

-----BEGIN PRIVACY-ENHANCED MESSAGE----- Proc-Type: 2001,MIC-CLEAR Originator-Name: webmaster@www.sec.gov Originator-Key-Asymmetric: MFgwCgYEVQgBAQICAf8DSgAwRwJAW2sNKK9AVtBzYZmr6aGjlWyK3XmZv3dTINen TWSM7vrzLADbmYQaionwg5sDW3P6oaM5D3tdezXMm7z1T+B+twIDAQAB MIC-Info: RSA-MD5,RSA, JvZPohfPkGHwyjJNayPHHGeAYv76HIMRYbaugFLnUy/VhRRCEk8QMcisHTmJR813goNJQ0ONMjkb6yjrRZ/XcQ== 0000921895-97-000271.txt : 19970417 0000921895-97-000271.hdr.sgml : 19970417 ACCESSION NUMBER: 0000921895-97-000271 CONFORMED SUBMISSION TYPE: 10KSB/A PUBLIC DOCUMENT COUNT: 2 CONFORMED PERIOD OF REPORT: 19961231 FILED AS OF DATE: 19970416 SROS: NASD FILER: COMPANY DATA: COMPANY CONFORMED NAME: SHEFFIELD MEDICAL TECHNOLOGIES INC CENTRAL INDEX KEY: 0000894158 STANDARD INDUSTRIAL CLASSIFICATION: PHARMACEUTICAL PREPARATIONS [2834] IRS NUMBER: 760372381 STATE OF INCORPORATION: DE FISCAL YEAR END: 1231 FILING VALUES: FORM TYPE: 10KSB/A SEC ACT: 1934 Act SEC FILE NUMBER: 001-12584 FILM NUMBER: 97582229 BUSINESS ADDRESS: STREET 1: 666 FIFTH AVENUE STREET 2: 13TH FLOOR CITY: NEW YORK STATE: NY ZIP: 10103 BUSINESS PHONE: 2129576600 MAIL ADDRESS: STREET 1: 30 ROCKEFELLER PLAZA STREET 2: SUITE 4515 CITY: NEW YORK STATE: NY ZIP: 10112
10KSB/A
1
FORM 10KSB/A

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB/A
(Amendment No. 1)

(Mark One)

/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the fiscal year ended DECEMBER 31, 1996

// 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 1-12584

SHEFFIELD MEDICAL TECHNOLOGIES INC.

(Name of Small Business Issuer in its charter)

DELAWARE

13-3808303

(State or Other Jurisdiction
of Incorporation or Organi-
zation)

(IRS Employer Identification
Number)

30 Rockefeller Plaza Suite 4515, New York, New York 10112

(Address of Principal Executive Offices) (Zip Code)

Issuer's Telephone Number, Including Area Code: (212) 957-6600

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of Each Class	Name of Each Exchange on Which Registered
---------------------	--

Common Stock, \$.01 par value	American Stock Exchange
-------------------------------	-------------------------

Securities registered pursuant to Section 12(g) of the Exchange Act:

None

Check whether the issuer: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 / /

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. /X/

(continued next page)

State the issuer's revenues for its most recent fiscal year: The issuer's revenues for the fiscal year ended December 31, 1996 were \$673,664.

The aggregate market value at March 14, 1997 of shares of the issuer's Common Stock, \$.01 par value per share (based upon the closing price of \$3.1875 per share of such stock on the American Stock Exchange on such date), held by non-affiliates of the issuer was approximately \$35,033,000. Solely for the purposes of this calculation, shares held by directors and officers of the issuer have been excluded. Such exclusion should not be deemed a determination or an admission by the issuer that such individuals are, in fact, affiliates of the issuer.

Indicate the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: At March 14, 1997, there were outstanding 11,383,274 shares of the issuer's Common Stock, \$.01 par value per share.

Item 7. FINANCIAL STATEMENTS

See p. F-1

Item 13. EXHIBITS, LIST AND REPORTS ON FORM 8-K

See Exhibit 27. Except for the attached Exhibit 27, Item 13 remains unchanged from the original filing of the issuer's Form 10-KSB for the fiscal year ended December 31, 1996.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act of 1934, the Registrant caused this amendment to be signed on its behalf by the undersigned, thereunto duly authorized.

SHEFFIELD MEDICAL TECHNOLOGIES INC.

Dated: April 16, 1997 /s/ George Lombardi

Vice President and Chief Financial Officer

SHEFFIELD MEDICAL TECHNOLOGIES INC. AND SUBSIDIARIES

(A DEVELOPMENT STAGE ENTERPRISE)

TABLE OF CONTENTS

PAGE

Consolidated Financial Statements

Reports of Independent AuditorsF-2

Consolidated Balance Sheet as of December 31, 1996.....F-4

Consolidated Statements of Operations for the years ended
December 31, 1996 and 1995 and for the period from
October 17, 1986 (inception) to December 31, 1996F-5

Consolidated Statements of Stockholders' Equity
(Net Capital Deficiency)
for the period from October 17, 1986 (inception) to
December 31, 1996F-6

Consolidated Statements of Cash Flows for the years ended
December 31, 1996 and 1995 and for the period from
October 17, 1986 (inception) to December 31, 1996.....F-7

Notes to Consolidated Financial StatementsF-8

F-1

Report of Independent Auditors

To Board of Directors and Stockholders
Sheffield Medical Technologies Inc.

We have audited the accompanying consolidated balance sheet of Sheffield Medical Technologies Inc. and subsidiaries (a development stage enterprise) as of December 31, 1996, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended December 31, 1996 and 1995, and for the period October 17, 1986 (inception) through December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The consolidated financial statements as of December 31, 1993, and for the period October 17, 1986 (inception) through December 31, 1993, were audited by other auditors whose report dated February 11, 1994 expressed an unqualified opinion on those statements and included an explanatory paragraph that stated that the Company's "recurring losses and net deficit position raise substantial doubt about its ability to continue as a going concern. The 1993 financial statements do not include any adjustments that might result from the outcome of this uncertainty." The consolidated financial statements for the period October 17, 1986 (inception) through December 31, 1993 include cumulative net losses of \$5,872,416. Our opinion on the consolidated statements of operations, stockholders' equity and cash flows for the period October 17, 1986 (inception) through December 31, 1996, insofar as it relates to amounts for prior periods through December 31, 1993, based solely on the report of other auditors.

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

In our opinion, based on our audits, and for the period October 17, 1986 (inception) through December 31, 1993, the report of other auditors, the

financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sheffield Medical Technologies Inc. and subsidiaries at December 31, 1996, and the consolidated results of their operations and their cash flows for the years ended December 31, 1996 and 1995 and the period from October 17, 1986 (inception) through December 31, 1996, in conformity with generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that Sheffield Medical Technologies Inc. and subsidiaries will continue as a going concern. As more fully described in Note 1, the Company has generated only minimal operating revenue, has incurred recurring operating losses and requires additional capital. These conditions raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

ERNST & YOUNG LLP
Princeton, New Jersey
February 12, 1997, except for Note 9
as to which the date is March 14, 1997

F-2

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Sheffield Medical Technologies Inc.:

We have audited the accompanying consolidated statements of operations, stockholders' equity (net capital deficiency) and cash flows of Sheffield Medical Technologies Inc. and subsidiary (a development stage enterprise) for the period from October 17, 1986 (inception) to December 31, 1993 (not included separately herein). The financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above presents fairly, in all material respects, the results of Sheffield Medical Technologies Inc. and subsidiary's operations and cash flows for the period from October 17, 1986 (inception) to December 31, 1993 in conformity with generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming

that the Company will continue as a going concern. As reflected in the accompanying consolidated financial statements, the Company's recurring losses raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters were described in note 8 to the December 31, 1993 financial statements (not included separately herein). The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ KPMG Peat Marwick LLP

Houston, Texas
February 11, 1994

F-3

SHEFFIELD MEDICAL TECHNOLOGIES INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE ENTERPRISE)
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1996

ASSETS

Current assets:

Cash and cash equivalents	\$ 1,979,871
Marketable securities	460,768
Prepaid expenses and other current assets	43,975
	<hr/>
Total current assets	2,484,614
	<hr/>

Property and equipment:

Laboratory equipment	185,852
Office equipment	89,019
Leasehold improvements	61,390
	<hr/>
	336,261
Less accumulated depreciation	162,007
	<hr/>
Net property and equipment	174,254
	<hr/>

Segregated cash	75,000
Other assets	40,016
	<hr/>
Total assets	\$ 2,773,884
	<hr/> <hr/>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable and accrued liabilities	\$ 446,965
Sponsored research payable	580,157
Capital lease obligation-current portion	23,719
	<hr/>
Total current liabilities	1,050,841

Capital lease obligation - non-current portion	27,206
--	--------

Stockholders' equity:

Preferred stock, \$.01 par value. Authorized, 3,000,000 shares; none issued	<hr/>
Common stock, \$.01 par value. Authorized, 30,000,000 shares; issued and outstanding, 11,388,274	113,883
Notes receivable in connection with sale of stock	(110,000)
Additional paid-in capital	28,319,838
Unrealized loss on marketable securities	(39,232)
Deficit accumulated during development stage	(26,588,652)
	<hr/>
	1,695,837
	<hr/>
Total liabilities and stockholders' equity	\$ 2,773,884
	<hr/> <hr/>

SHEFFIELD MEDICAL TECHNOLOGIES INC. AND SUBSIDIARIES
(a development stage enterprise)
Consolidated Statements of Operations
For the years ended December 31, 1996 and 1995 and for the period
from October 17, 1986 (inception) to December 31, 1996

	Years ended December 31,	October 17, 1986 (inception) to December 31,	
	----- 1996 ----	1995 ----	1996 ----
Revenues:			
Sub-license revenue	\$510,000	\$ 0	\$510,000
Interest income	163,664	80,610	396,913
	-----	-----	-----
Total revenue	673,664	80,610	906,913
Expenses:			
Research and development	3,841,818	4,424,154	15,523,197
General and administrative	3,831,204	2,979,437	11,894,692
Interest	9,531	64,736	120,463
	-----	-----	-----
Total expenses	7,682,553	7,468,327	27,538,352
	-----	-----	-----
Loss before extraordinary item	(7,008,889)	(7,387,717)	(26,631,439)
Extraordinary item	0	0	42,787
	-----	-----	-----
Net loss	(\$7,008,889)	(\$7,387,717)	(\$26,588,652)
	=====	=====	=====
Loss per share of common stock:			
Loss before extraordinary item	(\$0.65)	(\$0.90)	(\$6.25)
Extraordinary item	0.00	0.00	0.01
	-----	-----	-----
Net loss	(\$0.65)	(\$0.90)	(\$6.24)
	=====	=====	=====
Weighted average common shares outstanding	10,806,799	8,185,457	4,258,177
	=====	=====	=====

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (NET CAPITAL DEFICIENCY)
FOR THE PERIOD FROM OCTOBER 17, 1986 (INCEPTION) TO DECEMBER 31, 1996

Common stock	Notes receivable in connection with sale of stock	Additional paid-in capital	Unrealized loss on marketable securities	Deficit accumulated during development stage	Total stockholders' equity (Net capital deficiency)
-----	-----	-----	-----	-----	-----
<hr/>					
Balances at October 17, 1986	-	-	-	-	-
Common stock issued	\$ 11,288,329	-	\$ 254,864	-	11,543,193
Common stock options issued	-	-	75,000	-	75,000
Net loss	-	-	-	(12,192,046)	(12,192,046)
<hr/>					
Balances at December 31, 1994	11,288,329	-	329,864	(12,192,046)	(573,853)
Reincorporation in Delaware at					
— \$.01 par value	(11,220,369)	-	11,220,369	-	-
Common stock issued	27,656	-	9,726,277	-	9,753,933
Net loss	-	-	-	(7,387,717)	(7,387,717)
<hr/>					
Balances at December 31, 1995	95,616	-	21,276,510	(19,579,763)	1,792,363
Common stock issued	18,267	-	7,043,328	-	7,061,595
Notes receivable in connection					
— with sale of stock	(110,000)	-	-	-	(110,000)
Unrealized loss on marketable					
— securities	-	-	(39,232)	-	(39,232)
Net loss	-	-	-	(7,008,889)	(7,008,889)
<hr/>					
Balances at December 31, 1996	\$ 113,883	\$(110,000)	\$28,319,838	\$(39,232)	\$(26,588,652)
<hr/>					
<hr/>					

F-6

SHEFFIELD MEDICAL TECHNOLOGIES INC. AND SUBSIDIARIES
(A DEVELOPMENT STAGE ENTERPRISE)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 1996 AND 1995 AND FOR THE PERIOD
FROM OCTOBER 17, 1986 (INCEPTION) TO DECEMBER 31, 1996

	Years ended December 31,	October 17, 1986 (inception) to December 31,
	1996	1995
	-----	-----
	1996	1996
	-----	-----

Cash outflows from development stage activities and extraordinary gain:

— Loss before extraordinary item	\$7,008,889	\$(7,387,717)	\$(26,631,439)
— Extraordinary gain on extinguishment of debt	-	-	42,787

— Net loss	(7,008,889)	(7,387,717)	(26,588,652)
Adjustments to reconcile net loss to net cash used by			
— development stage activities:			
— Issuance of common stock, stock options/warrants for services	640,762	357,032	1,541,003
— Non-cash interest expense	-	50,000	50,000
— Issuance of common stock for license	-	-	5,216
— Securities acquired under sub-license agreement	(500,000)	-	(500,000)
— Issuance of common stock for intellectual property rights	-	-	866,250
— Amortization of organizational and debt issuance costs	-	-	77,834
— Depreciation	51,189	47,992	141,544
— Amortization	20,463	-	20,463
— Increase in debt issuance and organizational costs	-	-	(77,834)
— Decrease (increase) in prepaid expenses and other current assets	109,810	(88,618)	(103,016)
— Decrease (increase) in other assets	44,354	(4,387)	19,025
— Increase (decrease) in accounts payable, accrued liabilities	245,680	(375,785)	(130,105)
— Increase (decrease) in sponsored research payable	352,755	(140,454)	1,157,227
— Net cash used by development stage activities	\$(6,043,876)	(7,541,937)	(23,521,045)

Cash flows from investing activities:

— Acquisition of laboratory and office equipment	(51,136)	(24,517)	(263,809)
— Increase in segregated cash	(75,000)	-	(75,000)
— Increase in notes receivable in connection with sale of stock	(240,000)	-	(240,000)
— Payments of notes receivable	130,000	-	130,000

— Net cash used by investing activities	(236,136)	(24,517)	(448,809)
---	-----------	----------	-----------

Cash flows from financing activities:

— Principal payments under capital lease	(21,528)	-	(21,528)
— Conversion of convertible, subordinated notes	-	-	749,976
— Proceeds from issuance of debt	-	550,000	550,000
— Proceeds from issuance of common stock	-	7,699,574	13,268,035
— Proceeds from exercise of stock options	471,550	866,127	1,337,677
— Proceeds from exercise of warrants	5,949,284	231,200	10,064,481

— Net cash and cash equivalents provided by financing activities	6,399,306	9,346,901	25,948,641
--	-----------	-----------	------------

— Net increase in cash and cash equivalents	119,294	1,780,447	1,978,787
---	---------	-----------	-----------

— Cash and cash equivalents at beginning of period	1,860,577	80,130	1,084
--	-----------	--------	-------

— Cash and cash equivalents at end of period	\$ 1,979,871	\$ 1,860,577	\$ 1,979,871
--	--------------	--------------	--------------

Noncash investing and financing activities:

— Common stock, stock options and warrants issued for services	\$ 640,762	\$ 357,032	\$ 1,541,003
— Common stock issued for license	-	-	5,216
— Common stock issued for intellectual property rights	-	-	866,250
— Common stock issued to retire debt	-	600,000	600,000
— Securities acquired under sub-license agreement	500,000	-	500,000
— Unrealized depreciation of investments	39,232	-	39,232
— Equipment acquired under capital lease	72,453	-	72,453
— Notes payable converted to common stock	-	-	749,976

Supplemental disclosure of cash flow information:

F-7

SHEFFIELD MEDICAL TECHNOLOGIES INC. AND SUBSIDIARIES

(A DEVELOPMENT STAGE ENTERPRISE) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Sheffield Medical Technologies Inc. ("Sheffield") was incorporated on October 17, 1986, under the Canada Business Corporations Act. The Company's wholly-owned subsidiary, U-Tech Medical Corporation ("U-Tech") was incorporated in the state of Texas on January 13, 1992 and is inactive at December 31, 1996. On January 10, 1996, Ion Pharmaceuticals, Inc., a Delaware corporation ("Ion"), was formed as a wholly-owned subsidiary of the Company. At that time, Ion acquired the Company's rights with respect to the anti-proliferative technology. Unless the context requires otherwise, Sheffield, U-Tech and Ion are referred to as "the Company". The Company commenced its biotechnology operations in the United States in January 1992 under new management and Sheffield became domesticated as a Wyoming corporation in May 1992. At the Annual Meeting of shareholders of the Company held on January 26, 1995, the Company's shareholders approved the proposal to reincorporate the Company in Delaware, which was effected on June 13, 1995. All significant intercompany transactions are eliminated in consolidation.

The Company is in the development stage and to date has been principally engaged in research and licensing efforts. The Company has generated minimal operating revenue and requires additional capital which the Company intends to obtain through equity and debt offerings to continue to operate its business. The Company's ability to meet its obligations as they become due and to continue as a going concern must be considered in light of the expenses, difficulties and delays frequently encountered in starting a new business, particularly since the Company will focus on research, development and unproven technology which may require a lengthy period of time and substantial expenditures to complete. Even if the Company is able to successfully develop new products or technologies, there can be no assurance that the Company will generate sufficient revenues from the sale or licensing of such products and technologies to be profitable. Management believes that the Company's ability to meet its obligations as they become due and to continue as a going concern through December 1997 are dependent upon obtaining additional financing.

The accompanying consolidated financial statements have been prepared on a going concern basis which contemplates the realization of assets and satisfaction of liabilities and commitments in the normal course of business. The Company has incurred net losses of

\$7,008,889 and \$7,387,717 during the years ended December 31, 1996, and 1995 respectively, and has an accumulated deficit of \$26,588,652 from inception (October 17, 1986) through December 31, 1996.

2. SIGNIFICANT ACCOUNTING POLICIES

CASH EQUIVALENTS

The Company considers all highly liquid instruments with original maturities of three months or less to be cash equivalents.

MARKETABLE SECURITIES

Marketable securities generally consist of investments which can be readily purchased or sold using established markets. The Company's securities, which are classified as available-for-sale, are carried at market with unrealized gains and losses reported as a separate component of stockholders equity.

F-8

SHEFFIELD MEDICAL TECHNOLOGIES INC. AND SUBSIDIARIES

(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

PROPERTY AND EQUIPMENT

Property and equipment is stated at cost. Depreciation is computed over three or five year periods using the straight-line method.

Assets under capital leases, consisting primarily of office equipment and improvements, are amortized over the lesser of the useful life or the applicable lease terms, whichever is shorter, which approximate three years.

RESEARCH AND DEVELOPMENT COSTS

Company-sponsored research and development costs ("R & D costs") are expensed as incurred, except for fixed assets, to which the Company has title, which are capitalized and depreciated over their estimated useful lives. LOSS PER SHARE OF COMMON STOCK

The computation of loss per common share is based on the weighted-average number of outstanding common shares. Common stock equivalents are not included because the effect would be antidilutive. USE OF ESTIMATES

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

STOCK BASED COMPENSATION

As permitted by FASB Statement No. 123, "Accounting for Stock-Based Compensation" (FASB 123), the Company has elected to follow Accounting Principal Board Opinion No. 25, "Accounting for Stock Issued Employees" (APB 25) and related interpretations in accounting for its stock option plans. Under APB 25, no expense is recognized at the time of option grant because the exercise price of the Company's employee stock option equals the fair market value of the underlying common stock on the date of grant.

3. LEASES

Included in property and equipment are capital leases as follows at December 31, 1996:

Office equipment	\$ 51,978
Leasehold improvements	20,475

	72,453
Less accumulated amortization	(20,463)

	\$ 51,990
	=====

There were no assets under capital leases at December 31, 1995.

The company has sub-leases for office space in four locations which expire at various times between April, 1997 and December 31, 1998. The Company also leases certain office equipment under a capital lease that expires in

F-9

SHEFFIELD MEDICAL TECHNOLOGIES INC. AND SUBSIDIARIES

(A DEVELOPMENT STAGE ENTERPRISE) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 1998. The future minimum payments under capital leases and operating leases at December 31, 1996 are as follows:

	Capital Leases	Operating Leases
	-----	-----
1997	\$ 29,280	\$ 190,524
1998	29,280	166,428
	-----	-----
Total Minimum Lease Payments	\$ 58,560	\$ 356,952
	=====	

Amounts Representing Interest (7,635)

Present Value of Net Minimum
Lease Payments \$ 50,925
=====

Rent expense for the years ended December 31, 1996, 1995 and the period from October 17, 1986 (inception) to December 31, 1996 was \$147,104; \$105,946; and \$332,525, respectively.

4. CAPITAL STOCK TRANSACTIONS

The following table represents the issuance of common stock since the Company's incorporation:

	Number of common shares issued

Date of incorporation	900,000
Issued during year ended December 31, 1986	990,000
Issued during year ended December 31, 1991	412,500
Issued during year ended December 31, 1992	850,000
Issued during year ended December 31, 1993	2,509,171
Issued during year ended December 31, 1994	1,134,324
Issued during year ended December 31, 1995	2,765,651
Issued during year ended December 31, 1996	1,826,628

Balance outstanding at December 31, 1996	11,388,274
	=====

The shares issued during 1993 included (i) 1,666,668 shares related to the initial public offering; (ii) 272,500 shares related to the exercise of warrants at a price of Can. \$3.50 per share; (iii) 31,250 shares as consideration for fiscal agency fees; (iv) 10,000 shares related to the exercise of warrants at a price of Can. \$1.00 per share; (v) 524,753 shares related to the conversion of 10% Convertible Notes at an average price of Can. \$1.82 per share; (vi) 4,000 shares to members of the Scientific Advisory Board, in consideration of their services, at \$1.78 per share.

Under the UGIF Technology Option Agreement (the "Option Agreement") dated November 11, 1992, and approved by the shareholders of the Company on December 2, 1993, the Company obtained an option from E/J Development Corporation d/b/a TechSource Development Corporation ("TechSource") to acquire an exclusive sublicense to the UGIF Technology in exchange for 300,000 shares of Common Stock of the Company (after taking into account a one-for-two reverse stock split effective on February 11, 1993). Mr. Douglas R. Eger, who is Chairman of the Company, is a former 50% shareholder of TechSource. On January 10, 1994, TechSource assigned its right to receive 215,000 shares of Common Stock pursuant to the Option Agreement to Mr. Eger and assigned its right to receive 85,000 shares of Common Stock pursuant to the Option Agreement to Mr. Jenke. Effective January 10, 1994, the Company issued such shares to Messrs. Eger and Jenke at approximately \$0.02 per share (market value of

SHEFFIELD MEDICAL TECHNOLOGIES INC. AND SUBSIDIARIES

(A DEVELOPMENT STAGE ENTERPRISE) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

\$4.8125 per share) on January 10, 1994, at which time the Company recorded the estimated fair market value of \$866,250 as an expense. Mr. Eger sold his interest in TechSource to Mr. A.M. Jenke, a former director and officer of Sheffield, in September 1994.

In March 1994, a total of \$3,121,164 was received from the exercise of 832,324 of the Company's Redeemable Stock Purchase Warrants issued in connection with the Company's February 1993 initial United States public offering of 833,334 units, each such unit consisting of two shares of Common Stock and one Redeemable Common Stock Purchase Warrant exercisable for one share of Common Stock at a price of \$3.75, net of the buyback of 1,010 warrants at \$0.05 per warrant.

In April 1995, gross proceeds of \$3,280,600 were received through the issuance of 410,075 units by private placement at a price of \$8.00 per unit. Each such unit consisted of two shares of the Company's Common Stock and a warrant to purchase one share of common stock at a price of \$5.00 at any time up until and including February 10, 2000. The warrants are redeemable by the Company under certain circumstances.

On January 23, 1995, SMT made a 10% loan (the "SMT Loan") to the Company in the principal amount of \$550,000 pursuant to a demand loan agreement (the "SMT Loan Agreement"). Under the terms of the SMT Loan Agreement, SMT could demand the payment in full of the SMT Loan at any time or December 31, 1996 whichever came first. To secure the Company's obligations under the SMT Loan Agreement, the Company granted SMT a security interest in substantially all of the Company's assets, which security interest has since been released. The note evidencing the SMT Loan (the "Original SMT Note") was exchanged pursuant to the terms of the SMT Loan Agreement for a new note (the "SMT Convertible Note") that permitted the holder to exchange the SMT Convertible Note (in whole or in part) into 200,000 shares of Common Stock. In addition, the SMT Loan Agreement required the Company upon issuance of the SMT Convertible Note to issue to SMT warrants (the "SMT Warrants") to acquire 200,000 shares of Common Stock at any time within five years after the date of issue for a price of \$4.00 per share. The SMT Warrants are redeemable by the Company for \$4.00 per share at any time after the price of the Common Stock exceeds an average of \$6.00 per share for 20 business days. SMT was granted certain registration rights with respect to the Common Stock issuable to SMT upon conversion of the SMT convertible Note and SMT Warrants. By letter dated June 1, 1995, SMT exercised its right to convert the SMT Convertible Note into 200,000 shares of Common Stock and subsequently assigned the right to such shares to an unaffiliated third party.

In July 1995, the Company completed a private placement of 1,375,000 units to accredited investors at a price of \$4.00 per unit for gross proceeds of \$5,500,000. Each such unit consists of one share of the Company's Common Stock and a warrant to purchase one share of common

stock at a price of \$4.50 at any time up until and including February 10, 2000. The warrants are redeemable by the Company under certain circumstances.

On April 30, 1996, the Company completed its warrant discount program through which the Company offered holders of warrants issued in private placements completed in 1995 the opportunity to exercise such warrants at up to a 12 1/2 % discount from the actual exercise prices of such warrants. A total of \$5.6 million was received from the exercise of such warrants with the related issuance of 1,373,250 shares of common stock.

5. STOCK OPTIONS AND WARRANTS

The 1993 Stock Option Plan was adopted by the Board of Directors in August 1992 and approved by the shareholders at the annual meeting in December 1993. An amendment to the Plan received shareholder approval on March 15, 1995. Under the Stock Option Plan, the maximum aggregate number of shares which may be optioned and sold is 1,000,000 shares of common stock. The Stock Option Plan permits the grant to employees and officers of the Company of both incentive stock options and non-statutory stock options. The Stock Option Plan is administered by the Board of Directors or a committee of the Board, which determines the persons to whom options will be granted and the terms thereof, including the exercise price, the number of shares subject to each option, and the exercisability of each option. The exercise price of all options for common stock granted under the Stock Option

F-11

SHEFFIELD MEDICAL TECHNOLOGIES INC. AND SUBSIDIARIES

(A DEVELOPMENT STAGE ENTERPRISE) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Plan must be at least equal to the fair market value on the date of grant in the case of incentive stock options and 85% of the fair market value on the date of grant in the case of incentive stock options and 85% of the fair market value on the date of grant in the case of non-statutory stock options. Options generally expire five years from the date of grant and vest upon continuous employment by the Company for 12 months after the date of grant.

The 1993 Restricted Stock Plan under which shares of the Company are reserved, in such amounts as determined by the Board of Directors, for issuance as part of the total shares reserved under the Stock Option Plan described above, was adopted by the Board of Directors in August 1992 and approved by the shareholders at the annual shareholders meeting in December 1993. The Restricted Stock Plan authorized the grant of a maximum of 150,000 shares of common stock to key employees, consultants, researchers and members of the Company's Scientific Advisory Board. The Restricted Stock Plan is administered by the Board of Directors or a committee of the Board, which determines the person to whom shares will be granted and the terms of such share grants. As of the date hereof, no shares have been granted under the 1993 Restricted Stock Plan.

The 1996 Directors Stock Option Plan was adopted by the Board of

Directors and approved by the shareholders on June 20, 1996. Under the Stock Option Plan, the maximum aggregate number of shares which may be optioned and sold is 500,000 shares of common stock. The Directors Stock Option Plan granted each eligible director 15,000 stock options. To the extent that shares remain available, any new directors shall receive the grant of an Option to purchase 25,000 shares. To the extent that Shares remain available under the plan, on January 1 of each year commencing January 1, 1997, each eligible director shall be granted an option to purchase 15,000 shares. The exercise price of all options granted under the Directors Stock Option Plan shall be the fair market value at the date of the grant. Options generally expire five years from the date of grant. As of the December 31, 1996, 45,000 shares have been granted under the 1996 Directors Stock Option Plan.

At the annual meeting of stockholders of the Company held on January 26, 1995, the company's shareholders approved an increase in the number of shares of common stock available for issuance pursuant to the Company's 1993 Stock Option Plan from 250,000 shares to 500,000 shares.

On January 23, 1995, the Company granted stock purchase warrants to purchase 200,000 shares of the Company's common stock issuable upon conversion of an exchangeable demand note to a financial advisor. In June 1995, such warrants were exercised for 200,000 shares of the Company's Common Stock.

On February 13, 1995, the Company granted options to purchase a total of 200,000 shares of the Company's common stock to four new members of the Board of Directors at an exercise price of \$4.00 which approximated fair market value.

At the annual meeting of stockholders of the Company held on June 20, 1996, the Company's shareholders approved an increase in the number of shares available for issuance pursuant to the Company's 1993 Stock Option Plan from 500,000 shares to 1,000,000 shares.

FASB 123 requires pro forma information regarding net income and earnings per share as if the Company has accounted for its stock options and warrants granted subsequent to December 31, 1994, under the fair value method of FASB 123. The fair value of these stock options and warrants is estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for 1996 and 1995: risk-free interest of 6.23%, 6.13%, 6.00% and 5.57%; expected volatility of 0.60; expected option life of one to four years from vesting and an expected dividend yield of 0.0%.

F-12

SHEFFIELD MEDICAL TECHNOLOGIES INC. AND SUBSIDIARIES

(A DEVELOPMENT STAGE ENTERPRISE)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For purposes of pro forma disclosures, the estimated fair value of the stock options and warrants is amortized to expense over the options' vesting period. The Company's pro forma information is as follows:

	1996	1995
Pro forma net loss.....	\$ 8,500,149	\$ 8,993,554
Pro forma net loss per share of common stock.....	\$ 0.79	1.10

Because FASB 123 is applicable only to equity awards granted subsequent to December 31, 1994, its pro forma effect will not be fully reflected until 1998.

Transactions involving stock options and warrants are summarized as follows:

	1996		1995	
	Common Stock Options	Weighted Average Exercise Price	Common Stock Options	Weighted Average Exercise Price
Outstanding, January 1..	14,164,834	4.02	1,792,000	3.33
Granted.....	1,014,922	5.52	3,091,408	4.63
Expired.....	70,000	3.77	0	0
Exercised.....	1,942,501	3.76	345,500	3.51
Canceled.....	133,500	4.53	373,074	4.79
Outstanding December 31,...	3,033,755	4.49	4,164,834	4.02
Exercisable at end of year..	2,094,833		1,727,759	
Weighted average fair value of options granted during the year..		\$ 2.30		\$ 2.30

Stock Options outstanding at December 31, 1996 are summarized as follows:

Range of Exercise Prices	Weighted Average Outstanding Options at Dec. 31, 1996	Weighted Remaining Contractual Life (Yrs.)	Average Exercise Price
\$.73 - \$3.00	300,000	1.06	\$ 1.95
\$3.25 - \$5.00	1,879,252	2.35	\$ 4.18
\$5.06 - \$8.25	854,503	3.48	\$ 6.07
\$.73 - \$8.25	3,033,755	2.54	\$ 4.49

SHEFFIELD MEDICAL TECHNOLOGIES INC. AND SUBSIDIARIES

(A DEVELOPMENT STAGE ENTERPRISE)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During the period January 1, 1995 through December 31, 1996, the exercise prices of options and warrants issued by the Company were as follows:

Year	Number of Options/Warrants	Exercise Price
----	-----	-----
1995	3,091,408	\$3.25 - 5.00
1995.....	1,014,922	\$3.381-98.25

At December 31, 1996, a total of 829,000 shares were available for future grants under the 1993 Stock Option Plan, the 1993 Restricted Stock Plan, and the 1996 Directors Stock Option Plan.

6. RESEARCH AND DEVELOPMENT AGREEMENTS

On May 31, 1996, the Company obtained an exclusive, worldwide right and license with Baylor College of Medicine. The License Agreement gives the Company an exclusive license to inventions and discoveries relating to ps20/Urogenital Sinus Derived Growth Inhibitory Factor. The agreement requires the Company to pay Baylor College 30% of gross compensation received for licensed products covered by a valid claim and 10% of gross compensation not covered by a valid claim for a period of ten years.

On June 1, 1996, the Company entered into a Research Agreement with Children's Hospital of Boston, MA. Under the agreement, Children's Hospital has agreed to perform certain scientific research, under the direction of principal investigator Dr. Wayne I. Lencer, related to the discovery, manufacturing and novel uses of certain imidazoles, their metabolites and analogues thereof, and other related compounds. The agreement requires the Company to pay \$200,050 for related research and related equipment on an agreed upon payment schedule through March 1997, subject to extensions upon the occurrence of certain events.

This agreement also grants the Company an exclusive option to obtain a world-wide license under the Background Technology, Research Technology, Patent Rights and Research Patent rights. Under this agreement the Company has funded \$143,663 through December 31, 1996.

In July of 1996 the Company entered into a sub-license agreement with SEQUUS Pharmaceuticals, Inc. ("SEQUUS") whereby the Company granted an exclusive sub-license to SEQUUS for the continued development and commercialization of the Liposome-CD4 technology. In connection with the signing of the sub-license agreement, the Company received a license issue fee payment from SEQUUS in the form of SEQUUS common stock which

is classified as marketable securities in the Company's December 31, 1996 balance sheet. The Company is also entitled to receive milestone payments and royalty payments based on clinical trial results and future product sales, if any which utilize the sub-licensed technology.

On August 22, 1996, the Company entered into Amendment #2 to the Research Agreement, dated August 22, 1994, with The President and Fellows of Harvard College. Under the agreement, Harvard has agreed to conduct research under the direction of principal investigator Dr. Jose A. Halperin to conduct laboratory and animal studies for the potential use of Clotrimazole and to screen new proprietary analogues and/or drugs that potentially have the same effect as Clotrimazole. The agreement requires the Company to pay \$992,232 for related research and equipment on an agreed upon payment schedule through July 1996, subject to extensions upon the occurrence of certain events. Under this amendment and its previous agreement the Company has funded \$985,404 for the year ended December 31, 1996.

In October of 1996, the Company entered into an amendment of a Research and Option License Agreement dated June 17, 1995. The Amendment was effective as of June 17, 1995 for a two year period through June 17, 1997. The Agreement allows the Company to obtain an exclusive worldwide license from the French National Institute of Health and Medical Research ("INSERM") to an HIV-AIDS vaccine being developed by Inserm. Under this

F-14

SHEFFIELD MEDICAL TECHNOLOGIES INC. AND SUBSIDIARIES

(A DEVELOPMENT STAGE ENTERPRISE)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Agreement the Company has agreed to pay \$100,000 for related research through April 1997. In connection with this research, the Company has entered into an agreement with Association Claude Bernard, also in October of 1996. The agreement requires the Company to pay \$300,000 for the related research and supplies on an agreed upon payment schedule through April 1997. Under both agreements, the Company has funded \$300,000 through December 31, 1996.

On November 1, 1996, the Company entered into Amendment #6 to the Research Agreement, dated June 1, 1995 with Children's Hospital of Boston, MA. Under the agreement, Children's Hospital has agreed to perform certain research under the direction of principal investigator Dr. Carl Brugnara on the study of analogues of Clotrimazole and/or Clotrimazole metabolites. The agreement requires the Company to pay \$224,468 for related research and equipment on an agreed upon payment schedule through July 1997, subject to extensions upon the occurrence of certain events. Also on November 1, 1996, the Company elected to exercise its option to a license agreement related to the Research Agreement. This agreement grants the Company the exclusive worldwide license on the Background Technology and the Research Technology derived from the agreement. Under this amendment and its previous agreement, the Company has funded \$180,153 for the year ended December 31, 1996.

In 1996, the Company entered into quarterly Research and Consulting Agreements with Pharm-Eco Laboratories, Inc. for the development and synthesis of novel compounds related to the Ion Pharmaceuticals Technologies. The agreements require the Company to pay \$175,000 plus expenses each quarter for related research and consulting. Under these agreements the Company has funded \$773,522 for the year ended December 31, 1996.

7. RELATED PARTY TRANSACTIONS

On January 23, 1995, SMT made a \$550,000 loan to the Company pursuant to a demand loan agreement. In June 1995, SMT exercised its right to convert the SMT convertible note to 200,000 shares of common stock and subsequently assigned the right to such shares to an unaffiliated third party in exchange for repayment of the loan and interest. In addition, the Company, as required under the Note, issued warrants to acquire 200,000 shares of common stock at any time within five years after the date of issuance at a price equal to \$4.00 per share (See Note 4). Dr. Stephen Sohn, a member of the Board of Directors of the Company, is also general partner of SMT.

8. INCOME TAXES

The Company utilizes the liability method to account for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's net deferred tax asset at December 31, 1996 which is considered noncurrent, are as follows:

Deferred tax assets:

Net operating loss carryforwards	\$ 8,800,000
Capitalized start-up costs for tax purposes	578,000
Deferred tax asset valuation allowance	(9,378,000)

Net deferred tax asset	\$ -
------------------------	------

The valuation allowance for deferred tax assets as of December 31, 1995, was \$6,678,000. The net change in the total valuation allowance for the year ended December 31, 1996, was an increase of \$2,700,000. At December 31, 1996, the Company has net operating loss carryforwards of approximately \$24,400,000 for tax purposes which are available to offset federal taxable income, if any, through 2011. An ownership change pursuant to Section 382 of the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Internal Revenue Code occurred in April 1995 as a result of a private placement of the Company's common stock and warrants. Accordingly, utilization of the Company's pre-change net operating loss carryforward (approximately \$13,600,000) is restricted to approximately \$2,220,000 per year, and the related deferred tax assets have been fully reserved.

9. SUBSEQUENT EVENTS

On February 28, 1997, the Company closed a private offering of 35,000 shares of 7% Series A Cumulative Convertible Redeemable Preferred Stock at a purchase price of \$100.00 per Share, which raised total gross proceeds of \$3.5 million. Each investor is also entitled to receive five-year Warrants to purchase Common Stock of the Company equal to 1/3 the number of shares of Common Stock issuable upon conversion of the Preferred Stock. The Warrants will be issued at 110% of the closing bid price per share of the common stock on the closing date. Proceeds will be used for funding research and development, patent prosecution, and for working capital and general corporate purposes, including the possible acquisition of rights in new technologies in the Company's ordinary course of business.

On March 14, 1997, the Company signed a letter of intent to acquire, for stock, Camelot Pharmacal, L.L.C., a privately held emerging pharmaceutical company. As part of the contemplated transaction, Camelot's management team would join the Company. Camelot's product portfolio consists of late-stage development opportunities. The acquisition is expected to be completed by the end of May, 1997. As part of the business combination, Camelot's principals will have the opportunity to invest in the Company by purchasing up to \$5.0 million of common stock at current market prices.

F-16

EX-27

2

FINANCIAL DATA SCHEDULE

-

_____5

~~THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONDENSED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH STATEMENTS.~~

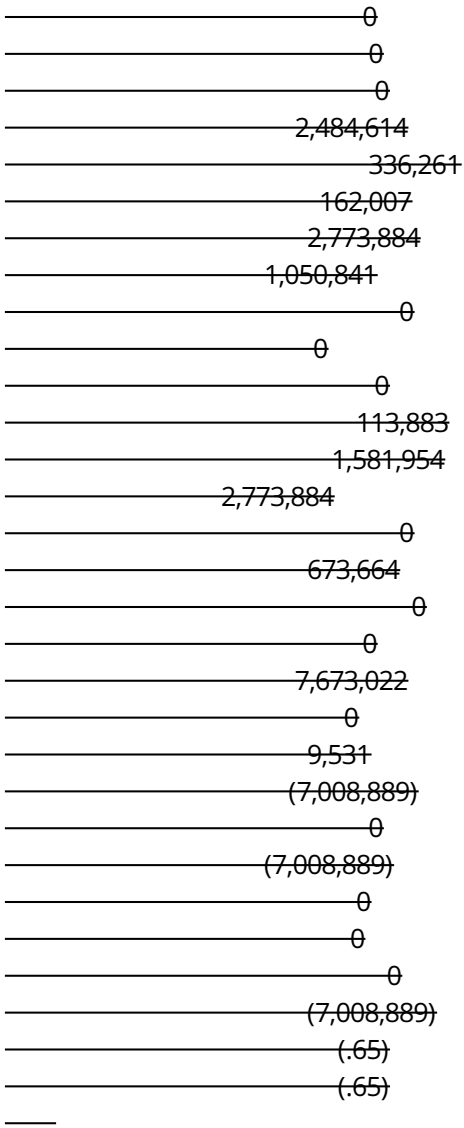
_____12-MOS

_____DEC-31-1996

_____DEC-31-1996

_____1,979,871

_____460,768



-----END PRIVACY-ENHANCED MESSAGE-----