% per annum in excess of the JP Morgan Chase bank prime floating rate with a floor of 5.75% per annum. The credit line is secured by all Company assets with a perfected first security interest in accounts receivable. Advances under the facility will be up to 85% against a pool of eligible receivables. In August 2013 the Company entered into a factoring agreement and the facility was paid off by the Factor and closed. The total outstanding principal amount at

December 31, 2013 and 2012 was $0 and $510,839, respectively.

Note 10 Due to Factor

On July 21, 2008, the Company signed a one year agreement, renewable each year, with a financial services company (the Factor) for the purchase and sale of accounts receivables. The financial services company commenced funding during July 2008. The financial services company advances up to 80% of qualified customer invoices, less applicable discount fees, and holds the remaining 20% as a reserve until the customer pays the

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financial services company. The released reserves are returned to the Company. The Company is charged 0.425% for the first 5 days outstanding plus 0.425% for each 5 days the funds are outstanding over 5 days. Uncollectable customer invoices are charged back to the Company after 90 days. Advances from the factor are collateralized by substantially all assets of the Company. In March 2012 the Factor was paid off using the Company s line of credit and the factoring agreement was terminated.

On August 6, 2013, the Company signed a one year agreement with a financial services company for the purchase and sale of accounts receivables. The financial services company commenced funding during August 2013. The financial services company advances up to 90% of qualified customer invoices, less applicable discount fees, and holds the remaining 10% as a reserve until the customer pays the financial services company. The released reserves are returned to the Company. The Company is charged 0.70% for the first 30 days outstanding plus prime plus 1.75% daily for funds outstanding over 30 days. Uncollectable customer invoices are charged back to the Company after 90 days. At December 31, 2013 the advances from the factor, inclusive of fees, amounted to $977,160 which was offset against due from factor of $106,865. Advances from the factor are collateralized by substantially all assets of the Company.

Note 11 Notes Payable

Notes payable consisted of the following:

	December 31, 2013	December 31, 2012
Debt offering (A): Prior to January 1, 2012, the Company executed a note with the United States Small Business Administration (SBA) with the following terms and conditions: (i) Maturing in 2021; (ii) Interest at 0%; (iii) Monthly fixed principal of $550; and (iv) Secured by all assets of the Company.	$ 66,620	$ 73,220
Debt offering (B): On March 20, 2009 the Company sold one $150,000 note with the following terms and conditions: (i) Maturing in December 2014 as amended; (ii) Interest rate at 1% per month, with interest payable monthly; (iii) The Company can prepay $75,000 after six months with no penalty; and (iv) Secured by trade receivables of the Company.	150,000	150,000
Debt offering (C): On January 20, 2012 the Company sold one $55,000 note with the following terms and conditions: (i) Maturing in December 2014 as amended; (ii) Interest rate at 1% per month, with interest payable monthly; (iii) The Company can prepay $27,500 after six months with no penalty; and (iv) Secured by trade receivables of the Company.	55,000	55,000
Debt offering (D): On May 29, 2013 the Company sold one $100,000 note with the following terms and conditions: (i) Maturing in December 2014 as amended; (ii) Interest rate at 1% per month, with interest payable monthly; (iii) The Company can prepay $50,000 after six months with no penalty; and (iv) Secured by trade receivables of the Company.	100,000	

Debt offering (E): On July 20, 2013 the Company sold one $50,000 note with the following terms and conditions: (i) Maturing in July 2014; (ii) Interest rate at 1% per month, with interest payable monthly; (iii) The Company can prepay $25,000 after six months with no penalty; and (iv) Secured by trade receivables of the Company.	50,000
Debt offering (F): On July 23, 2013 the Company sold one $25,000 note with the following terms and conditions: (i) Maturing in April 2014 as amended; (ii) Interest rate at 1% per month, with interest payable monthly; (iii) The Company can prepay $12,500 after one month with no penalty; and (iv) Secured by trade receivables of the Company.	25,000

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	December 31, 2013	December 31, 2012
Debt offering (G): On October 3, 2013 the Company sold one $50,000 note with the following terms and conditions: (i) Maturing in April 2014; (ii) Interest rate at 1% per month, with interest payable monthly; (iii) The Company can prepay $25,000 after three months with no penalty; and (iv) Secured by trade receivables of the Company.	50,000	
Debt offering (H): On October 4, 2013 the Company sold one $50,000 note with the following terms and conditions: (i) No definite repayment schedule as amended; (ii) Interest rate at 1% per month, with interest payable monthly; (iii) The Company can prepay $25,000 after one month with no penalty; and (iv) Secured by trade receivables of the Company.	50,000	
Debt offering (I): On October 9, 2013 the Company sold one $50,000 note with the following terms and conditions: (i) No definite repayment schedule as amended; (ii) Interest rate at 1% per month, with interest payable monthly; (iii) The Company can prepay $25,000 after one month with no penalty; and (iv) Secured by trade receivables of the Company.	50,000	
Debt offering (J): On October 26, 2013 the Company sold one $50,000 note with the following terms and conditions: (i) Maturing in April 2014 as amended; (ii) Interest rate at 1% per month, with interest payable monthly; (iii) The Company can prepay $25,000 after one month with no penalty; and (iv) Secured by trade receivables of the Company.	50,000	
	646,620	278,220
Less: Current maturities	(586,600)	(211,600)
Notes payable, net of Current maturities	$ 60,020	$ 66,620

Future minimum debt repayments at December 31, 2013 are as follows:

Year ending December 31:

2014	$ 586,600
2015	6,600
2016	6,600
2017	6,600
2018	6,600
2019 and thereafter	33,620
	$ 646,620

Note 12 Capital Lease Liability

Capital lease liability is as follows:

	December 31, 2013	December 31, 2012
Capital Lease Obligation (A): In September, 2010 the Company entered into a capital lease obligation with the following terms and conditions: (i) Maturing in September, 2013; (ii) Interest at 5.75%; (iii) Payable in 36 monthly payments of $260.40.	$	$ 2,023
Capital Lease Obligation (B): In July, 2011 the Company entered into a capital lease obligation with the following terms and conditions: (i) Maturing in July, 2014; (ii) Interest at 5.75%; (iii) Payable in 36 monthly payments of $406.90.	2,399	6,959

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	December 31, 2013	December 31, 2012
Capital Lease Obligation (C): In September, 2011 the Company entered into a capital lease obligation with the following terms and conditions: (i) Maturing in September, 2014; (ii) Interest at 5.75%; (iii) Payable in 36 monthly payments of $479.78.	3,760	9,133
Capital Lease Obligation (D): In January, 2012 the Company entered into a capital lease obligation with the following terms and conditions: (i) Maturing in January, 2015; (ii) Interest at 5.75%; (iii) Payable in 36 monthly payments of $227.87.	2,650	5,150
Capital Lease Obligation (E): In June, 2012 the Company entered into a capital lease obligation with the following terms and conditions: (i) Maturing in December, 2014; (ii) Interest at 5.75%; (iii) Payable in 30 monthly payments of $778.87.	8,328	16,925
Capital Lease Obligation (F): In March, 2013 the Company entered into a capital lease obligation with the following terms and conditions: (i) Maturing in September, 2018; (ii) Interest at 5.75%; (iii) Payable in 24 monthly payments of $634.28.	8,510	
Capital Lease Obligation (G): In July, 2013 the Company entered into a capital lease obligation with the following terms and conditions: (i) Maturing in September, 2018; (ii) Interest at 5.75%; (iii) Payable in 60 monthly payments of $1,141.35.	54,336	
Capital Lease Obligation (H): In July, 2013 the Company entered into a capital lease obligation with the following terms and conditions: (i) Maturing in September, 2018; (ii) Interest at 5.75%; (iii) Payable in 60 monthly payments of $1,141.36.	52,301	
Capital Lease Obligation (I): In July, 2013 the Company entered into a capital lease obligation with the following terms and conditions: (i) Maturing in September, 2018; (ii) Interest at 5.75%; (iii) Payable in 60 monthly payments of $1,141.37.	51,956	
	184,240	40,190
Less: Current maturities	(52,892)	(38,254)
Notes payable, net of Current maturities	$ 131,348	$ 1,936

Future minimum capital lease obligations at December 31, 2013 are as follows:

Year ending December 31:

	Gross Lease Payments	Less Amount Representing Interest	Principal Portion

2014	$ 65,699	$ 12,807	$ 52,892
2015	42,846	9,513	33,333
2016	41,089	6,801	34,288
2017	41,089	3,737	37,352
2018	27,393	1,018	26,375
2019 and thereafter			
	$ 218,116	$ 33,876	$ 184,240

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Assets held through capital lease agreements at December 31, 2013 and 2012, and included in fixed assets, were as follows:

	December 31, 2013	December 31, 2012
Computers and Computer Equipment	$ 80,400	$ 66,979
Less: Accumulated Depreciation	(51,367)	(26,271)
Net Book Value	$ 29,033	$ 40,708

Interest rates on capitalized leases are imputed based on the lower of Company s incremental borrowing rate at the inception of each lease or the lessor s implicit rate of return.

Note 13 Stockholders Equity (Deficit)

Distributions to Shareholder

During the year ending December 31, 2013 and 2012, the Company made distributions of $49,972 and $78,800, respectively, to its sole-shareholder.

Accumulated Other Comprehensive Income

The following is a summary of the Company s changes in accumulated other comprehensive income by component for the period January 1, 2012 through December 31, 2013:

	Unrealized Gains And Losses on Available-for-Sale Securities
Balance January 1, 2012	$
Other comprehensive income before reclassifications	1,717
Amounts reclassified from accumulated other comprehensive income	
Net current-period other comprehensive income	1,717
Balance December 31, 2012	1,717
Other comprehensive income before reclassifications	
Amounts reclassified from accumulated other comprehensive income	(1,717)
Net current-period other comprehensive income	

Balance December 31, 2013		$

The following is a summary of the Company s reclassifications out of accumulated other comprehensive income for the year ended December 31, 2013:

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Statement Where Net Income is Presented
Unrealized gains and losses on available-for-sale securities		
	$ 1,717	Net realized gain on sale of securities
	1,717	Total before tax
		Tax (expense) or benefit
	$ 1,717	Net of tax

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The following is a summary of the Company s reclassifications out of accumulated other comprehensive income for the year ended December 31, 2012:

Note 14 Commitments and Contingencies

Operating Leases

The Company is obligated under various operating lease agreements for office facilities as follows:

California

In June 2012 the Company signed a twenty-four (24) month lease agreement for its office facilities in San Ramon, California expiring in May 2014. The lease requires base annual rent of approximately $31,000 for the first year, with 5.0% increments each year thereafter. Rent expense will be recognized on a straight line basis over the term of the lease.

Florida

In June 2013 the Company signed a Thirteen (13) month lease agreement for its office facilities in Fort Lauderdale, Florida expiring in July 2014. The lease requires base annual rent of approximately $14,000 during the term. The lease contains a one (1) month rent abatement period starting on June 10, 2014. Rent expense will be recognized on a straight line basis over the term of the lease. The lease was terminated in October 2013.

New York

In December 2012 the Company signed a twelve (12) month lease agreement for its office facilities in New York City, New York expiring in January 2014. The lease requires base annual rent of approximately $28,000 for the term. The lease contains a three (3) month rent abatement period, staggered throughout the term of the lease, starting on June 4, 2013. Rent expense will be recognized on a straight line basis over the term of the lease. The lease contains an automatic renewal option for periods of one (1) year and 7.00% increments in the base rent per renewal period.

New York

In June 2013 the Company signed a sixty-two (62) month lease agreement for its office facilities in New York City, New York expiring in August 2018. The lease requires base annual rent of approximately $221,000 for the term and the Company s pro-rata charges for operating expenses and taxes. The Company obtained a letter of credit in the amount of $100,421.50 as required by the lease. The lease contains a seven (7) month rent abatement period, staggered throughout the term of the lease, starting on July 8, 2013. Rent expense will be recognized on a straight line basis over the term of the lease. The lease contains one option to cancel on October 31, 2016 with a full year s notice.

Ohio

In June 2013 the Company signed a sixty-three (63) month lease agreement for its office facilities in Cincinnati, Ohio expiring in September 2018. The lease requires base annual rent of approximately $54,000 for the first year, with 2.5% increments each year thereafter. The lease contains a three (3) month rent abatement period starting on July 1, 2013. Rent expense will be recognized on a straight line basis over the term of the lease. The lease contains one option to renew for a term of sixty (60) months.

Month-to-Month Office Leases

The Company currently leases office space in Eden Prairie, Minnesota on a month to month basis. The lease calls for monthly payments of $600 and is based on two person occupancy. Monthly payments are increased 25.00% for each additional person.

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During 2012 and 2013 the Company leased office space in Denver, Colorado on a month to month basis. The lease called for monthly payments of $244. The lease was terminated in November 2013.

Rent expense under all office leases totaled $261,642 and $55,393 for the years ended December 31, 2013 and 2012, respectively.

The Company is obligated under various operating lease agreements for equipment as follows:

In February 2012, the Company signed an operating lease agreement for computers and related equipment that expires February 2015. The lease requires 36 monthly payments of $323.15 beginning February 2012. Equipment lease expense under this lease agreement for the year ended December 31, 2013 and 2012 was $3,878 and $3,555, respectively.

In September 2012, the Company signed an operating lease agreement for computers and related equipment that expires September 2015. The lease requires 36 monthly payments of $910.77 beginning September 2012. Equipment lease expense under this lease agreement for the year ended December 31, 2013 and 2012 was $10,929 and $3,643, respectively.

In May 2013, the Company signed an operating lease agreement for computers and related equipment that expires May 2015. The lease requires 24 monthly payments of $1,774.48 beginning May 2013. Equipment lease expense under this lease agreement for the year ended December 31, 2013 and 2012 was $15,970 and $0, respectively.

In May 2013, the Company signed an operating lease agreement for computers and related equipment that expires May 2015. The lease requires 24 monthly payments of $1,549.05 beginning May 2013. Equipment lease expense under this lease agreement for the year ended December 31, 2013 and 2012 was $12,392 and $0, respectively.

Future minimum lease payments under these non-cancelable operating leases are approximately as follows:

Year Ending December 31	
2014	$ 350,000
2015	295,000
2016	241,000
2017	261,000
2018	192,000
Total	$ 1,339,000

Deferred Rent

To induce the Company to enter into certain operating leases Landlords have granted free rent for various months over the term of occupancy. Rent expense recorded on the straight-line basis in excess of rents paid is recognized as deferred rent.

Note 15 Income Tax Provision

The Company is taxed as an S Corporation under the Internal Revenue Code and applicable state statutes. Under an S Corporation election, the income of the Company flows through to the stockholders to be taxed at the individual level rather than the corporate level. Accordingly, the Company will have no tax liability at the federal level (with limited exceptions) as long as the S Corporation election is in effect.

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Pro Forma Income Tax Information (Unaudited)

The unaudited pro forma income tax amounts, deferred tax assets and income tax rate included in the accompanying consolidated statements of operations and related income tax reflect the provision for income taxes which would have been recorded if the Company had been incorporated as a C Corporation as of the beginning of the first date presented.

Pro Forma Deferred Tax Assets

If the Company had been incorporated as of the beginning of the first date presented at December 31, 2013, the Company s net operating loss (NOL) carry forwards for Federal income tax purposes would have been $539,950 that may be offset against future taxable income through 2033; and the Company s net deferred tax assets and valuation allowance would have been $183,583; and its valuation allowance would have increased approximately $183,583 for the year ended December 31, 2013.

Components of pro forma deferred tax assets are as follows:

	December 31, 2013	December 31, 2012
Net deferred tax assets Non-current:		
Expected income tax benefit from NOL carry-forwards	$ 183,583	$
Less valuation allowance	(183,583)	( )
Deferred tax assets, net of valuation allowance	$	$

Pro Forma Income Tax Provision in the Statements of Operations

A reconciliation of the pro forma federal statutory income tax rate and the effective income tax rate as a percentage of income before income taxes is as follows:

	For the Year Ended December 31, 2013	For the Year Ended December 31, 2012
Federal statutory income tax rate	34.0%	34.0%
Increase (reduction) in income taxes resulting from:		
Net operating loss (NOL) carry-forwards	(34.0)	( )
Effective income tax rate	0.0%	34.0%

Note 16 Subsequent Events

The Company has evaluated all events that occurred after the balance sheet date through June 3, 2014 to determine if they must be reported. The Management of the Company determined that there were certain reportable subsequent events to be disclosed as follows:

Consulting Agreement

On January 20, 2014, the Company entered into a one year consulting agreement with the following terms and conditions:

Compensation

Initial services agreement $18,000 upon signing,

$5,000 per month thereafter starting March 15, 2014,

1% of the fully diluted capital structure of the Company on the filing of the initial Registration Statement on Form S1 or upon the Closing of a reverse merger into a public vehicle.

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Leases

In February 2014, the Company signed a twenty-four month agreement to sub-lease a portion of it office facilities in New York City expiring in February 2016. The lease requires base annual rental payments to the Company of $120,000 for the term of the lease. Rental income will be recognized on a straight-line basis over the term of the lease. As part of the lease agreement, the Company received a $30,000 security deposit, which is shown as a liability on the accompanying condensed balance sheet.

In April 2014 the Company signed a lease amendment for its office facilities in San Ramon, California. The amendment extends the lease past the May 31, 2014 expiration date on a month to month basis with monthly rental payments of $2,836.

In April 2014, the Company signed a thirty-nine (39) month leases agreement for its office facilities in Pleasanton, California expiring in September 2017. The lease requires base annual rent of approximately $34,000 for the first year, with 3% increments each year thereafter. The lease contains a two (2) month rent abatement period starting on July 1, 2014. Rent expense will be recognized on a straight line basis over the term of the lease. The lease contains one option to renew for a term of sixty (36) months.

Debt

In April 2014, the Company amended the repayment schedules of the following debt:

The maturity date for debt offering (F), issued on July 23, 2013 for $25,000, was amended from April 2014 to no definite repayment schedule.

The maturity date for debt offering (G), issued on October 3, 2013 for $50,000, was amended from April 2014 to July 2014.

The maturity date for debt offering (J), issued on October 26, 2013 for $50,000, was changed from April 2014 to no definite repayment schedule

Merger

On May 14, 2014, the Company signed a binding letter of intent for a proposed merger of equals between a publicly traded company (pubco) and the Company. The potential merger would result in the Company receiving newly issued common shares equal to 50% of the pubco s outstanding capitalization and the creation of a new company listed on the NASDAQ capital market. The merger is subject to the following pre-closing events:

100% of the pubco s operations, assets and liabilities would be spun out to the pubco s current management and the controlling shareholders in exchange for the cancellation of all of the pubco s shares;

the elimination off all of the outstanding notes and interest payments due to the pubco s largest creditor in exchange for a certain number of the Vehicle s newly issued common stock, which shall be subject to a lock-up for at least one year;

an equity investment of approximately $5.1 million through the pubco s largest creditor or others in a private placement offering of shares of a special purpose Nevada corporation in which subscriptions shall be exchanged for shares of the pubco s common stock in conjunction with the closing of the merger; and

the offering proceeds from the financing shall be used for all merger-related expenses and for general corporate purposes of the newly formed company

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Appendix E

Six Dimensions, Inc.

Index to the Condensed Financial Statements

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Six Dimensions, Inc.

Condensed Balance Sheets

	June 30, 2014 (unaudited)	As of December 31, 2013
Assets		
Current Assets		
Cash	$ 28,987	$ 5,611
Accounts receivable, net	1,687,788	1,117,624
Unbilled revenues	109,253	131,844
Deferred tax assets	70,191	
Prepaid expenses and other current assets	106,183	47,457
Total Current Assets	2,002,402	1,302,536
Property and Equipment, net	17,198	29,033
Other Assets		
Restricted cash	110,589	110,499
Capitalized software, net	126,661	154,808
Security deposits	26,204	48,707
Due from related party		410,130
Total Other Assets	263,454	724,144
Total Assets	**$ 2,283,054**	**$ 2,055,713**
Liabilities and Stockholders Equity (Deficit)		
Current Liabilities		
Accounts payable and accrued liabilities	$ 796,456	$ 818,316
Deferred revenue	111,283	
Due to factor	803,640	870,295
Current maturities of capital lease liability	41,593	52,892
Current maturities of notes payable	6,600	6,600
Promissory notes		580,000
Security deposit payable	30,000	
Total Current Liabilities	1,789,572	2,328,103
Long-Term Liabilities		
Capital lease liability, net of current maturities	114,065	131,348
Notes payable, net of current maturities	56,720	60,020
Deferred tax liabilities	6,857	

Deferred rent	62,240	73,192
Total Long-Term Liabilities	239,882	264,560
Total Liabilities	2,029,454	2,592,663
Commitment and Contingencies		
Stockholders Equity (Deficit)		
Preferred stock, par value $0.00001: 10,000,000 shares authorized; 0 shares issued and outstanding		
Common stock, par value $0.00001: 300,000,000 shares authorized; 29,637,353 and 29,298,208 shares issued and outstanding, respectively	296	293
Additional paid-in capital	596,206	2,707
Accumulated deficit	(342,902)	(539,950)
Total Stockholders Equity (Deficit)	253,600	(536,950)
Total Liabilities and Stockholders Equity (Deficit)	**$ 2,283,054**	**$ 2,055,713**

See accompanying notes to the condensed financial statements

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Six Dimensions, Inc.

Condensed Statements of Operations

(Unaudited)

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Revenues	$ 2,935,412	$ 2,579,559	$ 5,589,987	$ 4,828,154
Cost of revenues	1,672,646	1,698,496	3,238,612	3,196,891
Gross margin	1,262,766	881,063	2,351,375	1,631,263
Operating expenses				
Compensation	496,523	773,969	971,401	1,353,400
Professional fees	76,679	18,190	132,853	20,578
Selling, general and administrative	259,246	255,987	526,133	444,215
Total operating expenses	832,448	1,048,146	1,630,387	1,818,193
Income (loss) from operations	430,318	(167,083)	720,988	(186,930)
Other income (expense)				
Interest expense	(53,761)	(18,221)	(110,523)	(39,967)
Loss on debt extinguishment	(57,502)		(57,502)	
Realized gain on sale of marketable securities				4,817
Other income	30,000	30	86,588	30
Other expense, net	(81,263)	(18,191)	(81,437)	(35,120)
Income (loss) before income taxes expense	349,055	(185,274)	639,551	(222,050)
Income tax benefit	(59,867)		(59,867)	
Net income (loss)	**$ 408,922**	**$ (185,274)**	**$ 699,418**	**$ (222,050)**
Net income (loss) per common share - basic and diluted	$ 0.01	$ (0.01)	$ 0.02	$ (0.01)
Weighted average common shares outstanding				
Basic and diluted	29,390,000	29,298,208	29,344,358	29,298,208

See accompanying notes to the condensed financial statements

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Six Dimensions, Inc.

Condensed Statements of Comprehensive Income (Loss)

(Unaudited)

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2014	**June 30, 2013**	**June 30, 2014**	**June 30, 2013**
Net income (loss)	$ 408,922	$ (185,274)	$ 699,418	$ (222,050)
Other comprehensive income (loss):				
Net unrealized gain on marketable securities				3,100
Reclassification to realized gain on sale of marketable securities				(4,817)
Other comprehensive income (loss)				(1,717)
Comprehensive income (loss)	$ 408,922	$ (185,274)	$ 699,418	$ (223,767)

See accompanying notes to the condensed financial statements

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Six Dimensions, Inc.

Condensed Statement of Stockholders Equity (Deficit)

For the Six Months Ended June 30, 2014

(Unaudited)

	Common stock, par value $0.0001 Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders Equity
Balance, January 1, 2014	29,298,208	$ 293	$ 2,707	$ (539,950)	$ (536,950)
Conversion of promissory notes into common stock	230,001	2	402,500		402,502
Issuance of common stock for cash	109,144	1	190,999		191,000
Distribution to stockholder				(502,370)	(502,370)
Net Income				699,418	699,418
Balance, June 30, 2014	**29,637,353**	**$ 296**	**$ 596,206**	**$ (342,902)**	**$ 253,600**

See accompanying notes to the condensed financial statements

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Six Dimensions, Inc.

Condensed Statements of Cash Flows

(Unaudited)

	For the Six Months Ended	
	June 30, 2014	**June 30, 2013**
Cash Flows From Operating Activities:		
Net income (loss)	$ 699,418	$ (222,050)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	39,982	12,561
Amortization of debt issuance costs		3,836
Realized gain on sale of marketable securities		(4,817)
Loss on debt extinguishment	57,502	
Deferred tax benefit	(63,334)	
Deferred rent	(10,952)	
Interest earned on restricted cash	(90)	(110,422)
Changes in operating assets and liabilities:		
Accounts receivable	(570,164)	(100,085)
Unbilled revenues	22,591	(161,843)
Prepaid expenses and other current assets	(58,726)	(3,950)
Security deposits	52,503	(37,183)
Accounts payable and accrued liabilities	(21,860)	190,610
Deferred revenue	111,283	
Net Cash Provided by (Used in) Operating Activities	258,153	(433,343)
Cash Flows From Investing Activities:		
Proceeds from sale of marketable securities		27,748
Loans to related parties	(46,433)	(27,935)
Net Cash Used in Investing Activities	(46,433)	(187)
Cash Flows From Financing Activities:		
Bank Overdraft		455
Cash received for common stock issued	191,000	
Gross proceeds on line of credit		5,095,741
Repayments on line of credit		(4,795,075)
Gross proceeds on factor borrowing	5,582,429	
Repayments on factor borrowing	(5,649,084)	
Stockholder distribution	(45,807)	(22,654)
Repayment of capital lease obligations	(28,582)	(13,567)
Proceeds on issuance of notes payable	20,000	100,000
Repayment of notes payable	(3,300)	(3,300)

Repayment of promissory notes		(255,000)		
Debt issuance costs				(6,250)
Net Cash (Used in) Provided by Financing Activities		(188,344)		355,350
Net change in cash		23,376		(78,180)
Cash, beginning of period		5,611		78,180
Cash, end of period	**$**	**28,987**	**$**	
Supplemental disclosures of cash flow information:				
Interest paid	$	157,111	$	39,997
Supplemental disclosure of non-cash investing and financing activities:				
Capital lease of computer equipment	$		$	13,421
Conversion of notes payable into common stock	$	345,000	$	
Reclassification of due from related party as profit distribution	$	456,563	$	
Net unrealized gain on marketable securities	$		$	3,100

See accompanying notes to the condensed financial statements

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Six Dimensions, Inc.

Notes to the Condensed Financial Statements

(Unaudited)

Note 1 Organization and Operations

Six Dimensions, Inc.

Six Dimensions, Inc. (the Company) was originally incorporated as Initial Koncepts, Inc. under the laws of the State of California on February 9, 2004. On June 25, 2014, Initial Koncepts, Inc. converted from an S-Corporation into a California LLC and changed its name to Six Dimensions, LLC. On June 27, 2014, Six Dimensions, LLC converted into a Nevada C-Corporation and changed its name to Six Dimensions, Inc. In conjunction with the conversion, 300,000 shares of Six Dimensions, LLC were exchanged for 263,683,869 shares of Six Dimensions, Inc. On August 22, 2014, the Company amended its Certificate of Incorporation to effect a 1 for 9 reverse split of the Company s issued and outstanding shares of common stock. All references to numbers or values of the Company s shares have been adjusted to reflect this 1 for 9 reverse split.

The Company provides enterprise implementation and integration consulting and staffing services to customers throughout the United States.

Note 2 Liquidity

At December 31, 2013, the Company had a cash balance of approximately $6,000 and a working capital deficiency of approximately $1,026,000. At June 30, 2014, the Company had a cash balance of approximately $29,000 and working capital of approximately $223,000. In 2013, the Company principally financed its operations from using proceeds from issuance of notes and factoring its sales invoices. The Company had net income and net cash flows from operations of approximately $699,000 and $258,000, respectively, for the six months ended June 30, 2014. During the six months ended June 30, 2014, note holders converted $345,000 of promissory notes into equity, and the Company paid back the remaining $255,000 of promissory notes in cash. Furthermore, prior to 2013, the Company had a history of profitability. The Company signed a binding letter of intent on May 14, 2014 that will result in the Company raising approximately $5.1 million in an equity financing. The proceeds of the financing will be used for potential mergers and acquisitions as well as funding new lines of business.

Note 3 Significant and Critical Accounting Policies and Practices

The management of the Company is responsible for the selection and use of appropriate accounting policies and the appropriateness of accounting policies and their application. Critical accounting policies and practices are those that are both most important to the portrayal of the Company s financial condition and results and require management s most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain. The Company s significant and critical accounting policies and practices are disclosed below as required by accounting principles generally accepted in the United States (U.S. GAAP).

Basis of Presentation

The accompanying unaudited condensed financial statements of the Company should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2013 included elsewhere in the

Company s Super 8-K. The accompanying condensed financial statements have been prepared in accordance with U.S. GAAP for interim financial information and the rules and regulations of the SEC. Accordingly, since they are interim statements, the accompanying condensed financial statements do not include all of the information and notes required by U.S. GAAP for annual financial statements, but reflect all adjustments consisting of normal, recurring adjustments, that are necessary for a fair presentation of the financial position as

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of June 30, 2014 and results of operations and cash flows for the interim periods presented. The results of operations for the three and six months ended June 30, 2014 are not necessarily indicative of the operating results for the full fiscal year or any future period. The December 31, 2013 balance sheet information was derived from the audited financial statements as of that date.

Use of Estimates and Assumptions and Critical Accounting Estimates and Assumptions

The preparation of condensed financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date(s) of the financial statements and the reported amounts of revenues and expenses during the reporting period(s).

Critical accounting estimates are estimates for which (a) the nature of the estimate is material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change and (b) the impact of the estimate on financial condition or operating performance is material. The Company s critical accounting estimates and assumptions affecting the condensed financial statements were:

(i) *Assumption as a going concern*: Management assumes that the Company will continue as a going concern, which contemplates continuity of operations, realization of assets, and liquidation of liabilities in the normal course of business;

(ii) *Allowance for doubtful accounts*: Management s estimate of the allowance for doubtful accounts is based on historical sales, historical loss levels, and an analysis of the collectability of individual accounts; and general economic conditions that may affect a client s ability to pay. The Company evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole;

(iii) *Fair value of long-lived assets*: Fair value is generally determined using the asset s expected future discounted cash flows or market value, if readily determinable. If long-lived assets are determined to be recoverable, but the newly determined remaining estimated useful lives are shorter than originally estimated, the net book values of the long-lived assets are depreciated over the newly determined remaining estimated useful lives. The Company considers the following to be some examples of important indicators that may trigger an impairment review: (i) significant under-performance or losses of assets relative to expected historical or projected future operating results; (ii) significant changes in the manner or use of assets or in the Company s overall strategy with respect to the manner or use of the acquired assets or changes in the Company s overall business strategy; (iii) significant negative industry or economic trends; (iv) increased competitive pressures; (v) a significant decline in the Company s stock price for a sustained period of time; and (vi) regulatory changes.

These significant accounting estimates or assumptions bear the risk of change due to the fact that there are uncertainties attached to these estimates or assumptions, and certain estimates or assumptions are difficult to measure or value.

Management bases its estimates on historical experience and on various assumptions that are believed to be reasonable in relation to the financial statements taken as a whole under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from

other sources.

Management regularly evaluates the key factors and assumptions used to develop the estimates utilizing currently available information, changes in facts and circumstances, historical experience and reasonable assumptions. After such evaluations, if deemed appropriate, those estimates are adjusted accordingly.

Due to inherent uncertainty involved in making estimates, actual results reported in future periods may be affected by changes in these estimates.

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Fair Value of Financial Instruments

The Company has categorized its financial assets and liabilities measured at fair value into a three level hierarchy in accordance with the U.S. GAAP. Fair value is defined as an exit price, the amount that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants at the measurement date. The degree of judgment utilized in measuring the fair value of assets and liabilities generally correlates to the level of pricing observability. Financial assets and liabilities with readily available, actively quoted prices or for which fair value can be measured from actively quoted prices in active markets generally have more pricing observability and require less judgment in measuring fair value. Conversely, financial assets and liabilities that are rarely traded or not quoted have less price observability and are generally measured at fair value using valuation models that require more judgment. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency of the asset, liability or market and the nature of the asset or liability.

The three (3) levels of fair value hierarchy are described below:

Level 1 Quoted market prices available in active markets for identical assets or liabilities as of the reporting date.

Level 2 Pricing inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date.

Level 3 Pricing inputs that are generally observable inputs and not corroborated by market data.

The carrying amounts of the Company s financial assets and liabilities, such as cash, accounts receivable, unbilled revenues, prepaid expense and other current assets, accounts payable and accrued liabilities, and due to factor, approximate their fair values because of the short maturity of these instruments.

The Company s capital lease liability and notes payable approximate the fair value of such instruments based upon management s best estimate of interest rates that would be available to the Company for similar financial arrangements at June 30, 2014 and December 31, 2013.

Transactions involving related parties cannot be presumed to be carried out on an arm s-length basis, as the requisite conditions of competitive, free-market dealings may not exist. Representations about transactions with related parties, if made, shall not imply that the related party transactions were consummated on terms equivalent to those that prevail in arm s-length transactions unless such representations can be substantiated.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded at the invoiced amount, net of an allowance for doubtful accounts. The Company performs on-going credit evaluations of its customers and adjusts credit limits based upon payment history and the customer s current credit worthiness, as determined by the review of their current credit information; and determines the allowance for doubtful accounts based on historical write-off experience, customer specific facts and economic conditions.

Management charges balances off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company determines when receivables are past due or delinquent based on how recently payments have been received.

Outstanding account balances are reviewed individually for collectability. The allowance for doubtful accounts is the Company s best estimate of the amount of probable credit losses in the Company s existing accounts receivable. As of June 30, 2014 and December 31, 2013, the allowance for doubtful accounts was not material.

The Company does not have any off-balance-sheet credit exposure to its customers.

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Revenue Recognition

The Company recognizes revenue from the provision of professional services when it is realized or realizable and earned. The Company considers revenue realized or realizable and earned when all of the following criteria are met: (i) persuasive evidence of an arrangement exists, (ii) the services have been rendered to the customer, (iii) the sales price is fixed or determinable, and (iv) collectability is reasonably assured. Appropriate allowances for returns and discounts are recorded concurrent with revenue recognition.

Revenues recognized in excess of the amounts invoiced to clients are classified as unbilled revenues.

Income Tax Provision

From inception through June 26, 2014, the Company was taxed as an S Corporation under the Internal Revenue Code of 1986, as amended and applicable state statutes. Under an S Corporation election, the income of the Company flows through to the stockholders to be taxed at the individual level rather than the corporate level. Accordingly, the Company had no tax liability at the federal level (with limited exceptions) as long as the S Corporation election was in effect.

In addition, the Company had elected to be treated as a Subchapter S corporation for Arizona, California, Colorado, Kentucky, Massachusetts, Ohio and Virginia corporate income tax purposes. This treatment imposes individual income taxes on the shareholder s respective shares of corporate profits and results in a significantly reduced corporate level state tax.

The income allocable to each shareholder is subject to examination by federal and state taxing authorities. In the event of an examination of the income tax returns, the tax liability of the stockholders could be changed if an adjustment in the income is ultimately determined by the taxing authorities. As of June 30, 2014, the tax returns of the Company for the years 2011 through 2013 remain open for the Internal Revenue Service and various state authorities.

On June 25, 2014, Initial Koncepts, Inc. converted from an S-Corporation into a California LLC and changed its name to Six Dimensions, LLC. On June 27, 2014, Six Dimensions, LLC converted into a Nevada C-Corporation and changed its name to Six Dimensions, Inc.

Deferred taxes are computed based on the tax liability or benefit in future years of the reversal of temporary differences in the recognition of income or deduction of expenses between financial and tax reporting purposes. The net difference, if any, between the provision for taxes and taxes currently payable is reflected in the balance sheet as deferred taxes. Deferred tax assets and/or liabilities, if any, are classified as current and non-current based on the classification of the related asset or liability for financial reporting purposes, or based on the expected reversal date for deferred taxes that are not related to an asset or liability. Valuation allowances are recorded to reduce deferred tax assets to that amount which is more likely than not to be realized.

The Company records interest and penalties as a component of selling, general and administrative expenses. There were no amounts accrued for penalties or interest as of June 30, 2014 and December 31, 2013 or during the three and six months ended June 30, 2014 and 2013. Management is currently unaware of any issues under review that could result in significant payments, accruals or material deviations from its position.

Certain transactions of the Company may be subject to accounting methods for federal income tax purposes that differ significantly from the accounting methods used in preparing the condensed financial statements in accordance with U.S. GAAP. Accordingly, the taxable income of the Company reported for federal income tax purposes may differ

from net income in these condensed financial statements.

The Company did not take any uncertain tax positions and had no adjustments to its income tax liabilities or benefits as of June 30, 2014 and December 31, 2013.

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Net Income (Loss) per Common Share

Basic net income (loss) per common share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. Diluted net income (loss) per common share is computed by dividing net income (loss) by the weighted average number of shares of common stock and potentially outstanding shares of common stock during the period to reflect the potential dilution that could occur from common shares issuable through contingent share arrangements, stock options and warrants. During the three and six months ended June 30, 2014 and 2013, the Company had no common stock equivalents outstanding.

Subsequent Events

The Company evaluated subsequent events through the date when the accompanying condensed financial statements are issued.

Recently Issued Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2014-08, *Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360).* This new standard raises the threshold for disposals to qualify as discontinued operations, allows companies to have significant continuing involvement and continuing cash flows with the discontinued operation, and provides for new and additional disclosures of discontinued operations and individually material disposal transactions. The Company anticipates adopting the new standard when it becomes effective in the first quarter of 2015. ASU 2014-08 is not expected to have a material impact on the financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. Amendments in this ASU create Topic 606, *Revenue from Contracts with Customers,* and supersede the revenue recognition requirements in Topic 605, *Revenue Recognition,* including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. In addition, the amendments supersede the cost guidance in Subtopic 605-35, *Revenue Recognition Construction-Type and Production-Type Contracts,* and create new Subtopic 340-40, *Other Assets and Deferred Costs Contracts with Customers.* In summary, the core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU is the final version of Proposed ASU 2011-230 Revenue Recognition (Topic 605) and Proposed ASU 2011 250 Revenue Recognition (Topic 605): Codification Amendments, both of which have been deleted. ASU 2014-09. The amendments in this ASU are effective for the Company for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The Company is currently evaluating the effects of ASU 2014-09 on the financial statements.

In June 2014, the FASB issued ASU 2014-11, *Transfers and Servicing*. The amendments in this ASU require that repurchase-to-maturity transactions be accounted for as secured borrowings consistent with the accounting for other repurchase agreements. In addition, the amendments require separate accounting for a transfer of a financial asset executed contemporaneously with a repurchase agreement with the same counterparty (a repurchase financing), which will result in secured borrowing accounting for the repurchase agreement. The amendments require an entity to disclose information about transfers accounted for as sales in transactions that are economically similar to repurchase agreements, in which the transferor retains substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction. In addition the amendments require disclosure of the types of collateral pledged in repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions and the tenor of those transactions. This ASU is the final version of Proposed ASU 2013-10 Transfers and Servicing

(Topic 860), which has been deleted. The accounting changes in this ASU are effective for the first interim or annual period beginning after December 15, 2014. ASU 2014-11 is not expected to have a material impact on the financial statements.

In June 2014, the FASB issued ASU 2014-12, *Compensation- Stock Compensation*. The amendments in this ASU apply to reporting entities that grant their employees share-based payments in which the terms of the award

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provide that a performance target can be achieved after the requisite service period. This ASU is the final version of Proposed ASU EITF-13D Compensation Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period, which has been deleted. The proposed amendments would apply to reporting entities that grant their employees share-based payments in which the terms of the award provide that a performance target could be achieved after the requisite service period. This ASU is the final version of Proposed ASU EITF-13D Compensation Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period, which has been deleted. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, and early adoption is permitted. ASU 2014-12 is not expected to have a material impact on the financial statements.

Note 4 Related Party Transactions:

Due from Related Party

The Company had a loan outstanding to its largest stockholder. The balance as of December 31, 2013 was $410,130. During the six months ended June 30, 2014, the Company advanced monies totaling $46,433 to this individual. The receivable bore interest at 2.64% with no definite repayment terms. During the six months ended June 30, 2014, the loan balance of $456,563 was eliminated as the Company treated the loan balance as part of a stockholder distribution.

Stockholder distributions for the six months ending June 30, 2014 totaled $502,370.

Storage Lease

The Company presently leases a storage facility on a month to month basis from a company owned by an employee of the Company. The lease was terminated on June 30, 2014. Monthly rental payments are $600. Rent expense totaled $1,800 and $3,600 for the three and six months ended June 30, 2014, respectively. Rent expense totaled $1,800 and $3,600 for the three and six months ended June 30, 2013, respectively.

Note 5 Letter of Credit and Restricted Cash:

The Company has secured a standby letter of credit for the benefit of RFR/SF17 State Street L.P. for the required security deposit on their office facility in New York.

The Bank letter of credit is in the amount of $110,422. The letter of credit expires on July 1, 2015 and contains renewal periods of one year.

The fair value of this letter of credit approximates their contract values. The letter of credit was collateralized by $110,589 and $110,499 of cash at June 30, 2014 and December 31, 2013, respectively, which was reported as restricted on the condensed balance sheets.

Note 6 Due to Factor:

On August 6, 2013, the Company signed a one year agreement with a financial services company for the purchase and sale of accounts receivables with a recourse basis. The financial services company commenced funding during August 2013. The financial services company advances up to 90% of qualified customer invoices, less applicable discount fees, and holds the remaining 10% as a reserve until the customer pays the financial services company. The released

reserves are returned to the Company. The Company is charged 0.7% for the first 30 days outstanding plus prime plus 1.75% daily for funds outstanding over 30 days. Uncollectable customer invoices are charged back to the Company after 90 days. At June 30, 2014, the advances from the factor, inclusive of fees, amounted to $944,657 which was offset against due from factor of $141,017. At December 31, 2013, the advances from the factor, inclusive of fees, amounted to $977,160 which was offset against due from factor of $106,865. Advances from the factor are collateralized by substantially all assets of the Company.

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Note 7 Promissory Notes

On May 27, 2014, the Company sold a $20,000 promissory note maturing in August 2014. The note bore interest at 1% per month with interest payable monthly. The note subsequently converted into equity.

During May and June of 2014, the Company induced certain noteholders to convert their promissory notes into common shares by offering conversion prices at a $.25 discount. In total, $345,000 of promissory notes were converted into 230,001 shares of common stock. In connection with the note conversions, the Company recorded a loss on debt extinguishment of $57,502 in the accompanying condensed statement of operations.

On June 30, 2014, the Company repaid the remaining $255,000 of outstanding notes payable that had not converted into equity.

Note 8 Stockholder s Equity

Issuance of Common Stock

During June 2014, the Company issued 109,144 shares of common stock to investors in private placements at $1.75 per share for total proceeds of $191,000.

Note 9 Commitments and Contingencies

Operating Leases

The Company is obligated under various operating lease agreements for office facilities in California, Florida, New York and Ohio. In addition, the Company leases office facilities on a month-to-month basis in Minnesota and Colorado.

Rent expense under all office leases aggregated $82,445 and $171,417 for the three and six months ended June 30, 2014, respectively. Rent expense under all office leases aggregated $36,600 and $70,259 for the three and six months ended June 30, 2013, respectively. Rent expense was recorded in selling, general and administrative expenses in the accompanying condensed statement of operations.

The Company is also obligated under various operating lease agreements for equipment. Rent expenses under all equipment leases aggregated $26,425 and $40,096 for the three and six months ended June 30, 2014, respectively. Rent expenses under all equipment leases aggregated $28,631 and $32,332 for the three and six months ended June 30, 2013, respectively. Rent expenses under all equipment leases was recorded in selling, general and administrative expenses in the accompanying condensed statement of operations.

Future minimum payments of the Company s leases are as follows:

Year Ended December 31,	
2014 (reminder of year)	$ 178,004
2015	335,045
2016	281,539
2017	288,309

2018	191,679
thereafter	
	$ 1,274,576

New York Office Sub-lease

In February 2014, the Company signed a twenty-four (24) month agreement to sub-lease a portion of it office facilities in New York City expiring in February 2016. The lease requires base annual rental payments to the

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Company of $120,000 for the term of the lease. Rental income will be recognized on a straight-line basis over the term of the lease. As part of the lease agreement, the Company received a $30,000 security deposit, which is shown as a liability on the accompanying condensed balance sheet.

California Leases

In April 2014 the Company signed a lease amendment for its office facilities in San Ramon, California. The amendment extends the lease past the May 31, 2014 expiration date on a month to month basis with monthly rental payments of $2,836. In June 2014, the Company cancelled the lease, and the lease expired on June 30, 2014.

In April 2014, the Company signed a thirty-eight (38) month lease agreement for its office facilities in Pleasanton, California expiring in August 2017. The lease requires base annual rent of approximately $34,000 for the first year, with 3% increments each year thereafter. The lease contains a two (2) month rent abatement period starting on July 1, 2014. Rent expense will be recognized on a straight line basis over the term of the lease. The lease contains one option to renew for a term of sixty (36) months.

Deferred Rent

To induce the Company to enter into certain operating leases, landlords have granted free rent for various months over the term of occupancy. Rent expenses recorded on the straight-line basis in excess of rents paid is recognized as deferred rent. As of June 30, 2014 and December 31, 2013, deferred rent was $62,240 and $73,192, respectively.

Consulting Agreement

On January 20, 2014, the Company entered into a one year consulting agreement with the following terms and conditions:

Compensation

Initial services agreement $18,000,

$5,000 per month thereafter starting March 15, 2014,

1% of the fully diluted capital structure of the Company on the filing of the initial Registration Statement on Form S1 or upon the closing of a reverse merger transaction into a public entity

Note 10 Concentrations and Credit Risks

Revenues

For the three and six months ended June 30, 2014, the Company had the following concentrations of revenues with customers:

Customer	Three months ended June 30, 2014	Six months ended June 30, 2014
A	12%	3%
B	12%	11%
C	18%	11%

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Revenues

For the three and six months ended June 30, 2013, the Company had the following concentrations of revenues with customers:

Customer	Three months ended June 30, 2013	Six months ended June 30, 2013
A	0%	10%
B	20%	17%

Accounts Receivable

As of June 30, 2014 and December 31, 2013, the Company had the following concentrations of accounts receivable with customers:

Customer	As of June 30, 2014	As of December 31, 2013
A	15%	0%
B	17%	17%
C	0%	12%
D	24%	0%

A reduction in sales from or loss of such customers would have a material adverse effect on the Company s results of operations and financial condition.

Note 12 Income Taxes

Effective June 27, 2014, the Company converted into a C-Corporation. Going forward, the Company will be subject to federal and state income taxes and will have to recognize income tax expense and deferred taxes for financial statement purposes. As a result, the Company recorded a deferred tax asset of $70,191 and a deferred tax liability of $6,857 principally accounting for the difference in financial reporting and tax reporting as it relates to the deductibility of expenses and depreciation, respectively, as of June 30, 2014 in the accompanying condensed balance sheet.

The provision for income taxes includes the following:

	Six Months Ended June 30, 2014	2013
Current:		
Federal	$ 2,395	$
State	1,072	
Total Current Provision	3,467	
Deferred:		

Federal	$	(56,032)	$	
State		(7,302)		
Total deferred		(63,334)		
Income tax benefit	$	(59,867)	$	

Note 13 Acquisitions

On May 14, 2014, the Company signed a binding letter of intent for a proposed merger of equals between a publicly traded company (pubco) and the Company. The potential merger would result in the Company receiving newly issued common shares equal to 50% of the pubco s outstanding capitalization and the creation of a new company listed on the NASDAQ capital market. The merger is subject to the following pre-closing events:

100% of the pubco s operations, assets and liabilities would be spun out to the pubco s current management and the controlling shareholders in exchange for the cancellation of all of the pubco s shares;

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the elimination off all of the outstanding notes and interest payments due to the pubco s largest creditor in exchange for a certain number of the Vehicle s newly issued common stock, which shall be subject to a lock-up for at least one year;

an equity investment of approximately $5.1 million through the pubco s largest creditor or others in a private placement offering of shares of a special purpose Nevada corporation in which subscriptions shall be exchanged for shares of the pubco s common stock in conjunction with the closing of the merger; and

the offering proceeds from the financing shall be used for all merger-related expenses and for general corporate purposes of the newly formed company

Note 13 Subsequent Events

During July 2014, the Company issued 5,715 shares of common stock to an investor in a private placement at $1.75 per share for total proceeds of $10,000.

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Appendix F

Cleantech Innovations, Inc. and Subsidiaries

Unaudited Pro Forma Consolidated Balance Sheet

December 31, 2013

	Six Dimensions	Cleantech Innovations	Pro Forma Adjustments	Note #	Pro Forma
Assets					
Current Assets					
Cash and equivalents	$ 5,611	$ 8,178	$ 4,266,822	1,2,4	$ 4,280,611
Restricted cash		244,427	(244,427)	1	
Accounts receivable, net	1,117,624	2,000,914	(2,000,914)	1	1,117,624
Other receivables and deposits, net		2,758,253	(2,758,253)	1	
Retentions receivable, net		1,051,227	(1,051,227)	1	
Advances to suppliers, net		466,878	(466,878)	1	
Inventories, net		6,061,974	(6,061,974)	1	
Notes receivable		738,080	(738,080)	1	
Unbilled revenues	131,844				131,844
Prepaid expenses and other current assets	47,457				47,457
Total Current Assets	1,302,536	13,329,931	(9,054,931)		5,577,536
Property and Equipment, net	29,033	11,853,575	(11,853,575)		29,033
Other Assets					
Restricted cash	110,499				110,499
Advances for equipment purchase	154,808	336,822	(336,822)	1	154,808
Prepayments	48,707	321,248	(321,248)	1	48,707
Land use rights and patents, net	410,130	4,162,058	(4,162,058)	1	410,130
Total Other Assets	724,144	4,820,128	(4,820,128)		724,144
Total Assets	**$ 2,055,713**	**$ 30,003,634**	**$ (25,728,634)**		**$ 6,330,713**
Liabilities and Stockholder s Equity (Deficit)					
Current Liabilities					
Accounts payable and accrued liabilities	$ 818,316	$ 7,142,632	$ (7,142,632)	1	$ 818,316
Advances from customers		243,171	(243,171)	1	

Due to factor	870,295				870,295
Current maturities of capital lease liability	52,892				52,892
Current maturities of notes payable	586,600	12,952,396	(13,197,396)	1,2,3	341,600
Short term payable, net of unamortized interest		442,827	(442,827)	1	
Total Current Liabilities	2,328,103	20,781,026	(21,026,026)		2,083,103
Long-Term Liabilities					
Capital lease liability, net of current maturities	131,348				131,348
Notes payable, net of current maturities	60,020				60,020
Other liabilities	73,192				73,192
Total Long-Term Liabilities	264,560				264,560
Total Liabilities	2,592,663	20,781,026	(21,026,026)		2,347,663
Commitment and Contingencies					
Stockholder s Deficit					
Preferred stock, par value $0.00001: 10,000,000 shares authorized; none issued or outstanding					
Common stock, par value $0.00001: 100,000,000 shares authorized; 60,000,000 shares issued and outstanding	3,000	250	(2,650)	1	600
Additional paid in capital		20,649,092	(16,126,692)	1,2,3,4	4,522,400
Statutory reserve fund		1,104,138	(1,104,138)	1	
Accumulated other comprehensive income		4,105,963	(4,105,963)	1	
Accumulated Deficit	(539,950)	(16,636,835)	16,636,835	1	(539,950)
Total Stockholder s Equity (Deficit)	(536,950)	9,222,608	(4,702,608)		3,983,050
Total Liabilities and Stockholder s Deficit	**$ 2,055,713**	**$ 30,003,634**	**$ (25,728,634)**		**$ 6,330,713**

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Pro Forma Adjustments:

1. To effectuate merger between Initial Koncepts, Inc and Cleantech Innovation Holdings, Inc. and to split off Cleantech Innovation Holdings, Inc. s operations.
2. To record the sale of common stock for $5,100,000.
3 To convert $245,000 in short-term Six Dimensions loans into shares of common stock.
4. To record the issuance costs of approximately $825,000.

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Cleantech Innovations, Inc. and Subsidiaries

Unaudited Pro Forma Consolidated Balance Sheet

March 31, 2014

	Six Dimensions	Cleantech Innovations	Pro Forma Adjustments	Note #	Pro Forma
Assets					
Current Assets					
Cash and equivalents	$ 42,302	$ 414,097	$ 3,860,903	1,2,4	$ 4,317,302
Marketable securities					
Accounts receivable, net	1,206,874	2,235,719	(2,235,719)	1	1,206,874
Other receivables and deposits, net		2,568,041	(2,568,041)	1	
Retentions receivable, net		532,603	(532,603)	1	
Advances to suppliers, net		166,291	(166,291)	1	
Inventories, net		6,467,863	(6,467,863)	1	
Notes receivable		15,604	(15,604)	1	
Unbilled revenues	181,076				181,076
Prepaid expenses and other current assets	80,822				80,822
Total Current Assets	1,511,074	12,400,218	(8,125,218)		5,786,074
Property and Equipment, net	23,116	11,595,758			11,618,874
Other Assets					
Restricted cash	110,534				110,534
Advances for equipment purchase		351,842	(351,842)	1	
Prepayments		316,598	(316,598)	1	
Land use rights and patents, net		4,101,536	(4,101,536)	1	
Capitalized software, net	140,735				140,735
Security deposits	23,707				23,707
Total Other Assets	274,976	4,769,976	(4,769,976)		274,976
Total Assets	**$ 1,809,166**	**$ 28,765,952**	**$ (12,895,194)**		**$ 17,679,924**
Liabilities and Stockholder s Deficit					
Current Liabilities					
Accounts payable and accrued liabilities	$ 827,065	$ 6,938,339	$ (6,938,339)	1	$ 827,065

Advances from customers		299,197	(299,197)	1	
Advances from shareholder	$	929,679	(929,679)	1	
Due to factor	782,831				782,831
Current maturities of capital lease liability	48,182				48,182
Current maturities of notes payable	586,600	10,688,951	(10,933,951)	1,2	341,600
Short term payable, net of unamortized interest		453,992	(453,992)	1	
Security deposit payable	30,000				30,000
Total Current Liabilities	2,274,678	19,310,158	(19,555,158)		2,029,678
Long-Term Liabilities					
Capital lease liability, net of current maturities	121,875				121,875
Notes payable, net of current maturities	58,370				58,370
Other liabilities	68,518				68,518
Total Long-Term Liabilities	248,763				248,763
Total Liabilities	2,523,441	19,310,158	(19,555,158)		2,278,441
Commitment and Contingencies					
Stockholder s Equity					
Preferred stock, $0.00001 par value; 100,000,000 shares authorized; no shares issued and outstanding					
Common stock, par value $0.00001: 100,000,000 shares authorized; 24,982,822 shares issued and outstanding	3,000	250	(2,650)	1	600
Additional paid in capital		20,649,092	(4,530,934)	1,2,3,4	16,118,158
Statutory reserve fund		1,104,138	(1,104,138)	1	
Accumulated other comprehensive income		3,888,194	(3,888,194)	1	
Accumulated Deficit	(717,275)	(16,185,880)	16,185,880	1	(717,275)
Total Stockholder s Deficit	(714,275)	9,455,794	6,659,964		15,401,483
Total Liabilities and Stockholder s Equity	**$ 1,809,166**	**$ 28,765,952**	**$ (12,895,194)**		**$ 17,679,924**

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Pro Forma Adjustments:

1. To effectuate merger between Initial Koncepts, Inc and Cleantech Innovation Holdings, Inc. and to split off Cleantech Innovation Holdings, Inc. s operations.
2. To record the sale of common stock for $5,100,000.
3 To convert $245,000 in short-term Six Dimensions loans into shares of common stock.
4. To record the issuance costs of approximately $825,000.

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Cleantech Innovations, Inc. and Subsidiaries

Unaudited Proforma Condensed Statement of Operations

For the Year Ended December 31, 2013

	Six Dimensions	Cleantech Innovations	Pro Forma Adjustments	Note #	Pro Forma
Revenues	$ 9,200,313	$ 5,894,264	$ (5,894,264)	1	$ 9,200,313
Cost of revenues	6,074,067	8,062,625	(8,062,625)	1	6,074,067
Gross margin	3,126,246	(2,168,361)	2,168,361		3,126,246
Operating expenses					
Compensation	2,721,131				2,721,131
Professional fees	61,940				61,940
Selling, general and administrative	1,006,157	2,859,057	(2,859,057)	1	1,006,157
Bad debt		7,911,884	(7,911,884)	1	
Total operating expenses	3,789,228	10,770,941	(10,770,941)		3,789,228
Income (loss) from operations	(662,982)	(12,939,302)	12,939,302		(662,982)
Other income (expense)					
Interest and dividend income	129	730	(730)	1	129
Interest expense	(154,549)	(3,635,046)	3,642,396	1,5	(147,199)
Net gain on sale of marketable securities	4,817				4,817
Other income	22	142,298	(142,298)	1	22
Other expense, net	(149,581)	(3,492,018)	3,499,368		(142,231)
Income (loss) before income tax expense	(812,563)	(16,431,320)	16,438,670		(805,213)
Income tax expense					
Net income (loss)	(812,563)	(16,431,320)	16,438,670		(805,213)
Net unrealized gain on marketable securities	(1,717)				(1,717)
Foreign currency translation (loss)		1,001,556	(1,001,556)		
Comprehensive income (loss)	$ (814,280)	$ (15,429,764)	$ 15,437,114		$ (806,930)

Pro Forma Adjustments:

5. To reduce interest to reflect the conversion of $245,000 in short-term Six Dimensions loans into shares of common stock.
6. The Company estimates that there will be an additional $250,000 in public company costs. Such costs have not been included in the above unaudited pro forma condensed statement of operations.

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Cleantech Innovations, Inc. and Subsidiaries

Unaudited Proforma Condensed Statement of Operations

For the Three Months Ended March 31, 2014

	Six Dimensions	Cleantech Innovations	Pro Forma Adjustments	Note #	Pro Forma
Revenues	$ 2,654,575	$ 1,927,593	$ (1,927,593)	1	$ 2,654,575
Cost of revenues	1,565,966	1,538,078	(1,538,078)	1	1,565,966
Gross margin	1,088,609	389,515	(389,515)		1,088,609
Operating expenses					
Compensation	474,878				474,878
Professional fees	56,174				56,174
Selling, general and administrative	266,887	371,428	(371,428)	1	266,887
Reverse of bad debt allowance		(709,595)	709,595	1	
Total operating expenses	797,939	(338,167)	338,167		797,939
Income (loss) from operations	290,670	727,682	(727,682)		290,670
Other income (expense)					
Interest and dividend income	46,526	235	(235)	1	46,526
Interest expense	(56,700)	(279,499)	308,899	1,5	(27,300)
Other income	10,000	2,538	(2,538)	1	10,000
Other expense, net	(174)	(276,726)	306,126		29,226
Income (loss) before income tax expense	290,496	450,956	(421,556)		319,896
Income tax expense			79,974	6	79,974
Net income (loss)	290,496	450,956	(501,530)		239,922
Foreign currency translation (loss)		(217,469)	217,469		
Comprehensive income (loss)	$ 290,496	$ 233,487	$ (284,061)		$ 239,922

Pro Forma Adjustments:

5. To reduce interest to reflect the conversion of $245,000 in short-term Six Dimensions loans into shares of common stock.
6. The Company intends to reorganize as a Federal C-Corp. The pro forma adjustment includes a statutory 35% estimate.
7. The Company estimates that there will be an additional quarterly $62,500 in public company costs. Such costs have not been included in the above unaudited pro forma condensed statement of operations.

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Cleantech Innovations, Inc. and Subsidiaries

Notes to Unaudited Pro Forma Consolidated Statements of Operations

1. Basis of Presentation

The following unaudited pro forma consolidated financial statements of 6D Global Technologies, Inc., formally known as Cleantech Innovations, Inc. and subsidiaries, (the Company) and Initial Koncepts, Inc. (dba Six Dimensions) (6D) are provided to assist you in your analysis of the financial aspects of the proposed consolidated entity on a non-generally accepted accounting principle basis.

The unaudited pro forma consolidated statement of operations for the year ended December 31, 2013 and the three months ended March 31, 2014 combined the historical statements of operations of the Company and 6D for the year ended December 31, 2013 and the three months ended March 31, 2014.

The unaudited pro forma condensed combined balance sheet combines the historical balance sheets of both the Company and 6D as of December 31, 2013 and March 31, 2014.

The pro forma is presented as if the below transaction was accounted for as an acquisition under common control. All assets and liabilities were merged into the Company at their carrying values.

2. Acquisition of Six Dimensions

The Share Exchange Transaction

On June 13, 2014, the Company entered into an Agreement and Plan of Share Exchange (the Merger Agreement) with 6D, a California Corporation and the shareholder of 6D, Mr. Tejune Kang, founder and CEO, who is an American technology executive born and raised in Silicon Valley, California (the 6D Shareholder), pursuant to which, subject to certain conditions, 6D will become a wholly-owned subsidiary of the Company.

Pursuant to the terms of the Merger Agreement, the Company will acquire all of the shares of 6D (the Six Dimensions Shares) from the 6D Shareholder solely in exchange for 266,787,609 newly issued shares of the Company s common stock (the Exchange Shares). At the effective time of the Merger (the Closing), the Exchange Shares will be issued to the 6D shareholders on a pro rata basis, in proportion to the ratio that the number of 6D Shares held by the 6D shareholders bear to the pro rata portion of 6D Shares held by all the holders of shares of 6D as of the Closing. It is anticipated that upon completion of the Merger and the issuance of the Exchange Shares, the current stockholders of 6D will own approximately 50% of the then outstanding shares of the Company s common stock and the then-current holders of the outstanding common stock of the Company will own the balance.

Amendments

Prior to the Closing, the Company will obtain shareholder approval to amend its Articles of Incorporation to (i) change its authorized capital stock to 1,200,000,000 shares which will be designated common stock, (ii) change the name of the Company to 6D Global Technologies, Inc. , (iii) authorize the conversion of the Company into a corporation organized under the laws of the State of Delaware, (iv) complete the spin-off of all of the Company s China-based operations and assets to the Company s former management team led by Bei Lu, in exchange for the

satisfaction and/or assumption of all liabilities of the Company in excess of $500.00 and the return of 17,729,403 shares of common stock held by Bei Lu, Dianfu Lu, Wenge Chen, Ping Chen, Shengfen Lin and certain other shareholders; (v) obtain NYGG (Asia) Ltd. s consent to convert all of its notes, debts and other liabilities made to or on behalf of the Company, into 242,534,190 shares of the Company s common stock. In addition, the Company must maintain the listing of its common stock on the NASDAQ Stock Market.

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Additionally, prior to the Closing and pursuant to the Merger Agreement, 6D intends to complete a private placement equity offering to raise between $3,000,000 and $5,100,000 at $0.30 per share (the Financing Shares). Following the Closing, the Financing Shares will be converted on a 1:1 basis into common stock of the Registrant.

3. Pro-forma Adjustments

The December 31, 2013 and March 31, 2014 pro-forma financial statements gives effect to the following transactions as if they had occurred at January 1, 2013:

1. To effectuate merger between 6D and the Company and to split off the Company s operations, all balance sheet and statement of operation amounts of the Company were reversed. The two exceptions were the par value of common stock and additional paid in capital, which were adjusted accordingly.

2. The sale of $5,100,000 in common stock was recorded.

3. $245,000 in short-term 6D loans were converted into shares of common stock.

4. The stock issuance costs of approximately $825,000 were recorded.

5. Interest expense was reduced to reflect the conversion of $245,000 in short-term 6D loans into shares of common stock.

6. The Company intends to reorganize as a Federal C-Corp. The pro forma adjustment includes a statutory 35% estimate.

7. The Company estimates that there will be an additional quarterly $62,500 ($250,000 annually) in public company costs. Such costs have not been included in the unaudited pro forma condensed statement of operations.

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Appendix G

CERTIFICATE OF INCORPORATION

OF

6D GLOBAL TECHNOLOGIES, INC.,

a Delaware Corporation

The undersigned, a natural person, for the purpose of organizing a corporation for conducting the business and promoting the purposes hereinafter stated, under the provisions and subject to the requirements of the laws of the State of Delaware (particularly Chapter 1, Title 8 of the Delaware Code and the acts amendatory thereof and supplemental thereto, and known, identified and referred to as the General Corporation Law of the State of Delaware), hereby certifies that:

ARTICLE I

The name of this corporation shall be: 6D Global Technologies, Inc.

ARTICLE II

The address, including street, number, city and county, of the registered office of the Corporation in the State of Delaware is c/o Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, DE 19808.

ARTICLE III

The purpose for which the corporation is organized is to transact any lawful business for which corporations may be incorporated under the General Corporation Law of the State of Delaware.

ARTICLE IV

The total number of shares of all classes of stock that the corporation shall be authorized to issue is 1,300,000,000 shares, of which (a) 1,200,000,000 shares shall be designated common stock, par value $0.00001 per share (Common Stock) and (b) 100,000,000 shares shall be designated blank-check preferred stock, par value $0.00001 per share (Preferred Stock).

A. Preferred Stock

1. Issuance in Series. The Preferred Stock may be divided into and issued in one or more series. The board of directors is hereby vested with authority from time to time to establish and designate such series, and within the limitations prescribed by law or set forth herein, to fix and determine the relative rights and preferences of the shares of any series so established but all shares of Preferred Stock shall be identical except as to the following relative rights and preferences as to which there may be variations between different series: (a) the rate of dividend and the terms and conditions including the relative rights of priority, if any, of payment of dividends; (b) the price at and the terms and conditions including the relative rights of priority, if any, on which shares may be redeemed; (c) the amount payable including the relative rights of priority, if any, upon shares in event of involuntary liquidation; (d) the amount payable including the relative rights of priority, if any, upon shares in event of voluntary liquidation; (e) sinking fund

provisions for the redemption or purchase of shares; (f) the terms and conditions on which shares may be converted, if the shares of any series are issued with the

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privilege of conversion; (g) the nature of any dividends, whether cumulative, noncumulative or otherwise; (h) the repurchase obligations including the relative rights of priority, if any, of the corporation with respect to such shares; and (i) voting rights. The board of directors shall exercise such authority by the adoption of a resolution or resolutions as prescribed by law.

2. Dividends. The holders of each series of Preferred Stock at the time outstanding shall be entitled to receive, when and as declared to be payable by the board of directors, out of any funds legally available for the payment thereof, dividends subject to the terms and conditions including the relative rights of priority, if any, and at the rate theretofore fixed by the board of directors for such series of Preferred Stock that have theretofore been established, and no more.

3. Preferences on Liquidation. In the event of any dissolution, liquidation or winding up of the corporation, whether voluntary or involuntary, the holders of each series of the then outstanding Preferred Stock shall be entitled to receive the amount fixed for such purpose and subject to the terms and conditions including the relative rights of priority, if any, set forth in the resolution or resolutions of the board of directors establishing the respective series of Preferred Stock that might then be outstanding together with a sum equal to the amount of all accumulated and unpaid dividends thereon at the dividend rate fixed therefor in the aforesaid resolution or resolutions. After such payment to such holders of Preferred Stock, the remaining assets and funds of the corporation shall be distributed pro rata among the holders of the Common Stock. A consolidation, merger or reorganization of the corporation with any other corporation or corporations or a sale of all or substantially all of the assets of the corporation shall be considered a dissolution, liquidation or winding up of the corporation within the meaning of these provisions.

B. Common Stock

1. Dividends. Subject to all the rights of the Preferred Stock or any series thereof, and on the conditions set forth in Part A of this Article IV or to any resolution of the board of directors providing for the issuance of any series of Preferred Stock, the holders of the Common Stock shall be entitled to receive, when, as and if declared by the board of directors, out of funds legally available therefor, dividends payable in cash, stock or otherwise.

2. Voting Rights. Each holder of Common Stock shall be entitled to one vote for each share held.

C. Provisions Applicable To All Classes

1. No Preemptive Rights. No holder of securities of the corporation shall be entitled as a matter of right, preemptive or otherwise, to subscribe for or purchase any securities of the corporation now or hereafter authorized to be issued, or securities held in the treasury of the corporation, whether issued or sold for cash or other consideration or as a dividend or otherwise. Any such securities may be issued or disposed of by the board of directors to such persons and on such terms as in its discretion it shall deem advisable.

2. Cumulative Voting. No shareholder of the corporation shall have the right of cumulative voting at any election of directors or upon any other matter.

3. Authority to Purchase own Shares. The corporation shall have the authority to purchase, directly or indirectly, its own shares to the extent of the aggregate of unrestricted capital surplus available therefor and unrestricted reduction surplus available therefor.

ARTICLE V

The name and the mailing address of the incorporator is as follows:

NAME	MAILING ADDRESS
Tejune Kang	[insert]

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ARTICLE VI

The Corporation is to have perpetual existence.

ARTICLE VII

Whenever a compromise or arrangement is proposed between this Corporation and its creditors or any class of them and/or between this Corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of this Corporation or of any creditor or stockholder thereof or on the application of any receiver or receivers appointed for this Corporation under the provisions of Section 291 of Title 8 of the Delaware Code or on the application of any receiver or receivers appointed for this Corporation under Section 279 of Title 8 of the Delaware Code order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this Corporation, as the case may be, to be summoned in such manner as the said court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or the stockholders or class of stockholders of this Corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of this Corporation as a consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders of this Corporation, as the case may be, and also on this Corporation.

ARTICLE VIII

No contract or other transaction between the corporation and any other person (as used herein the term person means an individual, firm, trust, partnership, association, corporation, or other entity) shall be affected or invalidated by the fact that any director of the corporation is interested in or is a member, director, or an officer of, such other person, and any director may be a party to or may be interested in any contract or transaction of the corporation or in which the corporation is interested; and no contract, act or transaction of the corporation with any person shall be affected or invalidated by the fact that any director of the corporation is a party to, or interested in, such contract, act or transaction, or in any way connected with such person. Each and every person who may become a director of the corporation is hereby relieved from any liability that might otherwise exist from contracting with the corporation for the benefit of himself or any person in which he may in any way be interested, provided that the fact of such interest shall have been disclosed to, or shall be known by, the other directors or the shareholders of the corporation, as the case may be, acting upon or with reference to such act, contract or transaction, even though the presence at a meeting or vote or votes of such interested director might have been necessary to obligate the corporation upon such act, contract or transaction.

ARTICLE IX

Each person who serves or has served as a director shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, provided that this provision shall not eliminate or limit the liability of a director: (i) for any breach of loyalty to the corporation or its stockholders; (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of the law; (iii) for unlawful payment of dividend or unlawful stock purchase or redemption as such liability is imposed under Section 174 of the General Corporation Law of Delaware; or (iv) for any transaction from which the director derived an improper personal benefit. No amendment to or repeal of this provision shall apply to or have any effect on the liability or alleged liability of any director of the Corporation for or with respect to any acts or omissions of such director occurring prior to such amendment or repeal. If the General Corporation Law of the State of Delaware is amended to permit further elimination or limitation of the personal liability of directors, then the liability of a director

of the Corporation shall be eliminated or limited to the fullest extent permitted by the General Corporation Law of the State of Delaware as so amended.

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ARTICLE X

Any action required by the Delaware Code to be taken at any annual or special meeting of shareholders, or any action which may be taken at any annual or special meeting of shareholders, may be taken without a meeting, without prior notice, and without a vote, if a consent or consents in writing, setting forth the actions so taken, shall be signed by the holder of holders of shares having not less than the minimum number of votes that would be necessary to take such action at a meeting at which the holders of all shares entitled to vote on the action were present and voted.

ARTICLE XI

The Corporation shall provide indemnification as follows:

(a) The Corporation shall indemnify each person who was or is a party or threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that he or she is or was, or has agreed to become, a director or officer of the Corporation, or is or was serving, or has agreed to serve, at the request of the Corporation, as a director, officer, partner, employee or trustee of, or in a similar capacity with, another corporation, partnership, joint venture, trust or other enterprise (including any employee benefit plan) (all such persons being referred to hereafter as an Indemnitee), or by reason of any action alleged to have been taken or omitted in such capacity, against all expenses (including attorneys fees), liabilities, losses, judgments, fines, excise taxes and penalties arising under the Employee Retirement Income Security Act of 1974, and amounts paid in settlement actually and reasonably incurred by or on behalf of Indemnitee in connection with such action, suit or proceeding and any appeal therefrom, if Indemnitee acted in good faith and in a manner which Indemnitee reasonably believed to be in, or not opposed to, the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that Indemnitee did not act in good faith and in a manner which Indemnitee reasonably believed to be in, or not opposed to, the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his or her conduct was unlawful.

(b) The Corporation shall indemnify any Indemnitee who was or is a party to or threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that Indemnitee is or was, or has agreed to become, a director or officer of the Corporation, or is or was serving, or has agreed to serve, at the request of the Corporation, as a director, officer, partner, employee or trustee of, or in a similar capacity with, another corporation, partnership, joint venture, trust or other enterprise (including any employee benefit plan), or by reason of any action alleged to have been taken or omitted in such capacity, against all expenses (including attorneys fees) and, to the extent permitted by law, amounts paid in settlement actually and reasonably incurred by or on behalf of Indemnitee in connection with such action, suit or proceeding and any appeal therefrom, if Indemnitee acted in good faith and in a manner which Indemnitee reasonably believed to be in, or not opposed to, the best interests of the Corporation, except that no indemnification shall be made under this paragraph (b) in respect of any claim, issue or matter as to which Indemnitee shall have been adjudged to be liable to the Corporation, unless, and only to the extent, that the Court of Chancery of Delaware or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of such liability but in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnity for such expenses (including attorneys fees) which the Court of Chancery of Delaware or such other court shall deem proper.

(c) Notwithstanding any other provisions of this Article XI, to the extent that an Indemnitee has been successful, on the merits or otherwise, in defense of any action, suit or proceeding referred to in paragraphs (a) and (b) of this Article

XI, or in defense of any claim, issue or matter therein, or on appeal from any such

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action, suit or proceeding, Indemnitee shall be indemnified against all expenses (including attorneys fees) actually and reasonably incurred by or on behalf of Indemnitee in connection therewith.

(d) In the event of any threatened or pending action, suit, proceeding or investigation of which the Corporation receives notice under this Article XI, any expenses (including attorneys fees) incurred by or on behalf of Indemnitee in defending an action, suit, proceeding or investigation or any appeal therefrom shall be paid by the Corporation in advance of the final disposition of such matter; provided, however, that the payment of such expenses incurred by or on behalf of Indemnitee in advance of the final disposition of such matter shall be made only upon receipt of an undertaking by or on behalf of Indemnitee to repay all amounts so advanced in the event that it shall ultimately be determined that Indemnitee is not entitled to be indemnified by the Corporation as authorized in this Article XI; and provided further that no such advancement of expenses shall be made under this Article XI if it is determined that (i) Indemnitee did not act in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of the Corporation, or (ii) with respect to any criminal action or proceeding, Indemnitee had reasonable cause to believe his or her conduct was unlawful. Such undertaking shall be accepted without reference to the financial ability of Indemnitee to make such repayment.

(e) No amendment, termination or repeal of this Article XI or of the relevant provisions of the General Corporation Law of the State of Delaware or any other applicable laws shall adversely affect or diminish in any way the rights of any Indemnitee to indemnification under the provisions hereof with respect to any action, suit, proceeding or investigation arising out of or relating to any actions, transactions or facts occurring prior to the final adoption of such amendment, termination or repeal.

ARTICLE XII

Except as may be expressly provided in this Certificate of Incorporation, the Corporation reserves the right at any time and from time to time to amend, alter, change or repeal any provision contained in these Certificate of Incorporation or a Preferred Stock Designation, and any other provisions authorized by the laws of the State of Delaware at the time in force may be added or inserted, in the manner now or thereafter prescribed herein or by applicable law, and all rights, preferences and privileges of whatsoever nature conferred upon stockholders, directors or any other persons whomsoever by and pursuant to these Certificate of Incorporation in its present form or as hereafter amended are granted subject to the right reserved in this Article XII; provided, however, that any amendment or repeal of Article XI and Article XII of this Certificate of Incorporation shall not adversely affect any right or protection existing hereunder in respect of any act or omission occurring prior to such amendment or repeal; and provided further that no Preferred Stock Designation shall be amended after the issuance of any shares of the series of Preferred Stock created thereby, except in accordance with the terms of such Preferred Stock Designation and the requirements of applicable law.

IN WITNESS THEREOF, StationDigital Corporation has caused this certificate to be signed by the Chief Executive Officer, Tejune Kang, this day of June, 2014.

Tejune Kang, Incorporator

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Appendix H

BY-LAWS

OF

6D GLOBAL TECHNOLOGIES, INC.

A Delaware corporation

(the Corporation)

ARTICLE I

OFFICES

Offices. The registered office of the Corporation is located in the city and state designed by the Corporation in its Certificate of Incorporation. The Corporation may also maintain offices at such other places both within and without the State of Delaware as the Board of Directors may from time to time determine or the business of the Corporation may require.

ARTICLE II

MEETINGS OF STOCKHOLDERS

SECTION 1. Annual Meetings. The annual meeting of the shareholders may be held at such time on such day as shall be fixed by the Board for the purpose of electing directors and for the transaction of such other business as may come before the meeting. If the election of directors shall not be held on the day designated herein for any annual meeting of the shareholders, or at any adjournment thereof, the Board shall cause the election to be held at a special meeting of the shareholders as soon thereafter as may be convenient. Written notice of each annual meeting signed by the president or vice president, or the secretary, or an assistant secretary, or by such other person or persons as the Board may designate, shall be given to each shareholder entitled to vote thereat. All such notices shall be sent to each shareholder entitled thereto, or published, not less than ten (10) nor more than sixty (60) days before each annual meeting, and shall specify the place, the day and the hour of such meeting, and shall also state the purpose or purposes for which the meeting is called. Failure to hold the annual meeting shall not constitute dissolution or forfeiture of the Corporation, and a special meeting of the shareholders may take the place thereof.

SECTION 2. Special Meetings. Special meetings of the stockholders for any purpose or purposes may be called at any time by a majority of the Board of Directors, by the Chairman of the Board, or by the President and shall be called by the Secretary at the request of the holders of not less than fifty-one percent of all issued and outstanding shares of the Corporation entitled to vote at the meeting.

SECTION 3. Place of Meetings. The annual meeting of the stockholders of the Corporation shall be held at the general offices of the Corporation in the City of New York, State of New York, or at such other place in the United States as may be stated in the notice of the meeting. All other meetings of the stockholders shall be held at such places within or without the State of Delaware as shall be stated in the notice of the meeting.

SECTION 4. Notice of Meetings. Except as otherwise provided by law, written notice of each meeting of the stockholders, whether annual or special, shall be given not less than 10 nor more than 60 days before the date of the meeting to each stockholder entitled to vote at such meeting. If mailed, notice shall be given when deposited in the United States mails, postage prepaid, directed to such stockholder at his address as it appears in the stock ledger of the Corporation. Each such notice shall state the place, date and hour of the meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called.

Any shareholders meeting, annual or special, whether or not a quorum is present, may be adjourned from time to time by the vote of a majority of the shares, the holders of which are either present in person or represented by proxy thereat, but in the absence of a quorum, no other business may be transacted at any such meeting. When a meeting is adjourned to another time and place, notice of the adjourned meeting need not be given if the time and place thereof are announced at the meeting at which the adjournment is given. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

SECTION 5. Quorum. At any meeting of the stockholders the holders of record of a majority of the total number of outstanding shares of stock of the Corporation entitled to vote at the meeting, present in person or represented by proxy, shall constitute a quorum for all purposes, provided that at any meeting at which the holders of any series of class of stock shall be entitled, voting as a class, to elect Directors, the holders of record of a majority of the total number of outstanding shares of such series or class, present in person or represented by proxy, shall constitute a quorum for the purpose of such election.

In the absence of a quorum at any meeting, the holders of a majority of the shares of stock entitled to vote at the meeting, present in person or represented by proxy at the meeting, may adjourn the meeting, from time to time, until the holders of the number of shares requisite to constitute a quorum shall be present in person or represented at the meeting. At any adjourned meeting at which a quorum is present, any business may be transacted that might have been transacted at the meeting as originally convened.

SECTION 6. Organization. At each meeting of the stockholders, the Chairman of the Board, or if he so designates or is absent, the President, shall act as Chairman of the meeting. In the absence of both the Chairman of the Board and the President, such person as shall have been designated by the Board of Directors, or in the absence of such designation a person elected by the holders of a majority in number of shares of stock present in person or represented by proxy and entitled to vote at the meeting, shall act as Chairman of the meeting.

The Secretary or, in his absence, an Assistant Secretary or, in the absence of the Secretary and all of the Assistant Secretaries, any person appointed by the Chairman of the meeting shall act as Secretary of the meeting.

SECTION 7. Voting. Unless otherwise provided in the Certificate of Incorporation or a resolution of the Board of Directors creating a series of stock, and designating the rights thereto, at each meeting of the stockholders, each holder of shares of any series or class of stock entitled to vote at such meeting shall be entitled to one vote for each share of stock having voting power in respect of each matter upon which a vote is to be taken, standing in his name on the stock ledger of the Corporation on the record date fixed as provided in these By-Laws for determining the stockholders entitled to vote at such meeting or, if no record date be fixed, at the close of business on the day next preceding the day on which notice of the meeting is given. Shares of its own capital stock belonging to the Corporation, or to another Corporation if a majority of the shares entitled to vote in the election of directors of such other Corporation is held by the Corporation, shall neither be entitled to vote nor counted for quorum purposes.

At all meetings of stockholders for the election of Directors the voting shall be by ballot, and the persons having the greatest number of votes shall be deemed and declared elected. All other elections and questions submitted to a vote of the stockholders shall, unless otherwise provided by law or the Certificate of Incorporation, be decided by the affirmative vote of the majority of shares which are present in person or represented by proxy at the meeting and entitled to vote on the subject matter.

SECTION 8. Action Without Meeting. Any action required or permitted to be taken at a meeting of the shareholders may be taken without a meeting if a written consent (or counterparts thereof) that sets forth the action so taken is

signed by shareholders holding at least that proportion of the voting power necessary to approve such action and received by the Corporation. Such consent shall have the same force and effect as a vote

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of the shareholders and may be stated as such in any document. Action taken under this Section 8 is effective as of the date the last writing necessary to effect the action is received by the Corporation, unless all of the writings specify a different effective date, in which case such specified date shall be the effective date for such action. The record date for determining shareholders entitled to take action without a meeting is the date the Corporation first receives a writing upon which the action is taken.

SECTION 9. Inspectors. Prior to each meeting of stockholders, the Board of Directors shall appoint two Inspectors who are not directors, candidates for directors or officers of the Corporation, who shall receive and determine the validity of proxies and the qualifications of voters, and receive, inspect, count and report to the meeting in writing the votes cast on all matters submitted to a vote at such meeting. In case of failure of the Board of Directors to make such appointments or in case of failure of any Inspector so appointed to act, the Chairman of the Board shall make such appointment or fill such vacancies.

Each Inspector, immediately before entering upon his duties, shall subscribe to an oath or affirmation faithfully to execute the duties of Inspector at such meeting with strict impartiality and according to the best of his ability.

SECTION 10. List of Stockholders. The Secretary or other officer or agent having charge of the stock ledger of the Corporation shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at said meeting, arranged in alphabetical order and showing the address of each stockholder and the number of shares of each class and series registered in the name of each such stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, at the time and place of the meeting during the whole time thereof and may be inspected by any stockholder who is present.

SECTION 11. Business at Meetings of Stockholders.

(a) General. The business to be conducted at any meeting of stockholders of the Corporation shall be limited to such business and nominations as shall comply with the procedures set forth in these By-laws.

(b) Notification of Stockholder Business. At any special meeting of stockholders only such business shall be conducted as shall have been brought before the meeting pursuant to the Corporation s notice of special meeting. At an annual meeting of stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be either (i) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors, including matters included pursuant to Rule 14a-8 of the Securities and Exchange Commission, (ii) otherwise (a) properly requested to be brought before the meeting by a stockholder of record entitled to vote in the elections of directors generally, and (b) constitute a proper subject to be brought before the meeting. In addition to any other applicable requirements, for business (other than the election of directors) to be otherwise properly brought before an annual meeting by a stockholder, the business must be a proper matter for stockholder action and the stockholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a stockholder s notice must be addressed to and received at the principal executive offices of the Corporation, not more than 150 days and not less than 120 days prior to the first anniversary of the preceding year s annual meeting; provided, however, that in the event that the date of the meeting is more than 30 days before or after such anniversary date, notice by the stockholder to be timely must be so received not later than the close of business on the 15th day following the day on which notice of the date of the annual meeting was mailed or public disclosure was made, whichever first occurs. A stockholder s notice to the Secretary shall set forth as to each matter (other than the election of directors) the stockholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and record address of the stockholder proposing such business and of each beneficial owner on behalf of which the stockholder is acting, (iii) the class and

number of shares of the Corporation which are beneficially owned by the stockholder and by any such beneficial owner, (iv) a representation that the stockholder is a holder of record of capital stock of the Corporation entitled to vote at such

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meeting and intends to appear in person or by proxy at the meeting to present such business, (v) any material interest of the stockholder and of any such beneficial owner in such business; and (vi) whether the proponent intends or is part of a group which intends to solicit proxies from other stockholders in support of such proposal.

Notwithstanding anything in these By-Laws to the contrary, no business shall be conducted at an annual meeting except in accordance with the procedures set forth in this Section 11 of Article II, provided, however, that nothing in this Section 11 of Article II shall be deemed to preclude discussion by any stockholder of any business properly brought before the annual meeting.

The Chairman of an annual or special meeting shall have the power and duty to determine and shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this Section 11 of Article II, and if he should so determine, he shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

ARTICLE III

BOARD OF DIRECTORS

SECTION 1. Number, Qualification and Term of Office. The business, property and affairs of the Corporation shall be managed by a Board consisting of not less than three or more than seven Directors. The Board of Directors shall from time to time by a vote of a majority of the Directors then in office fix within the maximum and minimum limits the number of Directors to constitute the Board. At each annual meeting of stockholders a Board of Directors shall be elected by the stockholders for a term of one year. Each Director shall serve until his successor is elected and shall qualify.

SECTION 2. Vacancies. Vacancies in the Board of Directors and newly created directorships resulting from any increase in the authorized number of Directors may be filled by a majority of the Directors of Executive Committee of the Board of Directors as set forth in Section 1 of Article IV of these By-Laws.

SECTION 3. Resignations. Any Director may resign at any time upon written notice to the Secretary of the Corporation. Such resignation shall take effect on the date of receipt of such notice or at any later date specified therein; and the acceptance of such resignation, unless required by the terms thereof, shall not be necessary to make it effective. When one or more Directors shall resign effective at a future date, a majority of the Directors then in office, including those who have resigned, shall have power to fill such vacancy or vacancies to take effect when such resignation or resignations shall become effective.

SECTION 4. Removals. Any Director may be removed, with cause, at any special meeting of the Executive Committee of the Board of Directors as set forth in Section 1 of Article IV of these By-Laws, and the vacancy in the Board caused by any such removal may be filled by the Members of the Committee at such a meeting.

SECTION 5. Place of Meetings; Books and Records. The Board of Directors may hold its meetings, and have an office or offices, at such place or places within or without the State of Delaware as the Board from time to time may determine.

The Board of Directors, subject to the provisions of applicable law, may authorize the books and records of the Corporation, and offices or agencies for the issue, transfer and registration of the capital stock of the Corporation, to be kept at such place or places outside of the State of Delaware as, from time to time, may be designated by the Board of Directors.

SECTION 6. Annual Meeting of the Board. The first meeting of each newly elected Board of Directors, to be known as the Annual Meeting of the Board, for the purpose of electing officers, designating committees and the transaction of such other business as may come before the Board, shall be held as soon as practicable after the

adjournment of the annual meeting of stockholders, and no notice of such meeting shall be necessary to the newly elected Directors in order legally to constitute the meeting, provided a quorum shall be present. In the event such meeting is not held due to the absence of a quorum, the meeting may be held at such time and place as shall be specified in a notice given as hereinafter provided for special meetings of the Board of Directors or as shall be specified in a written waiver signed by all of the newly elected Directors.

SECTION 7. Regular Meetings. The Board of Directors shall, by resolution, provide for regular meetings of the Board at such times and at such places as it deems desirable. Notice of regular meetings need not be given.

SECTION 8. Special Meetings. Special meetings of the Board of Directors may be called by the Chairman of the Board or the President and shall be called by the Secretary on the written request of at least two (2) Directors on such notice as the person or persons calling the meeting shall deem appropriate in the circumstances. Notice of each such special meeting shall be mailed to each Director or delivered to him by telephone, telegraph or any other means of electronic communication, in each case addressed to his residence or usual place of business, or delivered to him in person or given to him orally. The notice of meeting shall state the time and place of the meeting but need not state the purpose thereof. Attendance of a Director at any meeting shall constitute a waiver of notice of such meeting except when a Director attends a meeting for the express purpose of objecting to the transaction of any business because the meeting was not lawfully called or convened. Except as provided by law, the Directors may waive notice of such meeting and consent to the action taken as set forth in Section 12 of Article IV hereof.

SECTION 9. Quorum and Manner of Acting. Except as otherwise provided by statute, the Certificate of Incorporation or these By-Laws, the presence of a majority of the total number of Directors shall constitute a quorum for the transaction of business at any regular or special meeting of the Board of Directors, and the act of a majority of the Directors present at any such meeting at which a quorum is present shall be the act of the Board of Directors. In the absence of a quorum, a majority of the Directors present may adjourn the meeting, from time to time, until a quorum is present. Notice of any such adjourned meeting need not be given.

SECTION 10. Chairman of the Board. A Chairman of the Board shall be elected by the Board of Directors from among its members for a prescribed term and may, or may not be, at the discretion of the Board of Directors, an employee or an officer of the Corporation. If the Chairman is neither an employee nor an officer of the Corporation he may be designated non-executive. The Chairman of the Board shall perform such duties as shall be prescribed by the Board of Directors and, when present, shall preside at all meetings of the stockholders and the Board of Directors. In the absence or disability of the Chairman of the Board, the Board of Directors shall designate a member of the Board to serve as Chairman of the Board and such designated Board Member shall have the powers and perform the duties of the office; provided, however, that if the Chairman of the Board shall so designate or shall be absent from a meeting of stockholders, the President shall preside at such meeting of stockholders.

SECTION 11. Organization. At every meeting of the Board of Directors, the Chairman of the Board or, in his absence the President or, if both of these individuals are absent, a Chairman chosen by a majority of the Directors present shall act as Chairman of the meeting. The Secretary or, in his absence, an Assistant Secretary or, in the absence of the Secretary and all the Assistant Secretaries, any person appointed by the Chairman of the meeting shall act as Secretary of the meeting.

SECTION 12. Consent of Directors in Lieu of Meeting. Unless otherwise restricted by the Certificate of Incorporation or by these By-Laws, any action required or permitted to be taken at any meeting of the Board of Directors, or any committee designated by the Board, may be taken without a meeting if a majority of members of the Board or committee consent thereto in writing, and such written consent is filed with the minutes of the proceedings of the Board or committee.

SECTION 13. Telephonic Meetings. Members of the Board of Directors, or any committee designated by the Board, may participate in a meeting of the Board or committee by means of conference telephone or similar

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communications equipment by means of which all persons participating in the meeting can hear each other and participation in such a meeting shall constitute presence in person at such meeting.

SECTION 14. Compensation. Each Director who is not a full-time salaried officer of the Corporation or any of its wholly owned subsidiaries, when authorized by resolution of the Board of Directors may receive as a Director a stated salary or an annual retainer and in addition may be allowed a fixed fee and his reasonable expenses for attendance at each regular or special meeting of the Board or any Committee thereof.

ARTICLE IV

COMMITTEES OF THE BOARD OF DIRECTORS

SECTION 1. Executive Committee. The Board of Directors may, in its discretion, designate annually an Executive Committee. The Committee shall consist of two (2) or more members who shall serve at the pleasure of the Board of Directors. The Committee shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, including, but not limited to, appointing and removing the Directors and officers of the Corporation and evaluating and approving financing proposals and securities offerings, and may authorize the seal of the Corporation to be affixed to all papers which may require it, but the Committee shall have no power or authority to amend the Certificate of Incorporation, adopt an agreement of merger or consolidation, recommend to the stockholders the sale, lease or exchange of all or substantially all of the Corporation s property and assets, recommend to the stockholders a dissolution of the Corporation or a revocation of a dissolution, amend the By-Laws of the Corporation, declare a dividend, authorize the issuance of stock, or such other powers as the Board may from time to time eliminate.

SECTION 2. Audit Committee. The Board of Directors may, in its discretion, designate annually an Audit Committee to assist the Board in fulfilling its responsibilities with respect to overseeing the accounting, auditing and financial reporting practices and the internal control policies and procedures of the Corporation. If so designated, the Board shall adopt a charter for the Audit Committee, and the Audit Committee shall review and assess the adequacy of the charter on an annual basis. The duties of the Audit Committee, which shall be set forth in its charter shall be to: (i) be directly responsible for the appointment, compensation, retention and oversight of the work of any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the issuer; (ii) establish procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, including procedures for the confidential, anonymous submission by employees of the issuer of concerns regarding questionable accounting or auditing matters; and (iii) engage independent counsel and other advisors, as it determines necessary to carry out its duties as set forth herein.

All members of the Audit Committee shall meet the requirements of the charter and any relevant regulatory body, as interpreted by the Board in its reasonable business judgment. The Corporation shall provide funding requested by the Audit Committee as it reasonably relates to carry out its duties set forth herein. The Board shall elect or appoint a chairman of the Audit Committee who will have authority to act on behalf of the committee between meetings. The Chairman may appoint a temporary Chairman in his or her absence.

SECTION 3. Code of Ethics Committee. The Board of Directors may, in its discretion, designate annually a Code of Ethics Committee to assist the Board in adopting a Code of Ethics for its senior financial offices reasonably necessary to promote:

(a) honest and ethical conduct; including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;

(b) full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the Corporation; and

(c) compliance with applicable governmental rules and regulations.

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SECTION 4. Committee Chairman, Books and Records. Unless designated by the Board of Directors, each Committee shall elect a Chairman to serve for such term as it may determine. Each committee shall fix its own rules of procedure and shall meet at such times and places and upon such call or notice as shall be provided by such rules. It shall keep a record of its acts and proceedings, and all action of the Committee shall be reported to the Board of Directors at the next meeting of the Board.

SECTION 5. Alternates. Alternate members of the Committees prescribed by this Article IV may be designated by the Board of Directors from among the Directors to serve as occasion may require. Whenever a quorum cannot be secured for any meeting of any such Committees from among the regular members thereof and designated alternates, the member or members of such Committee present at such meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board to act at the meeting in the place of such absent or disqualified member.

Alternate members of such Committees shall receive a reimbursement for expenses and compensation at the same rate as regular members of such Committees.

SECTION 6. Other Committees. The Board of Directors may designate such other Committees, as it may from time to time determine, and each such Committee shall serve for such term and shall have and may exercise, during intervals between meetings of the Board of Directors, such duties, functions and powers as the Board of Directors may from time to time prescribe.

SECTION 7. Quorum and Manner of Acting. At each meeting of any Committee the presence of a majority of the members of such Committee, whether regular or alternate, shall be necessary to constitute a quorum for the transaction of business, and if a quorum is present the concurrence of a majority of those present shall be necessary for the taking of any action.

ARTICLE V

OFFICERS

SECTION 1. Number. The officers of the Corporation shall be a President, Secretary, and Treasurer, each of which officers shall be elected by the Board of Directors, and such other officers as the Board of Directors may determine, in its discretion, to elect. Any number of offices may be held by the same person. Any officer may hold such additional title descriptions or qualifiers such as Chief Executive Officer , Chief Operating Officer , Chief Financial Officer , Senior Vice President , Executive Vice President or Assistant Secretary or such other title as the Board of Directors shall determine.

SECTION 2. Election, Term of Office and Qualifications. The officers of the Corporation shall be elected annually by the Board of Directors. Each officer elected by the Board of Directors shall hold office until his successor shall have been duly elected and qualified, or until he shall have died, resigned or been removed in the manner hereinafter provided.

SECTION 3. Resignations. Any officer may resign at any time upon written notice to the Secretary of the Corporation. Such resignation shall take effect at the date of its receipt, or at any later date specified therein; and the acceptance of such resignation, unless required by the terms thereof, shall not be necessary to make it effective.

SECTION 4. Removals. Any officer elected or appointed by the Board of Directors may be removed, with or without cause, by the Board of Directors at a regular meeting or special meeting of the Board. Any officer or agent appointed

by any officer or committee may be removed, either with or without cause, by such appointing officer or committee.

SECTION 5. Vacancies. Any vacancy occurring in any office of the Corporation shall be filled for the unexpired portion of the term in the same manner as prescribed in these By-Laws for regular election or appointment to such office.

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SECTION 6. Compensation of Officers. The compensation of all officers elected by the Board of Directors shall be approved or authorized by the Board of Directors or by the President when so authorized by the Board of Directors or these By-Laws.

SECTION 7. Absence or Disability of Officers. In the absence or disability of the Chairman of the Board or the President, the Board of Directors may designate, by resolution, individuals to perform the duties of those absent or disabled. The Board of Directors may also delegate this power to a committee or to a senior corporate officer.

ARTICLE VI

STOCK CERTIFICATES AND TRANSFER THEREOF

SECTION 1. Stock Certificates. Except as otherwise permitted by law, the Certificate of Incorporation or resolution or resolutions of the Board of Directors, every holder of stock in the Corporation shall be entitled to have a certificate, signed by or in the name of the Corporation by the Chairman of the Board, the President or a Vice President, and by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of the Corporation, certifying the number of shares, and the class and series thereof, owned by him in the Corporation. Any and all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

SECTION 2. Transfer of Stock. Transfer of shares of the capital stock of the Corporation shall be made only on the books of the Corporation by the holder thereof, or by his attorney thereunto duty authorized, and on surrender of the certificate or certificates for such shares. A person in whose name shares of stock stand on the books of the Corporation shall be deemed the owner thereof as regards the Corporation, and the Corporation shall not, except as expressly required by statute, be bound to recognize any equitable or other claim to, or interest in, such shares on the part of any other person whether or not it shall have express or other notice thereof.

SECTION 3. Lost, Destroyed or Mutilated Certificates. The Board of Directors may provide for the issuance of new certificates of stock to replace certificates of stock lost, stolen, mutilated or destroyed, or alleged to be lost, stolen, mutilated or destroyed, upon such terms and in accordance with such procedures as the Board of Directors shall deem proper and prescribe.

SECTION 4. Record Date. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

ARTICLE VII

DIVIDENDS, SURPLUS, ETC.

Except as otherwise provided by statute or the Certificate of Incorporation, the Board of Directors may declare dividends upon the shares of its capital stock either (1) out of its surplus, or (2) in case there shall be no surplus, out of its net profits for the fiscal year, whenever, and in such amounts as, in its opinion, the condition of the affairs of the Corporation shall render it advisable. Dividends may be paid in cash, in property or in shares of the capital stock of the Corporation.

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ARTICLE VIII

SEAL

The corporate seal shall have the name of the Corporation inscribed thereon and shall be in such form as may be approved from time to time by the Board of Directors. The seal may be used by causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced.

ARTICLE IX

FISCAL YEAR

The fiscal year of the Corporation shall begin on the first day of January of each year.

ARTICLE X

INDEMNIFICATION

SECTION 1. Right to Indemnification. Each person who was or is made a party or is threatened to be made a party to or is involved (including, without limitation, as a witness) in any actual or threatened action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a proceeding), by reason of the fact that such person is or was a director of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise (hereinafter an indemnitee), whether the basis of such proceeding is alleged action in an official capacity as a director, officer, employee or agent or in any other capacity while serving as a director, officer, employee or agent, shall be indemnified and held harmless by the Corporation to the full extent authorized by the General Corporation Law of the State of Delaware (Delaware Code.), as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law permitted the Corporation to provide prior to such amendment), or by other applicable law as then in effect, against all expense, liability and loss (including attorney s fees, judgments, fines, ERISA excise taxes or penalties and amounts to be paid in settlement) actually and reasonably incurred or suffered by such indemnitee in connection therewith and such indemnification shall continue as to an indemnitee who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the indemnitee s heirs, executors and administrators, provided, however, that except as provided in Section 2 of this Article with respect to proceedings seeking to enforce rights to indemnification, the Corporation shall indemnify any such indemnitee seeking indemnification in connection with a proceeding (or part thereof) initiated by such indemnitee only if such proceeding (or part thereof) was authorized by the Board of Directors of the Corporation. The right to indemnification conferred in this Section shall be a contract right and shall include the right to be paid by the Corporation the expenses incurred in defending any such proceeding in advance of its final disposition (hereinafter an advancement of expenses); provided, however, that, if the Delaware Code requires, an advancement of expenses incurred by an indemnitee in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such indemnitee while a director or officer, including, without limitation, service to an employee benefit plan) shall be made only upon delivery to the Corporation of an undertaking, by or on behalf of such indemnitee, to repay all amounts so advanced if it shall ultimately be determined that such indemnitee is not entitled to be indemnified under this Section 1, or otherwise.

SECTION 2. Right of Indemnitee to Bring Suit. If a claim under Section 1 of this Article is not paid in full by the Corporation within sixty days after a written claim has been received by the Corporation, except in the case of a claim for an advancement of expenses, in which case the applicable period shall be twenty days, the indemnitee may at any

time thereafter bring suit against the Corporation to recover the unpaid amount of the claim and, to the extent successful in whole or in part, the indemnitee shall be entitled to be paid also the expense of prosecuting such suit. The indemnitee shall be presumed to be entitled to indemnification under this Article upon submission of a written claim (and, in an action brought to enforce a claim for an advancement of expenses

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where the required undertaking, if any is required, has been tendered to the Corporation), and thereafter the Corporation shall have the burden of proof to overcome the presumption that the indemnitee is not so entitled. Neither the failure of the Corporation (including its Board of Directors, independent legal counsel or its stockholders) to have made a determination prior to the commencement of such suit that indemnification of the indemnitee is proper in the circumstances nor an actual determination by the Corporation (including its Board of Directors, independent legal counsel or its stockholders) that the indemnitee is not entitled to indemnification shall be a defense to the suit or create a presumption that the indemnitee is not so entitled.

SECTION 3. Non-exclusivity of Rights. The rights to indemnification and to the advancement of expenses conferred in this Article shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of the Certificate of Incorporation, By-Laws, agreement, vote of stockholders or disinterested directors or otherwise.

SECTION 4. Insurance, Contracts and Funding. The Corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Corporation or another Corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the Delaware Code. The Corporation may enter into contracts with any indemnitee in furtherance of the provisions of this Article and may create a trust fund, grant a security interest or use other means (including, without limitation, a letter of credit) to ensure the payment of such amounts as may be necessary to effect indemnification as provided in this Article.

SECTION 5. Definition of Director and Officer. Any person who is or was serving as a director of a wholly owned subsidiary of the Corporation shall be deemed, for purposes of this Article only, to be a director or officer of the Corporation entitled to indemnification under this Article.

SECTION 6. Indemnification of Employees and Agents of the Corporation. The Corporation may, by action of its Board of Directors from time to time, grant rights to indemnification and advancement of expenses to employees and agents of the Corporation with the same scope and effects as the provisions of this Article with respect to the indemnification and advancement of expenses of directors and officers of the Corporation.

ARTICLE XI

FORUM FOR ADJUDICATION OF DISPUTES

Unless the Corporation consents in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware shall be the sole and exclusive forum for (a) any derivative action or proceeding brought on behalf of the Corporation, (b) any action asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee of the Corporation to the Corporation or the Corporation s stockholders, (c) any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law, or (d) any action asserting a claim governed by the internal affairs doctrine. Any person or entity purchasing or otherwise acquiring any interest in shares of capital stock of the Corporation shall be deemed to have notice of and consented to the provisions of this Section.

ARTICLE XII

CHECKS, DRAFTS, BANK ACCOUNTS, ETC.

SECTION 1. Checks, Drafts, Etc.; Loans. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Corporation shall be signed by such officer or officers, agent or

agents of the Corporation and in such manner as shall, from time to time, be determined by resolution of the Board of Directors. No loans shall be contracted on behalf of the Corporation unless authorized by the Board of Directors. Such authority may be general or confined to specific circumstances.

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SECTION 2. Deposits. All funds of the Corporation shall be deposited, from time to time, to the credit of the Corporation in such banks, trust companies or other depositories as the Board of Directors may select, or as may be selected by any officer or officers, agent or agents of the Corporation to whom such power may, from time to time, be delegated by the Board of Directors; and for the purpose of such deposit, the Chairman, the President, any Vice President, the Treasurer or any Assistant Treasurer, the Secretary or any Assistant Secretary or any other officer or agent to whom such power may be delegated by the Board of Directors, may endorse, assign and deliver checks, drafts and other order for the payment of money which are payable to the order of the Corporation.

ARTICLE XIII

AMENDMENTS

These By-Laws may be altered or repealed and new By-Laws may be made by the affirmative vote, at any meeting of the Board, of a majority of the Board of Directors.

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Appendix I

STATE OF DELAWARE

CERTIFICATE OF CONVERSION

FROM A NON-DELAWARE

CORPORATION TO A

DELAWARE CORPORATION

PURSUANT TO SECTION 265 OF

THE DELAWARE GENERAL

CORPORATION LAW

1) The jurisdiction where the Non-Delaware Corporation first formed is: **Nevada**

2) The jurisdiction immediately prior to filing this Certificate is: **Nevada**

3) The date the Non-Delaware Corporation first formed is: **5/9/2006**

4) The name of the Non-Delaware Corporation immediately prior to filing this Certificate is:

6D Global Technologies, Inc.

5) The name of the Corporation as set forth in the Certificate of Incorporation is:

6D Global Technologies, Inc.

IN WITNESS WHEREOF, the undersigned being duly authorized to sign on behalf of the converting Non-Delaware Corporation have executed this Certificate on the th day of June, 2014.

By:
Name: Tejune Kang
Title: Chief Executive Officer

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Appendix J

PLAN OF CONVERSION

OF

6D GLOBAL TECHNOLOGIES, INC.,

a Nevada corporation,

INTO

6D GLOBAL TECHNOLOGIES, INC.,

a Delaware corporation

This **PLAN OF CONVERSION** (this Plan), dated as of June [ ], 2014, is hereby adopted by 6D Global Technologies, Inc., a Nevada corporation (6D-NV), in order to set forth the terms, conditions and procedures governing the conversion of 6D-NV into a Delaware corporation pursuant to Section 265 of the Delaware General Corporation Law (the DGCL) and Section 92A.195 of the Nevada Revised Statutes (the NRS).

WHEREAS, the Board of Directors of 6D-NV has approved the Conversion (as defined below), submitted this Plan to the shareholders of 6D-NV for approval and the shareholders have approved this Plan.

NOW, THEREFORE, 6D-NV does hereby adopt this Plan to effectuate the conversion of 6D-NV into a Delaware corporation as follows:

1. Conversion. Upon and subject to the terms and conditions of this Plan and pursuant to the relevant provisions of the DGCL and the NRS, including, without limitation, Section 265 of the DGCL and Section 92A.195 of the NRS, 6D-NV shall convert (referred to herein as the Conversion) into and continue its existence thereafter in the form of a Delaware corporation (referred to herein as 6D-DE), which Delaware corporation will continue to be known as 6D Global Technologies, Inc., at the Effective Time (as defined below). 6D-DE shall thereafter be subject to all of the provisions of the DGCL. This Plan is on file at the address of the principal place of business of 6D-NV. This Plan will be on file after the conversion at the address of the principal place of business of 6D-DE; and a copy of the Plan will be, upon written request, furnished without cost by 6D-NV before the conversion or by 6D-DE after the conversion to any shareholder of 6D-NV or 6D-DE.

2. Effect of Conversion. Following the Conversion, 6D-DE shall, for all purposes of the laws of the State of Nevada and Delaware, be deemed to be the same entity as 6D-NV. Upon the Effective Time, all of the rights, privileges and powers of 6D-NV, and all property, real, personal and mixed, and all debts due to 6D-NV, as well as all other things and causes of action belonging to 6D-NV, shall remain vested in 6D-NV and shall be the property of 6D-NV and the title to any real property vested by deed or otherwise in 6D-NV shall not revert or be in any way impaired, but all rights of creditors and all liens upon any property of 6D-NV shall be preserved unimpaired, and all debts, liabilities and duties of 6D-NV shall remain attached to 6D-DE and may be enforced against it to the same extent as if said debts, liabilities and duties had originally been incurred or contracted by it in its capacity as a Delaware corporation. The rights, privileges, powers and interests in property of 6D-NV, as well as the debts, liabilities and duties of 6D-NV, shall not be deemed, as a consequence of the Conversion, to have been transferred to 6D-DE for any purpose of the laws of the State of Nevada. The Conversion shall not be deemed to affect any obligations or liabilities of

6D-NV incurred prior to the Effective Time or the personal liability of any person incurred prior thereto. 6D-NV shall not be required to wind up its affairs or pay its liabilities and distribute its assets, and the Conversion shall not be deemed to constitute a termination of 6D-NV and shall constitute a continuation of the existence of 6D-NV in the form of a Delaware corporation.

3. Effective Time. Provided that this Plan has not been terminated, abandoned or deferred pursuant to Section 11, the Conversion shall be effected as soon as practicable after the shareholders of 6D-NV have

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approved this Plan. Subject to the foregoing, unless another date and time is specified, the Conversion shall be effective (the Effective Time) upon (a) the filing with the Secretary of State of the State of Nevada of a duly executed Certificate of Conversion meeting the requirements of Section 92A.195 of the NRS and (b) the filing with the Secretary of State of the State of Delaware of (i) the Certificate of Incorporation of 6D-DE that has been executed, acknowledged and filed in accordance with the requirements of Delaware in the form specified below, and (ii) a Certificate of Conversion meeting the requirements of Section 265 of the DGCL.

4. Governance and Other Matters Related to 6D-DE.

(a) Certificate of Incorporation. At the Effective Time, the Certificate of Incorporation of 6D-DE shall be substantially in the form of Exhibit A attached hereto and shall have been filed with the Secretary of State of Delaware.

(b) Bylaws. At the Effective Time, the Bylaws of 6D-NV (the Bylaws) shall be adopted as such by the Board of Directors of 6D-DE. Thereafter, the Bylaws may be amended by the Board of Directors or stockholders of 6D-DE as provided in the Certificate of Incorporation and Bylaws of 6D-DE.

(c) Directors and Officers. The members of the Board of Directors and the officers of 6D-NV immediately prior to the Effective Time shall continue in office following the Effective Time as directors and officers of 6D-DE until the expiration of their terms of office at the next annual meeting of shareholders and until their successors have been elected and qualified, or until their earlier death, resignation or removal. After the Effective Time, 6D-DE and its Board of Directors shall take any necessary actions to cause each of such individuals to be appointed or to confirm such appointments.

5. Effect of the Conversion on the Securities of 6D-NV.

(a) Effect of Conversion on Common Stock. Subject to the terms and conditions of this Plan, at the Effective Time, automatically by virtue of the Conversion and without any further action on the part of 6D-DE, 6D-NV or any shareholder thereof, each share of common stock, $0.00001 par value per share, of 6D-NV (the Nevada Common Stock), shall convert into one validly issued, fully paid and nonassessable share of common stock, par value $0.00001 per share, of 6D-DE (the Delaware Common Stock).

(b) Effect of Conversion on Preferred Stock. Subject to the terms and conditions of this Plan, at the Effective Time, automatically by virtue of the Conversion and without any further action on the part of 6D-DE, 6D-NV or any shareholder thereof, each share of preferred stock, $0.00001 par value per share, of 6D-NV (the Nevada Preferred Stock), shall convert into one validly issued, fully paid and nonassessable share of preferred stock, par value $0.00001 per share, of 6D-DE (the Delaware Preferred Stock). Each share of Nevada Preferred Stock which has been issued in accordance with the terms of a Certificate of Designation of Rights and Preferences outstanding immediately prior to the Effective Time shall convert into one share of Delaware Preferred Stock upon the same terms and conditions (including any conversion price, conversion and voting rates) as were in effect immediately prior to the Effective Time.

(c) Effect of Conversion on Outstanding Warrants or Other Rights. Subject to the terms and condition of this plan, at the Effective Time, automatically by virtue of the Conversion and without any further action on the part of 6D-DE, 6D-NV or any shareholder thereof, each warrant or other right to acquire shares of Nevada Common Stock or Nevada Preferred Stock outstanding immediately prior to the Effective Time shall convert into one warrant or other right to acquire, upon the same terms and conditions (including the exercise price per share applicable to each such warrant or other right) as were in effect immediately prior to the Effective Time, one share of Delaware Common Stock or Delaware Preferred Stock, respectively.

(d) Effect of Conversion on Employee Benefit, Stock Option or Other Similar Plans. Subject to the terms and conditions of this plan, at the Effective Time, automatically by virtue of the Conversion and without

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any further action on the part of 6D-DE, 6D-NV or any shareholder thereof, each employee benefit plan, stock option plan or other similar plan to which 6D-NV is a party shall continue to be a plan of 6D-DE. To the extent that any such plan provides for the issuance of Nevada Common Stock, upon the Effective Time, such plan shall be deemed to provide for the issuance of Delaware Common Stock.

(e) Effect on Other Rights to Purchase Securities. Any shares of Nevada Common Stock or securities convertible into Nevada Common Stock that, immediately prior to the Effective Time, were invested or subject to a repurchase option risk of forfeiture or other condition pursuant to a stock incentive plan, option agreement, employment agreement or any other applicable agreement of the Company, shall be subject to the vesting requirement, repurchase options, risk of forfeiture or other conditions that may be set forth in a new or amended agreement between 6D-DE and the holder receiving such shares of Delaware Common Stock, and the certificate representing such shares of Delaware Common Stock, if any, may accordingly be marked with appropriate legends in the discretion of 6D-DE.

6. Stock Certificates. From and after the Effective Time, all of the outstanding certificates which prior to that time represented shares of Nevada Common Stock shall be deemed for all purposes to evidence ownership of and to represent the shares of Delaware Common Stock into which the shares represented by such certificates have been converted as provided herein. From and after the Effective Time, all of the outstanding certificates which prior to that time represented shares of Nevada Preferred Stock shall be deemed for all purposes to evidence ownership of and to represent the shares of Delaware Preferred Stock into which the shares represented by such certificates have been converted as provided herein. From and after the Effective Time, all the outstanding options and warrants of 6D-NV shall convert into one equivalent option or warrant to acquire Delaware Common Stock upon the same terms and conditions as were in effect immediately prior to the Effective Time. The registered owner on the books and records of 6D-NV or its transfer agent of any such outstanding stock certificate shall, until such certificate shall have been surrendered for transfer or conversion or otherwise accounted for to 6D-DE or its transfer agent, have and be entitled to exercise any voting and other rights with respect to and to receive any dividend and other distributions upon the shares of 6D-NV evidenced by such outstanding certificate as provided above.

7. Employee Benefit and Compensation Plans. At the Effective Time, each employee benefit plan, incentive compensation plan, stock purchase plan and other similar plans to which 6D-NV is then a party shall be automatically assumed by, and continue to be the plan of, 6D-DE, without further action by 6D-DE or 6D-NV. To the extent any employee benefit plan, incentive compensation plan or other similar plan provides for the issuance or purchase of, or otherwise relates to, Nevada Common Stock, after the Effective Time such plan shall be deemed to provide for the issuance or purchase of, or otherwise relate to, Delaware Common Stock.

8. Outstanding Awards. At the Effective Time, all outstanding stock options, purchase rights, restricted stock awards and other stock awards relating to the Nevada Common Stock shall, by virtue of the Conversion and without any further action on the part of 6D-DE, 6D-NV or the holders thereof, continue on the same terms and conditions and be assumed by 6D-DE, provided that all such awards shall be deemed to provide for the issuance or purchase of, or otherwise relate to Delaware Common Stock.

9. Further Assurances. If, at any time after the Effective Time, 6D-DE shall determine or be advised that any agreements, documents or assurances or any other acts or things are necessary, desirable or proper, consistent with the terms of this Plan to carry out the purposes of this Plan, 6D-DE and its proper officers and directors (or their designees), are hereby authorized to execute and deliver, in the name and on behalf of 6D-DE or 6D-NV, all such agreements, documents and assurances and do, in the name and on behalf of 6D-DE or 6D-NV, all such other acts and things necessary or desirable to carry out the purposes of this Plan and the Conversion.

10. Amendment. This Plan may be amended by the Board of Directors of 6D-NV at any time prior to the Effective Time, provided that an amendment made subsequent to the approval of this Plan by the shareholders of 6D-NV shall not alter or change (a) the amount or kind of shares or other securities to be received by the

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shareholders hereunder, (b) any term of the Certificate of Incorporation or the Bylaws, other than changes permitted to be made without stockholder approval by the NRS, or (c) any of the terms and conditions of this Plan if such alteration or change would adversely affect the holders of any class or series of the stock of 6D-NV.

11. Termination or Deferral. At any time before the Effective Time, this Plan may be terminated and the Conversion may be abandoned by action of the Board of Directors of 6D-NV, notwithstanding the approval of this Plan by the shareholders of 6D-NV, or the consummation of the Conversion may be deferred for a reasonable period of time if, in the opinion of the Board of Directors of 6D-NV, such action would be in the best interest of 6D-NV and its shareholders. In the event of termination of this Plan, this Plan shall become void and of no effect and there shall be no liability on the part of 6D-NV or its Board of Directors or shareholders with respect thereto.

12. Third Party Beneficiaries. This Plan shall not confer any rights or remedies upon any person or entity other than as expressly provided herein.

13. Severability. Whenever possible, each provision of this Plan will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Plan is held to be prohibited by or invalid under applicable law, such provision will be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of this Plan.

[-signature page follows-]

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IN WITNESS WHEREOF, the parties hereto have caused this Plan to be executed by its duly authorized representative as of the date first stated above.

6D GLOBAL TECHNOLOGIES, INC.,

a Nevada corporation

By:
Name: Tejune Kang

Title: Chief Executive Officer

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Exhibit A

[Certificate of Incorporation]