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CITY: NEW YORK STATE: NY ZIP: 10112 FORMER COMPANY: FORMER CONFORMED NAME: SHEFFIELD MEDICAL
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S-3
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FORM S-3

As filed with the Securities and Exchange Commission on October 21, 1997
Registration No. 333-

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

REGISTRATION STATEMENT
ON FORM S-3
UNDER
THE SECURITIES ACT OF 1933

SHEFFIELD PHARMACEUTICALS, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

13-3808303

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

425 South Woodsmill Road, Suite 270
St. Louis, Missouri 63017
(314) 579-9899

(Address, Including Zip Code and Telephone Number,
Including Area Code, of Registrant's Principal Executive Offices)

Loren G. Peterson
Chief Executive Officer
Sheffield Pharmaceuticals, Inc.
425 South Woodsmill Road, Suite 270
St. Louis, Missouri 63017
(314) 579-9899

(Name, Address, Including Zip Code and Telephone Number,
Including Area Code, of Agent For Service)

COPY TO:
Daniel J. Gallagher, Esq.
OLSHAN GRUNDMAN FROME & ROSENZWEIG LLP
505 Park Avenue
New York, New York 10022
(212) 753-7200

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As
soon as practicable after this Registration Statement becomes effective.

If the only securities being registered on this form are being offered

pursuant to dividend or interest reinvestment plans, please check the following box. / /

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. /X/

(CONTINUED ON NEXT PAGE)

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered*	Amount to be Registered	Offering Price Per Share	Proposed Maximum	Proposed	Registration Fee
			Maximum	Amount of Aggregate Offering Price	
Common Stock, \$.01 par value issuable upon conversion of 6% Convertible Subordinated Debentures Due 2000.....	2,333,334 shares(1)(2)	\$2.22(3)		\$5,180,001(3)	\$1,570
Common Stock, \$.01 par value, issuable upon exercise of Warrants granted to holders of 6% Convertible Subordinated Debentures Due 2000.....	140,000 shares(1)	\$2.80(4)		\$392,000(4)	\$119
Common Stock, \$.01 par value issuable in lieu of cash interest on 6% Convertible Subordinated Debentures Due 2000.....	420,000 shares(2)	\$2.22(3)		\$932,400(3)	\$283
Total				\$6,504,401	\$1,972

* The expenses of the offering described in this registration statement, all of which are payable by the Company, are estimated at \$105,000.

- (1) Pursuant to Rule 416, there are also registered hereby an indeterminate number of shares of Common Stock that may become issuable by reason of the anti-dilution provisions of these securities, warrants or options.
- (2) Pursuant to Rule 416, there are also registered hereby an indeterminate number of shares of Common Stock issuable upon conversion of the Registrant's 6% Convertible Subordinated Debentures Due September 22, 2000 and in lieu of cash interest thereon resulting from the fluctuating conversion rate of the 6% Convertible Subordinated Debentures Due September 22, 2000 that is determined based upon the market price of the Company's publicly-traded Common Stock as of the date of the applicable conversion thereof.
- (3) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(c) based on the average of the high and low prices of the Registrant's Common Stock as reported on the American Stock Exchange on October 16, 1997.
- (4) Based upon \$2.80 per share exercise price of these Warrants.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933, AS AMENDED, OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION,

ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

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INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

SUBJECT TO COMPLETION, DATED OCTOBER 21, 1997

PROSPECTUS

SHEFFIELD PHARMACEUTICALS, INC.

2,893,334 SHARES OF COMMON STOCK

This Prospectus relates to the offer and resale by certain selling stockholders (collectively, the "Selling Stockholders") of (i) 2,333,334 shares (the "Debt Conversion Shares") of common stock, \$.01 par value ("Common Stock"), of Sheffield Pharmaceuticals, Inc. (the "Company") issuable upon conversion of the Company's 6% Convertible Subordinated Debentures Due September 22, 2000 (the "Convertible Debentures"), (ii) 420,000 shares of Common Stock issuable as interest payable in lieu of cash interest on Convertible Debentures and (iii) 140,000 shares of Common Stock issuable upon the exercise of certain stock purchase warrants of the Company originally issued to the purchasers of Convertible Debentures (the "Debt Warrants"). This Prospectus also relates, pursuant to Rule 416 promulgated under the Securities Act of 1933, as amended (the "Securities Act"), to the offer and resale by certain Selling Stockholders of an indeterminate number of shares of Common Stock that may become issuable by reason of the anti-dilution provisions of the aforementioned securities and an indeterminate number of shares of Common Stock issuable upon conversion of Convertible Debentures and in lieu of cash interest payable thereon resulting from the fluctuating conversion rate of the Convertible Debentures that is determined based upon the market price of the Company's publicly-traded Common Stock as of the date of the applicable conversion thereof. See "Description of Securities - 6% Convertible Subordinated Debentures."

The Common Stock presently trades on the American Stock Exchange (the "AMEX") under the symbol "SHM". On October 20, 1997, the closing sale price of the Common Stock on the AMEX was \$2.19.

The Selling Stockholders, directly or through broker-dealers, may sell the Common Stock offered hereby from time to time on the AMEX or on any other securities exchange on which Common Stock is listed or in privately negotiated transactions, at fixed prices that may be changed, at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at privately negotiated prices. The Selling Stockholders and any underwriters, brokers, dealers or agents that act in connection with the sale may be deemed to be "underwriters" within the meaning of the Securities Act and any commissions received by them and any profit on the resale of securities as principal might be deemed to be underwriting discounts under the Securities Act. The Company has agreed to indemnify the Selling Stockholders and certain other persons against certain liabilities, including liabilities under the Securities Act. See "Plan of Distribution."

THE SECURITIES OFFERED HEREBY INVOLVE A HIGH DEGREE OF RISK. THE COMPANY EXPECTS TO INCUR ADDITIONAL OPERATING LOSSES OVER THE NEXT SEVERAL YEARS WHICH RAISES SUBSTANTIAL DOUBT ABOUT ITS ABILITY TO CONTINUE AS A GOING CONCERN. SEE "RISK FACTORS" AT PAGES 9 - 14 BELOW.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY

IS A CRIMINAL OFFENSE.

No underwriting commissions or discounts will be paid by the Company in connection with this offering. Estimated expenses payable by the Company in connection with the offering are \$105,000. The aggregate proceeds to the Selling Stockholders from the sale of the Common Stock will be the purchase price of the Common Stock sold less the aggregate agents' commissions and underwriters' discounts, if any, and other expenses of issuance and distribution not borne by the Company. See "Plan of Distribution."

No person has been authorized to give any information or to make any representations in connection with this offering other than those contained in this Prospectus and, if given or made, such other information and representations must not be relied upon as having been authorized by the Company. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date hereof or that the information contained herein is correct as of any time subsequent to its date. This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any securities other than the registered securities to which it relates. This Prospectus does not constitute an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful.

The date of this Prospectus is _____, 1997.

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AVAILABLE INFORMATION

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in

accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information can be inspected and copied at the public reference facilities maintained by the Commission at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Regional Offices of the Commission at Seven World Trade Center, 13th Floor, New York, New York 10048 and Northwestern Atrium Center, 500 West Madison Street, Chicago, Illinois 60611. Copies of such material can be obtained from the Public Reference Section of the Commission at Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. Such material may also be accessed electronically by means of the Commission's home page on the Internet at <http://www.sec.gov>. In addition, reports, proxy statements and other information concerning the Company can be inspected and copied at the offices of the AMEX at 86 Trinity Place, New York, New York 10006, on which the Common Stock of the Company is listed for trading (Symbol: SHM).

The Company has filed with the Securities and Exchange Commission a Registration Statement on Form S-3 under the Securities Act with respect to the Common Stock offered hereby. For further information with respect to the Company and the securities offered hereby, reference is made to the Registration Statement. Statements contained in this Prospectus as to the contents of any contract or other document are not necessarily complete, and in each instance, reference is made to the copy of such contract or document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by such reference.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The Company incorporates by reference the following documents heretofore filed with the Commission pursuant to the Exchange Act:

- (a) Annual Report of the Company on Form 10-KSB for the fiscal year ended December 31, 1996, as amended by Amendment Nos. 1 and 2 filed with the Commission on April 16, 1997 and July 30, 1997, respectively.
- (b) Quarterly Report of the Company on Form 10-Q for the quarterly period ended March 31, 1997 as filed with the Commission, as amended by Amendment No. 1 filed with the Commission on July 31, 1997.
- (c) Quarterly Report of the Company on Form 10-Q for the quarterly period ended June 30, 1997 as filed with the Commission.
- (d) The description of the Common Stock and other matters set forth in the Company's Registration Statement on Form 8-B filed with the Commission on July 7, 1995.

All documents filed by the Company after the date of this Prospectus pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act, prior to the termination of this offering, are deemed to be incorporated by reference in this Prospectus and shall be deemed to be a part hereof from the date of filing of such documents. Any statement contained in a document incorporated by reference in this Prospectus shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein (or in any other subsequently filed document which is also incorporated by reference in this Prospectus) modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

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The Company hereby undertakes to provide without charge to each person to whom a copy of this Prospectus has been delivered, on the written or oral request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated in this Prospectus by reference, other than exhibits to such documents. Written requests for such copies should be directed to Sheffield Pharmaceuticals, Inc., 425 South Woodsmill Road, Suite 270, St. Louis, Missouri 63017, Attention: Loren G. Peterson, Chief Executive Officer. Oral requests should be directed to Mr. Peterson at (314) 579-9899.

THE COMPANY

The Company is engaged in the development of proprietary prescription pharmaceutical products targeted at patient markets with unmet medical needs over a range of therapeutic areas. The Company's strategy is to focus its resources on later stage projects that have a more rapid and predictable path to marketing approval. The Company's objective is to be a specialty pharmaceutical company that develops and markets its own proprietary products. The principal elements of the Company's business strategy consist of the following: (i) the acquisition of opportunities with unrealized commercial potential that address unmet medical needs and require only later stage development prior to regulatory approval; (ii) a focus initially on segments of the large, rapidly growing respiratory market, which includes certain chronic diseases requiring long-term therapy; (iii) the development of proprietary formulations of currently approved pharmaceutical compounds, which can reduce regulatory and development risks typically associated with the development of new chemical entities; (iv) the management of the clinical development and regulatory approval of its products that will be performed by clinical research organizations or organizations with similar development capabilities; (v) the contracting for the manufacture of its products by pharmaceutical manufacturers with a history of producing cost effective, high quality, U.S. Food and Drug Administration ("FDA") compliant products; and (vi) the marketing of its products directly through the Company's specialty sales force that will be built at such time as opportunities warrant.

As of the date of this Prospectus, the Company has acquired certain development and marketing rights in the following technologies:

MULTI-DOSE INHALER (MSI). The Company holds exclusive worldwide license rights to a multi-dose inhaler of Siemens AG (the "MSI Inhaler"). The MSI Inhaler is a drug delivery system that allows for the administration of a range of drugs to the lungs for asthma, chronic obstructive pulmonary disease and other respiratory diseases. In addition, the MSI Inhaler's delivery system may find application in the treatment of non-respiratory illnesses that may be treated by drug deliveries to the lungs. The Company plans to develop drug formulations for use with the MSI Inhaler.

ION PHARMACEUTICALS, INC. TECHNOLOGIES. The Company, through Ion Pharmaceuticals, a Delaware corporation and a wholly-owned subsidiary of the Company ("Ion"), holds exclusive worldwide license rights to certain compounds and their uses for the treatment of conditions characterized by unregulated cell proliferation or cell growth and sickle cell anemia (collectively, the "Ion Pharmaceuticals Technologies"). Ion's intellectual property portfolio consists of clotrimazole, its metabolites, and a number of proprietary new chemical entities co-owned by Ion termed the Trifens(TM). Such compounds have demonstrated promise in therapeutic applications for treating a number of conditions characterized by unregulated cell proliferation, such as cancer (including multiple drug resistant cancer) and certain dermatological conditions, as well as sickle cell anemia and secretory diarrhea.

RBC-CD4 ELECTROINSERTION TECHNOLOGY. The Company is the worldwide licensee of certain technology (the "RBC-CD4 Electroinsertion Technology") relating to the electroinsertion of full-length CD4 protein into the red blood cell membrane ("RBC-CD4") for use as a therapeutic in the treatment of the human immunodeficiency virus ("HIV") that leads to Acquired Immune Deficiency Syndrome ("AIDS"). The electroinsertion process inserts CD4, the protein that serves as the binding site of the HIV virus, into red blood cells. This altered cell complex acts as a decoy and is designed to cleanse the blood of infection by binding to and removing the HIV virus from circulation before it can infect other cells in the human immune system. The related Phase I/IIA clinical trial was conducted by The Johns Hopkins University Medical Center.

LIPOSOME-CD4 TECHNOLOGY. The Company is the worldwide licensee of certain technology (the "Liposome-CD4 Technology") relating to the incorporation of CD4 antigens into liposome bilayers and their use as a therapeutic agent in the treatment of HIV and AIDS. While RBC-CD4 Electroinsertion Technology is being developed by the Company to target HIV and HIV-infected cells in the

blood, Liposome-CD4 Technology is being developed by the Company's exclusive sublicensee, Sequus Pharmaceuticals, to target infections in the human lymphatic system, a major reservoir for infection not reached by blood circulation.

HIV/AIDS VACCINE. The Company holds an exclusive worldwide license to a potential HIV/AIDS vaccine and diagnostic developed by Professor Jean-Claude Chermann, one of the original Pasteur Institute discoverers of HIV. The vaccine concept developed by Professor Chermann utilizes a cellular antigen that is incorporated into the membrane surface of HIV after the HIV virus has reproduced buds from infected cells. This cellular antigen does not appear to vary across the various strains of the virus and may provide a stable target to develop antibodies that can prevent infection. The Company believes this approach may also protect against both blood-borne and sexual transmission of HIV. The Company's goal is to develop an oral formulation that would make the vaccine potentially less costly and easier to distribute to a broad population.

UGIF TECHNOLOGY. The Company holds an exclusive worldwide license to a potential prostate cancer therapy. The related technology focuses on a urogenital sinus derived growth inhibitory factor that may inhibit the growth of transformed cells and tumors in the human prostate. The related research has been conducted by scientific and medical investigators affiliated with Baylor College of Medicine and headed by Dr. David R. Rowley.

MEMBRANE ATTACK COMPLEX (MAC)/COMPLEMENT TECHNOLOGY. The Company holds exclusive worldwide license rights to certain membrane attack complex (MAC)/complement technology relating to the loading of therapeutic and diagnostic molecules into cells. Through the use of certain complement proteins, pores or channels can be formed in various cell membranes, allowing a pathway for the entry of molecules of various sizes into such cells. This technology could provide for the selective delivery of various therapeutic and diagnostic agents to target, I.E., cancer cells or viruses. The related research has been conducted by scientific and medical investigators affiliated with Harvard Medical School and headed by Dr. Jose Halperin.

The Company's research and development of its technologies are at various stages of progress. The Company's research and development activities to date have not resulted in a commercial product. Most of the Company's technologies are at early stages of research and development and are at least several years away from receiving FDA approval or from commercialization. Management currently believes its MSI Inhaler will be its first technology to receive FDA approval, which approval is currently estimated to be received in approximately three to four years. However, there can be no assurance that any of the Company's technologies will receive final approval from the FDA or will result in a commercialized product.

The table below indicates (i) the Company's direct research and development expenses by project for the six months ended June 30, 1997, for the fiscal year ended December 31, 1996 and from the Company's inception to June 30, 1997, (ii) the Company's current estimate by project of committed and/or anticipated funding requirements after June 30, 1997 and (iii) revenues received to date by project.

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DIRECT RESEARCH AND DEVELOPMENT
EXPENSES
(IN DOLLARS)

	SIX MONTHS ENDED	FISCAL YEAR INCEPTION TO 6/30/97	COMMITTED AND/OR ANTICIPATED R&D FUNDING AFTER 6/30/97*	REVENUE RECEIVED
R&D PROJECT	6/30/97	12/31/96	6/30/97	6/30/97
Multi-Dose Inhaler (MSI)	171,201	144,409	1,445,926	15,256,074
Ion Pharmaceuticals, Inc. Technologies	267,016	2,097,020	4,599,183	313,742
RBC-CD4 Electroinsertion Technology	6,736	515,036	6,254,185	0
Liposome-CD4 Technology	0	60,449	2,322,322	0
HIV/AIDS Vaccine	100,000	414,849	1,199,118	150,000
UGIF Technology	60,018	16,398	163,419	60,000
Membrane Attack Complex (MAC)/Complement Technology	60,936	121,874	304,682	60,936

* These amounts constitute management's estimate of anticipated direct R&D expenses as of the date of this Prospectus. The amounts and rate of application of the Company's funds to any particular project are expected to fluctuate and will depend in part on the Company's successful completion of various stages of research, the availability of additional financing and the Company's identification and acquisition of rights in new technologies in the future.

The Company is a party to license agreements pursuant to which the Company has obtained worldwide exclusive licenses to its technologies. Each of these license agreements require the Company to pay the licensors royalties on proceeds received by the Company from the commercialization of related products. The royalty rates payable by the Company under these license agreements generally range from 3.75% to 50% of gross compensation received by the Company in respect of related commercialized product. These license agreements also require the Company to develop the related technology and grant the Company the right, under certain circumstances, to sublicense the related technologies. In addition, the Company is a party to a sublicense agreement with Sequus Pharmaceuticals, Inc. ("Sequus") pursuant to which the Company has granted Sequus an exclusive sublicense to develop and commercialize its Liposome CD-4 Technology. The sublicense agreement requires Sequus to pay the Company royalties in varying amounts on proceeds received by Sequus in connection with commercialization of the related technology by Sequus. The amount of interest that the Company will maintain in a particular technology is a factor of the amount of net income retained by the Company after payment of royalties payable by the Company to the related technology licensor and any related third party contractors (E.G., research institutions or private companies) and the amount of royalties received by the Company from any sublicensees of the technology, which retained amount of interest will vary among each of the Company's technologies.

The Company was organized under Canadian law in October 1986 as Sheffield Strategic Metals, Inc. The Company commenced operations in the United States in January 1992. Effective May 19, 1992, Sheffield Pharmaceuticals, Inc. became domesticated as a Wyoming corporation without reincorporation pursuant to a "continuance" procedure under Wyoming corporation law. On June 13, 1995, the Company changed its state of incorporation to Delaware by means of a merger with and into a newly-formed wholly-owned Delaware subsidiary of the Company. Such merger and the resulting change of the Company's state of incorporation to Delaware was approved by the Company's stockholders in January 1995. The Company changed its name from "Sheffield Medical Technologies Inc." to "Sheffield

Pharmaceuticals, Inc." effective June 27, 1997. Unless the context otherwise indicates, the "Company" as used herein means Sheffield Pharmaceuticals, Inc., its predecessors and its wholly-owned subsidiaries Ion and CP Pharmaceuticals, Inc.

The Company's headquarters are located at 425 South Woodsmill Road, Suite 270, St. Louis, Missouri 63017 and its telephone number is (314) 579-9899.

RISK FACTORS

THE SECURITIES OFFERED HEREBY ARE HIGHLY SPECULATIVE AND PROSPECTIVE PURCHASERS SHOULD BE AWARE THAT THE PURCHASE OF SUCH SECURITIES INVOLVES A HIGH DEGREE OF RISK. IN ADDITION TO OTHER INFORMATION IN THIS PROSPECTUS, THE FOLLOWING FACTORS SHOULD BE CONSIDERED CAREFULLY IN EVALUATING THE COMPANY BEFORE PURCHASING THE SECURITIES OFFERED HEREBY. THIS PROSPECTUS CONTAINS FORWARD-LOOKING STATEMENTS WHICH INVOLVE RISKS AND UNCERTAINTIES. THE COMPANY'S ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE ANTICIPATED IN THESE FORWARD-LOOKING STATEMENTS AS A RESULT OF CERTAIN FACTORS, INCLUDING THOSE SET FORTH IN THE FOLLOWING RISK FACTORS AND ELSEWHERE IN THIS PROSPECTUS.

DEVELOPMENT STAGE COMPANY; HISTORY OF OPERATING LOSSES AND ACCUMULATED DEFICIT; GOING CONCERN OPINION

The Company is in the development stage. The Company commenced its biotechnology operations in the United States in January 1992 through a wholly-owned subsidiary to acquire, develop and commercialize what it believed to be promising medical technologies. On January 10, 1996, Ion was formed as a wholly-owned subsidiary of the Company. At that time, Ion acquired the Company's rights to the Company's anti-proliferative technology. The Company has been principally engaged to date in research funding and licensing efforts, and has experienced significant operating losses. The Company experienced operating losses of \$7,008,889 and \$6,089,487 for the fiscal year ended December 31, 1996 and for the six months ended June 30, 1997, respectively, and as of June 30, 1997, the Company had an accumulated deficit of \$32,761,438. The independent auditors' report dated February 12, 1997, except for Note 9 as to which the date is March 14, 1997, on the Company's consolidated financial statements stated that the Company has generated only minimal operating revenue, has incurred recurring operating losses and requires additional capital and that these conditions raise substantial doubt about its ability to continue as a going concern. The Company expects that it will continue to have a high level of operating expenses and will be required to make significant up-front expenditures in connection with license and development agreements with independent companies, universities and other institutions for research and development and product development activities. As a result, the Company anticipates significant additional operating losses for 1997 and that such losses will continue thereafter until such time, if ever, as the Company is able to generate sufficient revenues to sustain its operations.

The Company's ability to achieve profitable operations is dependent in large part on regulatory approvals of its products and technologies and on its ability to enter into manufacturing and marketing agreements with other pharmaceutical, biomedical or medical companies. There can be no assurance that the Company will ever achieve profitable operations.

SIGNIFICANT LIQUIDITY RESTRAINTS

The Company's cash available for funding its operations as of June 30, 1997 was \$539,287. As of such date, the Company had trade payables and accrued liabilities of \$504,870, current research obligations of \$331,634 and other liabilities of \$120,785. In addition, the Company is obligated to fund between June 30, 1997 and June 30, 1998 approximately \$1,850,000 in the aggregate under existing agreements. The Company will be required to obtain additional funds for

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its business through operations or equity or debt financings, collaborative arrangements with corporate partners or from other sources. No assurance can be given that these funds will be available for the Company to finance its development on acceptable terms, if at all. If adequate funds are not available from operations or additional sources of funding, the Company's business will suffer a material adverse effect. As of the date of this Prospectus there were 25,500 shares of the Company's Series A Cumulative Convertible Redeemable Preferred Stock (the "Series A Preferred Stock") issued and outstanding. The Series A Preferred Stock is redeemable by holders for \$125 per share in the event of (i) any reclassification or change of outstanding shares of Common Stock issuable upon Conversion of Series A Preferred Stock (other than a change in par value), (ii) any consolidation or merger to which the Company is a party other than a merger in which the Company is the continuing corporation and which does not result in any reclassification of, or certain changes in, outstanding

shares of Common Stock or (iii) any sale or conveyance of all or substantially all of the property or business of the Company as an entirety. In addition, upon the occurrence of certain changes of control, Series A Preferred Stock holders may redeem their shares of Series A Preferred Stock for an amount per share equal to the greater of (a) \$125 and (b) the product of the aggregate number of shares of Common Stock into which a share of Series A Preferred Stock is otherwise convertible on the date preceding the change of control multiplied by the then current market price of a share of Common Stock.

NEED FOR ADDITIONAL FINANCING

Since the Company does not expect to generate substantial revenues from the sale of any products or technologies in the immediate future, the Company will require substantial additional funds from other sources to complete its research and development, to conduct additional clinical tests and to establish manufacturing and marketing relationships with pharmaceutical, biomedical or medical companies. The Company will attempt to acquire funds for these purposes through operations, additional equity or debt financings, collaborative arrangements with corporate partners or from other sources. Management estimates that, based on the status of the Company's current projects, the Company will require \$8,000,000 to satisfy its cash requirements for research and development and \$3,100,000 to satisfy its cash requirements for general and administrative costs during the next twelve months. The Company is currently in discussions with various parties that may be interested in providing the Company with financing but, as of the date of this Prospectus, no commitment has been received from potential sources of additional funding. No assurance can be given that these funds will be available for the Company to finance its development on acceptable terms, if at all. If adequate funds are not available from operations or additional sources of funding, the Company's business will suffer a material adverse effect.

LONG TERM DEVELOPMENT OF TECHNOLOGIES; NO COMMERCIALIZATION OF PRODUCTS TO DATE

The Company has not yet begun to generate revenues from the sale of products or technologies. The Company is funding research that began, in some cases, many years before the Company acquired rights in such projects. The Company's products and technologies will require significant additional development, laboratory and clinical testing and investment prior to commercialization. The Company does not expect regulatory approval for commercial sales of any of its products or technologies in the immediate future. There can be no assurance that such products or technologies will be successfully developed, prove to be safe and efficacious in clinical trials, meet applicable regulatory standards, obtain required regulatory approvals, be capable of being produced in commercial quantities at reasonable costs or be successfully commercialized and marketed.

ROYALTY PAYMENT OBLIGATIONS

The owners and licensors of the technology rights acquired by the Company are entitled to receive up to 50% of all royalties and payments in lieu of

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royalties received by the Company from commercialization, if any, of products in respect of which the Company holds licenses. Accordingly, in addition to its substantial investment in research and development of technologies, the Company will be required to make substantial payments to others in connection with revenues derived from commercialization of products, if any, in respect of which the Company holds licenses. Consequently, the Company will not receive the full amount of any revenues that may be derived from commercialization of products derived from the Company's technologies to fund ongoing operations.

POTENTIAL LOSS OF RIGHTS UPON DEFAULT

Under the terms of existing agreements, the Company is obligated to make periodic installments to finance research and development activities according to specified budgets. The Company is obligated to fund approximately \$1,300,000 in the aggregate under existing agreements during the twelve-month period following September 30, 1997. In the event that the Company defaults in the payment of an installment under the terms of an existing licensing agreement, its rights thereunder could be forfeited. As a consequence, the Company could lose all rights under a license agreement to the related licensed

technology, notwithstanding the total investment made through the date of the default. There can be no assurance that unforeseen obligations or contingencies will not deplete the Company's financial resources and, accordingly, the Company's resources may not be available to fulfill the Company's commitments.

DEPENDENCE ON PRINCIPAL INVESTIGATORS

The Company is dependent upon the active participation of its principal investigators in the advancement of the research and development associated with their related projects. The loss of a principal investigator, particularly in the early stages of the development of a technology, could have a material adverse effect on the related project and the Company's prospects. To date, the Company has not suffered the loss of any of its principal investigators on any projects that are under active development.

RAPID TECHNOLOGICAL CHANGE; COMPETITION

The medical research field is subject to rapid technological change and innovation. Pharmaceutical and biomedical research and product development are rapidly evolving fields in which developments are expected to continue at a rapid pace. Reports of progress and potential breakthroughs are occurring with increasing frequency. There can be no assurance that the Company will have a competitive advantage in its fields of technology or in any of the other fields in which the Company may concentrate its efforts.

The Company's success will depend upon its ability to develop and maintain a competitive position in the research, development and commercialization of products and technologies in its areas of focus. Competition from pharmaceutical, chemical, biomedical and medical companies, universities, research and other institutions is intense and is expected to increase. All, or substantially all, of these competitors have substantially greater research and development capabilities, experience, and manufacturing, marketing, financial and managerial resources. Further, acquisitions of competing companies by large pharmaceutical or other companies could enhance such competitors' financial, marketing and other capabilities. There can be no assurance that developments by others will not render the Company's products or technologies obsolete or not commercially viable or that the Company will be able to keep pace with technological developments.

GOVERNMENT REGULATION

The Company's ongoing research and development projects are subject to rigorous FDA approval procedures. The preclinical and clinical testing requirements to demonstrate safety and efficacy in each clinical indication (the specific condition intended to be treated) and regulatory approval processes of

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the FDA can take a number of years and will require the expenditure of substantial resources by the Company. Delays in obtaining FDA approval would adversely affect the marketing of products to which the Company has rights and the Company's ability to receive product revenues or royalties. Moreover, even if FDA approval is obtained, a marketed product, its manufacturer and its manufacturing facilities are subject to continual review and periodic inspections by the FDA, and a later discovery of previously unknown problems with a product, manufacturer or facility may result in restrictions on such product or manufacturer. Failure to comply with the applicable regulatory requirements can, among other things, result in fines, suspensions of regulatory approvals, product recalls, operating restrictions and criminal prosecution. Additional government regulation may be established which could prevent or delay regulatory approval of the Company's products. Sales of pharmaceutical products outside the United States are subject to foreign regulatory requirements that vary widely from country to country. Even if FDA approval has been obtained, approval of a product by comparable regulatory authorities of foreign countries must be obtained prior to the commencement of marketing the product in those countries. The time required to obtain such approval may be longer or shorter than that required for FDA approval. The Company has no experience in manufacturing or marketing in foreign countries nor in matters such as currency regulations, import-export controls or other trade laws. To date, the Company has not received final regulatory approval from the FDA or any other comparable foreign regulatory authority in respect of any product or technology. Management currently believes that its MSI Inhaler will be its first technology to receive final FDA approval, which approval is currently estimated to be received in

approximately three to four years; however, there can be no assurance that such approval will be granted by the FDA.

RISKS INCIDENT TO PATENT APPLICATIONS AND RIGHTS

The Company's success will depend in part on its ability to obtain patent protection for products and processes and to maintain trade secret protection and operate without infringing the proprietary rights of others. The degree of patent protection to be afforded to pharmaceutical, biomedical or medical inventions is an uncertain area of the law. There can be no assurance that the Company will develop or receive sublicenses or other rights related to proprietary technology which are patentable, that any patents pending will issue, or that any issued patents will provide the Company with any competitive advantages or will not be challenged by third parties. Furthermore, there can be no assurance that others will not independently duplicate or develop similar technologies to those developed by or licensed to the Company.

The Company supports and collaborates in research conducted at universities and other institutions. There can be no assurance that the Company will have or be able to acquire exclusive rights to inventions or technical information derived from such collaborations or that disputes will not arise as to such exclusive rights or any derivative or related research programs. If the Company is required to defend against charges of patent infringement or to protect its own proprietary rights against third parties, substantial costs will be incurred and the Company could lose rights to certain products and technologies.

RELIANCE ON THIRD PARTIES; NO MARKETING OR MANUFACTURING CAPABILITIES

The Company does not intend to manufacture or market products it may develop using its technologies. The Company will attempt to enter into manufacturing and marketing agreements with one or more established pharmaceutical, biomedical and medical companies for any products that are developed. There can be no assurance that other pharmaceutical, biomedical or medical companies will be interested in the Company's products or technologies or be willing to enter into manufacturing or marketing agreements on terms acceptable to the Company. Further, there can be no assurance that pharmaceutical, biomedical or other medical companies will succeed in manufacturing and marketing the Company's products or technologies or that the Company will derive revenues from its products or technologies.

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DEPENDENCE UPON OBTAINING HEALTHCARE REIMBURSEMENT

The Company's ability to commercialize human therapeutic and diagnostic products may indirectly depend in part on the extent to which costs for such products and technologies are reimbursed by private health insurance or government health programs. The uncertainty regarding reimbursement may be especially significant in the case of newly approved products. There can be no assurance that price levels will be sufficient to provide a return to the Company on its investment in new products and technologies.

ADEQUACY OF PRODUCT LIABILITY INSURANCE

The use of the Company's proposed products and processes during testing, and after approval, may entail inherent risks of adverse effects which could expose the Company to product liability claims. Product liability claims could have a material adverse effect on the business and financial condition of the Company. The Company plans to obtain, and plans to require its licensees to obtain, product liability insurance at an appropriate stage of product development and commercialization. There can be no assurance that the Company and its licensees will be able to maintain or obtain adequate product liability insurance on acceptable terms or that such insurance will provide adequate coverage against all potential claims.

VOLATILITY OF MARKET PRICE OF SECURITIES

The market price of securities of firms in the biotechnology industry has tended to be volatile. Announcements of technological innovations by the Company or its competitors, developments concerning proprietary rights and concerns about safety and other factors may have a material adverse effect on

the Company's business or financial condition. The market price of the Common Stock may be significantly affected by announcements of developments in the medical field generally or the Company's research areas specifically. The stock market has experienced volatility in market prices of companies similar to the Company that has often been unrelated to the operating results of such companies. This volatility may have a material adverse effect on the market price of the Common Stock.

OUTSTANDING OPTIONS AND WARRANTS; DILUTION

As of September 30, 1997, the Company had reserved approximately 4,515,000 shares of Common Stock for issuance upon exercise of outstanding options and warrants, including shares of Common Stock issuable upon the exercise of options and warrants held by officers and directors of the Company. The Company has filed registration statements with the Commission covering the resale of substantially all of the shares of Common Stock underlying such options and warrants. The exercise of options and outstanding warrants and sales of Common Stock issuable thereunder could have a significant dilutive effect on the market price of shares of Common Stock and could materially impair the Company's ability to raise capital through the future sale of its equity securities.

NO DIVIDENDS

Holders of Common Stock are entitled to receive such dividends as may be declared by the Board of Directors of the Company. To date, the Company has not declared or paid any dividends on its Common Stock, and the Company does not anticipate paying cash dividends in the foreseeable future. Rather, the Company intends to apply any earnings to the expansion and development of its business.

AUTHORIZATION OF SERIES A PREFERRED STOCK

The Company's Certificate of Incorporation authorizes the issuance of "blank check" preferred stock with such designations, rights and preferences as may be determined from time to time by the Board of Directors, without shareholder approval. In the event of issuance, such preferred stock could be

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utilized, under certain circumstances, as a method of discouraging, delaying or preventing a change in control of the Company and preventing shareholders from receiving a premium for their shares in connection with a change of control. Except for the issuance of shares of Series A Preferred Stock that occurred in connection with the consummation of a private placement in February 1997, the Company has no present intention to issue any shares of its preferred stock; however, there can be no assurance that the Company will not issue additional shares of its preferred stock in the future.

EXERCISE OF SERIES A WARRANTS AND CONVERSION OF SERIES A CUMULATIVE CONVERTIBLE REDEEMABLE PREFERRED STOCK

As of the date of this Prospectus, there are 25,500 shares of Series A Preferred Stock outstanding that are convertible into shares of Common Stock. See "Selling Stockholders." Each share of Series A Preferred Stock earns a cumulative dividend payable in shares of Common Stock at a rate per share equal to 7.0% per annum of the original \$100.00 purchase price per share of the Series A Preferred Stock. Cumulative stock dividends on shares of Series A Preferred Stock are payable at the time of conversion. Each share of Series A Preferred Stock may be converted after May 29, 1997 at varying rates of conversion. The conversion rate on Series A Preferred Stock will be adjusted, and the number of shares beneficially owned by the holders thereof will vary, to reflect changes in the market price of the Common Stock, stock dividends, stock splits and certain other circumstances. For a further description of the rights of holders of Series A Preferred Stock, see the Certificate of Designation of Series A Cumulative Convertible Redeemable Preferred Stock filed as an exhibit to the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 1996. Holders of Series A Preferred Stock also hold warrants (the "Series A Warrants") entitling such holders to acquire a total of 351,539 shares of Common Stock at an exercise price of \$3.65 per share, subject to adjustment upon the occurrence of certain events. The exercise of Series A Warrants, the conversion of shares of Series A Preferred Stock and the subsequent sale of such shares of Common Stock issuable upon such exercise and conversion could have a significant negative effect on the market price of the Common Stock and could materially

impair the Company's ability to raise capital through the future sale of equity securities.

USE OF PROCEEDS

The Company will receive a total of \$392,000 in the event that all shares of Common Stock offered hereby that are issuable upon exercise of the Debenture Warrants have been issued upon such exercise. The Company anticipates that the net proceeds will be used as to fund the research and development relating to the MSI Inhaler and for working capital and general corporate purposes of the Company, including the possible acquisitions of rights in new drug development opportunities. The amounts and rate of application of such net proceeds will be subject, among other things, to successful completion of the various stages of research of each of the Company's research projects and the Company's identification and acquisition of rights in new technologies after the date of this Prospectus, which amounts and rate cannot be precisely determined at this time. Until such proceeds are fully used, the Company intends to invest such proceeds in investment grade, short-term interest-bearing obligations or U.S. government obligations. The Company will not receive any proceeds from the offer and resale of the Common Stock offered hereby.

DIVIDEND POLICY

Holders of Common Stock are entitled to receive such dividends as may be declared by the Board of Directors of the Company. The Company presently intends to retain earnings, if any, for use in its business and does not anticipate paying dividends (other than stock dividends payable on shares of Series A Preferred Stock) on its outstanding capital stock in the foreseeable future. Future payments of cash dividends will depend upon the financial condition,

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results of operations and capital requirements of the Company as well as other factors deemed relevant by the Board of Directors.

RECENT DEVELOPMENTS

On April 25, 1997, Camelot Pharmacal, L.L.C., a Missouri limited liability company ("Camelot"), merged with and into CP Pharmaceuticals, Inc., a newly formed subsidiary of the Company. The principals of Camelot at the time of the merger were Loren G. Peterson, Carl F. Siekmann and David A. Byron. Pursuant to the related agreement and plan of merger, Messrs. Peterson, Siekmann and Byron each received 200,000 shares of Common Stock. The 200,000 shares of Common Stock were issued pursuant to the exemption from registration under Section 4(2) of the Securities Act. Each of Messrs. Peterson, Siekmann and Byron executed agreements in which they represented that they were "accredited investors" and had been given the opportunity to meet with Company management and to receive such documentation relating to the Company's operations and financial condition as they deemed necessary. Following the consummation of the merger, each of Messrs. Peterson, Siekmann and Byron entered into employment agreements with Sheffield and received stock options providing each individual the right to purchase up to 400,000 shares of Common Stock. The Company has agreed to reimburse Messrs. Peterson, Siekmann and Byron upon the occurrence of certain events for certain income taxes payable by them upon exercise of their stock options in an amount of up to \$250,000 per person. At the time of the merger, Anthony B. Alphin, Jr., Bernard Laurent, Stephen Sohn and Michael Zeldin resigned as Directors of the Company and Mr. Peterson was elected a Director of the Company.

In May 1997, the Company reported findings from its Phase I/II clinical trial to assess the safety and antiviral activity of a single infusion of the Company's HIV/AIDS therapeutic, RBC-CD4. The trial, conducted in 19 HIV-infected subjects, had as its primary objectives to confirm the previously reported long half-life for RBC-CD4 and to measure safety and tolerability with a secondary objective to assess activity of a single dose of RBC-CD4. Study results confirmed the half-life of RBC-CD4 and the related safety data indicated that RBC-CD4 was safe and well-tolerated by the HIV-infected patients. The secondary objective of the trial was to assess the activity of two dose levels of RBC-CD4 in HIV-infected patients. The outcome measures suggest that little sustained activity was seen from a single infusion of RBC-CD4 at either of the two doses.

The data suggests that the frequency of a positive response, when reported, was greater at the early time points. It should be emphasized that RBC-CD4 in this study was evaluated as a single-dose monotherapy. The Company also announced at such time its intention to seek a partner for the RBC-CD4 technology.

On September 22, the private placement of \$1,750,000 of Convertible Debentures was consummated. The Company received net proceeds of \$1,600,000 in such private placement. See "Description of Securities - 6% Convertible Subordinated Debentures" below.

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SELLING STOCKHOLDERS

Set forth below is information at October 15, 1997 concerning the beneficial ownership of Common Stock of each of the Selling Stockholders who are offering shares of Common Stock in this offering.

NAME(1)	Shares Beneficially Owned Prior to Offering(1)(2)		Shares to be Sold in Offering	Shares Beneficially Owned After Offering(3)	
	NUMBER	PERCENT		NUMBER	PERCENT
The Shaar Group Ltd.	946,515(4)(5)	7.0%	2,595,734	0(4)	*
Shaar Advisory Services Ltd.	108,518(4)(6)	*	297,600	0(4)	*

* Less than 1%.

(1) The persons named in the table, to the Company's knowledge, have sole voting and investment power with respect to all shares shown as beneficially owned by them, subject to community property laws where applicable and the information contained in the footnotes hereunder.

(2) Determined in accordance with Rule 13-3(d) of the Exchange Act.

(3) Assumes all shares of Common Stock offered hereby are sold pursuant to the registration statement of which the prospectus constitutes a part.

(4) The number of shares of Common Stock issuable upon conversion of Convertible Debentures and in respect of interest in lieu of cash issuable thereon will vary based upon the market value of the Company's publicly-traded Common Stock prior to the date of conversion. For a description of the method of determining the number of shares of Common Stock issuable upon conversion of shares of Convertible Debentures, see "Description of Securities - Convertible Debentures." Consequently, due to the fluctuating conversion rate of the Convertible Debentures, the number of shares of Common Stock that a holder of Convertible Debentures may receive upon conversion or in lieu of cash interest may exceed the number of shares of Common Stock such holder beneficially owns as determined pursuant to Section 13-3(d) of the Exchange Act. For purposes of the disclosure of Shares Beneficially Owned Prior to Offering, it has been assumed (i) that the applicable conversion price will be \$1.9125 (calculated in accordance with the applicable terms of the Convertible Debentures as of the date of issuance of the Convertible Debentures on September 22, 1997), (ii) that all Convertible Debentures beneficially owned by the Selling Stockholder are converted into shares of Common Stock at such conversion price in accordance with the applicable terms of the Convertible Debentures, (iii) that all Debenture Warrants beneficially owned by the Selling Stockholder have been exercised for shares of Common Stock and (iv) that no shares of Common Stock have been issued to holders of Convertible Debentures in lieu of cash interest thereon. For purposes of the disclosure of Shares Beneficially Owned After the Offering, it has been assumed that the applicable Selling Stockholder (x) has converted all Convertible Debentures beneficially owned by it into shares of Common Stock and has received no Common Stock issuable in lieu of cash interest on such Convertible Debentures, (y) has exercised

all Debenture Warrants beneficially owned by it and (z) has sold all such shares of Common Stock received by it.

- (5) Consists of (i) 820,915 shares of Common Stock issuable upon conversion of Conversion Debentures and (ii) 125,600 shares of Common Stock issuable upon exercise of Debenture Warrants.
- (6) Consists of (i) 94,118 shares of Common Stock issuable upon conversion of Convertible Debentures and (ii) 14,400 shares of Common Stock issuable upon exercise of Debenture Warrants.

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DESCRIPTION OF SECURITIES

The Company is currently authorized to issue 30,000,000 shares of Common Stock, \$.01 par value per share, of which 12,604,770 shares were issued and outstanding on the date of this Prospectus, and 3,000,000 shares of preferred stock, \$.01 par value per share, of which 25,500 shares of Series A Preferred Stock were issued and outstanding on the date of this Prospectus.

COMMON STOCK

Holders of shares of Common Stock are entitled to one vote per share on all matters to be voted on by shareholders and do not have cumulative voting rights. Subject to the rights of holders of outstanding shares of Series A Preferred Stock and other holders of preferred stock of the Company, if any, the holders of Common Stock are entitled to receive such dividends, if any, as may be declared from time to time by the Board of Directors in its discretion from funds legally available therefor, and upon liquidation or dissolution, are entitled to receive all assets available for distribution to the shareholders. The Common Stock has no preemptive or other subscription rights, and there are no conversion rights of redemption or sinking fund provisions with respect to such shares. All of the outstanding shares of Common Stock are fully paid and nonassessable.

PREFERRED STOCK

The Board of Directors is authorized to issue the preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions, including the dividend rights, conversion rights, voting rights, rights and terms of redemption, redemption price or prices, liquidation preferences and the number of shares constituting any series or the designations of such series, without any further vote or action by the stockholders. The issuance of preferred stock may have the effect of delaying, deferring or preventing a change in control of the Company without further actions of the stockholders. The issuance of preferred stock with voting and conversion rights may adversely affect the voting power of the holders of Common Stock, including the loss of voting control to others.

SERIES A PREFERRED STOCK

THE DESCRIPTION OF THE SERIES A PREFERRED STOCK PROVIDED BELOW IS QUALIFIED IN ITS ENTIRETY BY THE RELATIVE RIGHTS, PREFERENCES, PRIVILEGES, POWERS AND RESTRICTIONS OF THE SERIES A PREFERRED STOCK SET FORTH IN THE FORM OF CERTIFICATE OF DESIGNATION FOR THE SERIES A PREFERRED STOCK INCLUDED IN EXHIBIT 4.2 TO THE COMPANY'S ANNUAL REPORT ON FORM 10-KSB FOR THE FISCAL YEAR ENDED DECEMBER 31, 1996, WHICH IS INCORPORATED BY REFERENCE INTO THIS PROSPECTUS.

There are 25,500 shares of Series A Preferred Stock outstanding as of the date of this Prospectus. Holders of Series A Preferred Stock have the right, exercisable commencing May 29, 1997 and ending February 28, 1999, to convert shares of Series A Preferred Stock into shares of Common Stock. The number of shares of Common Stock issuable upon conversion of Series A Preferred Stock will equal the number of shares of Series A Preferred Stock to be so converted multiplied by a fraction, the numerator of which is 100 and the denominator of which shall equal (a) \$3.31875 in respect of conversions occurring on or before June 27, 1997, (b) the lesser of (i) \$3.31875 and (ii) the "current market price" per share of Common Stock as of the applicable conversion date in respect of conversions occurring from June 28, 1997 to and including August 26, 1997 and (c) the lesser of (i) \$3.31875 and (ii) 85% of the "current market price" per share of Common Stock as of the applicable conversion date in respect of

conversions occurring after August 26, 1997, where "current market price" means, with certain exceptions, the average of the closing bid prices of Common Stock for the 10 consecutive trading days ending the last trading day before the applicable conversion date. Each share of Series A Preferred Stock earns a cumulative dividend payable in shares of Common Stock at a rate per share equal to 7.0% of the original \$100 purchase price per share of the Series A Preferred Stock. Accrued stock dividends payable in respect of the Series A Preferred Stock are payable at the time of conversion. Under certain circumstances, cash is payable to holders of Series A Preferred Stock in lieu of Common Stock.

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The Series A Preferred Stock is redeemable by holders for \$125 per share in the event of (i) any reclassification or change of outstanding shares of Common Stock issuable upon conversion of Series A Preferred Stock (other than a change in par value), (ii) any consolidation or merger to which the Company is a party other than a merger in which the Company is the continuing corporation and which does not result in any reclassification of, or change (other than a change in name, or par value, or from par value to no par value, or from no par value to par value, or as a result of a subdivision or combination) in, outstanding shares of Common Stock or (iii) any sale or conveyance of all or substantially all of the property or business of the Company as an entirety. In addition, upon the occurrence of a Change of Control, Series A Preferred Stock holders may redeem their shares of Series A Preferred Stock for an amount per share equal to the greater of (a) \$125 and (b) the product of the aggregate number of shares of Common Stock into which a share of Series A Preferred Stock is otherwise convertible on the date preceding the change of control multiplied by the then current market price of a share of Common Stock. A "Change in Control" shall be deemed to have occurred at such time as either Douglas R. Eger and Thomas M. Fitzgerald cease to be either a director or officer of the Company.

6% CONVERTIBLE SUBORDINATED DEBENTURES

THE DESCRIPTION OF THE CONVERTIBLE DEBENTURES PROVIDED BELOW IS QUALIFIED IN ITS ENTIRETY BY THE TERMS THEREOF SET FORTH IN THE FORM OF 6% CONVERTIBLE SUBORDINATED DEBENTURE DUE SEPTEMBER 22, 2000 INCLUDED AS EXHIBIT 10.1 TO THE REGISTRATION STATEMENT ON FORM S-3 OF WHICH THIS PROSPECTUS CONSTITUTES A PART.

On September 22, 1997, the Company consummated a private placement of \$1,750,000 principal amount of its 6% Convertible Subordinated Debentures due September 22, 2000. The Convertible Debentures are convertible at the option of holders from December 22, 1997 until maturity, subject to certain limitations, into a number of shares of Common Stock equal to (i) the principal amount of the Convertible Debenture being so converted divided by (ii) 75% of the market price of the Common Stock as of the date of conversion. For purposes of any conversion of Convertible Debentures, "market price" generally means the average of the closing prices of the Common Stock for the five trading day period preceding the applicable conversion date. The Convertible Debentures also earn interest at a rate of 6.0% per annum that is payable by the Company, at the option of the holders and subject to certain conditions, in share of its Common Stock at a conversion rate generally equal to the average of the closing prices of the Common Stock for the ten trading days preceding the applicable interest payment date. Subject to certain limitations, the Convertible Debentures are subject to mandatory redemption in full upon the occurrence of certain changes of control events or upon an issuance of the Company's equity or debt resulting in gross proceeds to the Company of at least \$6,000,000, in each case at a premium above the principal amount of Convertible Debentures so redeemed. The Convertible Debentures are subject to optional redemption in whole or in part by the Company at any time at a premium over the principal amount of Convertible Debentures so redeemed. In connection with the sale of the Convertible Debentures, purchasers thereof also received Debenture Warrants entitling the holders thereof to purchase a total of 140,000 additional shares of Common Stock upon payment of an exercise price of \$2.80 per share, subject to certain adjustments. The Company has granted the holders of the Convertible Debentures certain registration rights in respect of the shares of Common Stock issuable upon conversion of the Convertible Debentures, in lieu of cash interest on the Convertible Debentures and upon exercise of the Debenture Warrants. The registration statement of which this prospectus constitutes a part is intended to satisfy the Company's registration obligations to the holders of the Convertible Debentures.

TRANSFER AGENT

The Company's transfer agent for its issued and outstanding Common Stock is Harris Trust and Savings Bank, Houston, Texas.

PLAN OF DISTRIBUTION

The Common Stock offered hereby may be offered from time to time on the AMEX or on any other securities exchange on which Common Stock is listed or in privately negotiated transactions, at fixed prices that may be changed, at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at

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privately negotiated prices. Selling Stockholders may effect such transactions by selling such shares of Common Stock to or through one or more underwriters, brokers, dealers or agents and all such underwriters, brokers, dealers and agents may receive compensation in the form of discounts, concessions, or commissions from stockholders and/or the purchasers of shares for whom such broker-dealers may act as agent or to whom they sell as principal, or both (which compensation as to a particular underwriter, broker, dealer or agent might be in excess of customary commissions). The Company has agreed to indemnify the Selling Stockholders against certain liabilities, including civil liabilities under the Securities Act.

Any broker-dealer acquiring Common Stock offered hereby may sell such securities either directly, in its normal market-making activities, through or to other brokers on a principal or agency basis or to its customers. Any such sales may be at prices then prevailing on the AMEX, at prices related to such prevailing market prices or at negotiated prices to its customers or a combination of such methods. The Selling Stockholders and any underwriters, brokers, dealers or agents that act in connection with the sale might be deemed to be "underwriters" within the meaning of Section 2(11) of the Securities Act and any commissions received by them and any profit on the resale of securities as principal may be deemed to be underwriting discounts and commissions under the Securities Act. Any such commissions, as well as any applicable transfer taxes, are payable by the applicable Selling Stockholder.

LEGAL MATTERS

The validity of the issuance of the securities being offered hereby has been passed upon for the Company by Olshan Grundman Frome & Rosenzweig LLP, New York, New York. Daniel J. Gallagher, an attorney at such firm, is the holder of options to purchase 15,000 shares of Common Stock.

EXPERTS

The consolidated financial statements of Sheffield Pharmaceuticals, Inc. and subsidiaries (a development stage enterprise) appearing in Sheffield Pharmaceuticals, Inc.'s Annual Report (Form 10-KSB) for the years ended December 31, 1996 and 1995, have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon (which contains an explanatory paragraph with respect to conditions that raise substantial doubt about the Company's ability to continue as a going concern as further described in Note 1 to the consolidated financial statements) included therein and incorporated herein by reference. The consolidated financial statements of Sheffield Pharmaceuticals, Inc. and subsidiary (a development stage enterprise) as of and for the year ended December 31, 1994 incorporated by reference herein have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon (which contains an explanatory paragraph with respect to conditions that raise substantial doubt about the Company's ability to continue as a going concern as further described in Note 7 to the consolidated financial statements) included therein and incorporated herein by reference. Such consolidated financial statements are, and audited financial statements to be included in subsequently filed documents will be, incorporated herein in reliance upon the reports of Ernst & Young LLP pertaining to such financial statements (to the extent covered by consents filed with the Securities and Exchange Commission) given upon the authority of such firm as experts in accounting and auditing.

The consolidated financial statements of Sheffield Pharmaceuticals, Inc. and subsidiary (a development stage enterprise) as of December 31, 1993 and

for the period from October 17, 1986 (inception) to December 31, 1993 and the years ended December 31, 1992 and 1993 have been incorporated by reference herein and in the registration statement of which this Prospectus constitutes a part in reliance upon the report of KPMG Peat Marwick LLP, independent certified public accountants, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing.

The report of KPMG Peat Marwick LLP covering the December 31, 1993 consolidated financial statements contains an explanatory paragraph that states that the Company's recurring losses and net deficit position raise substantial doubt about its ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of that uncertainty.

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ADDITIONAL INFORMATION

The Company has filed with the Commission a Registration Statement on Form S-3 under the Securities Act (the "Registration Statement") with respect to certain of the shares of Common Stock offered hereby. For further information with respect to the Company and the securities offered hereby, reference is made to the Registration Statement. Statements contained in this Prospectus as to the contents of any contract or other document are not necessarily complete, and in each instance, reference is made to the copy of such contract or document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by such reference.

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SHEFFIELD PHARMACEUTICALS, INC.

PART II INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following table sets forth an itemized statement of all estimated expenses in connection with the issuance and distribution of the securities being registered:

SEC Registration fees.....	\$ 1,972.00
Legal expenses.....	75,000.00
AMEX Listing Fees.....	17,500.00
Accounting fees and expenses.....	5,000.00
Miscellaneous.....	5,528.00
Total.....	\$105,000.00

ITEM 15. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Except as hereinafter set forth, there is no statute, charter provision, by-law, contract or other arrangement under which any controlling person, director or officer of the Corporation is insured or indemnified in any manner against liability which he may incur in his capacity as such.

Article TENTH of the Corporation's Certificate of Incorporation provides as follows:

The Corporation shall, to the fullest extent permitted by Section 145 of the General Corporation Law of the State of Delaware, as the same may be amended and supplemented, indemnify any and all persons whom it shall have power to indemnify under said section from and against any and all of the expenses, liabilities or other matters referred to in or covered by said section, and the indemnification provided for herein shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any By-Law, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

Section 5.1 of the By-laws of the Corporation provides as follows:

(a) The Corporation shall indemnify, subject to the requirements of subsection (d) of this Section, any person who was or is a party or is 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 is or was a director, officer, employee or agent 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, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he 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 conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction or upon a

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plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he 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 conduct was unlawful.

(b) The Corporation shall indemnify, subject to the requirements of subsection (d) of this Section, any person who was or is a party or is 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 he is or was a director, officer, employee or agent 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, against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Court of Chancery of the State of Delaware or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery of the State of Delaware or such other court shall deem proper.

(c) To the extent that a director, officer, employee or agent of the Corporation, or a person serving in any other enterprise at the request of the Corporation, has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in subsection (a) and (b) of this Section, or in defense of any claim, issue or matter therein, the Corporation shall indemnify him against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith.

(d) Any indemnification under subsections (a) and (b) of this Section (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the director, officer, employee or agent is proper in the circumstances because he has met the applicable standard of conduct set forth in subsections (a) and (b) of this Section. Such determination shall be made (1) by the Board of Directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, or (2) if such a quorum is not obtainable, or, even if obtainable a quorum of disinterested directors, or (3) by independent legal counsel in a written opinion, or (4) by the stockholders.

(e) Expenses incurred by a director, officer, employee or agent in defending a civil or criminal action, suit or proceeding may be paid by the Corporation in advance of the final disposition of such action, suit or proceeding as authorized by the Board of Directors upon receipt of an undertaking by or on behalf of the director, officer, employee or agent to repay

such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Corporation as authorized in this Section.

(f) The indemnification and advancement of expenses provided by or granted pursuant to, the other subsections of this Section shall not limit the Corporation from providing any other indemnification or advancement of expenses permitted by law nor shall it be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any by-law, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office.

(g) The Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or who is or was serving at the request of the Corporation as a

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director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of this Section.

(h) The indemnification and advancement of expenses provided by, or granted pursuant to this section shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

(i) For the purposes of this Section, references to "the Corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, employees or agents, so that any person who is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under the provisions of this Section with respect to the resulting or surviving corporation as he would have with respect to such constituent corporation if its separate existence had continued.

(j) This Section 5.1 shall be construed to give the Corporation the broadest power permissible by the Delaware General Corporation Law, as it now stands and as heretofore amended.

Section 145 of the General Corporation Law of the State of Delaware provides as follows:

(a) A corporation may indemnify any person who was or is a party or is 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 is or was a director, officer, employee or agent 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, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he 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 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 the person did not act in good faith and in a manner which he 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 conduct was unlawful.

(b) A corporation may indemnify any person who was or is a

party or is 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 he is or was a director, officer, employee or agent 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 against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation and except that no indemnification shall be made in respect of any

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claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

(c) To the extent that a director, officer, employee or agent of a corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in subsections (a) and (b) of this section, or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith.

(d) Any indemnification under subsections (a) and (b) of this section (unless ordered by a court) shall be made by the corporation only as authorized in the specific case upon a determination that indemnification of the director, officer, employee or agent is proper in the circumstances because he has met the applicable standard of conduct set forth in subsections (a) and (b) of this section. Such determination shall be made (1) by the board of directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, or (2) if such a quorum is not obtainable, or, even if obtainable a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (3) by the stockholders.

(e) Expenses (including attorneys' fees) incurred by an officer or director in defending any civil criminal administrative or investigative action, suit or proceeding may be paid by the corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the corporation as authorized in this section. Such expenses (including attorneys' fees) incurred by other employees and agents may be so paid upon such terms and conditions, if any, as the board of directors deems appropriate.

(f) The indemnification and advancement of expenses provided by, or granted pursuant to, the other subsections of this section shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office.

(g) A corporation shall have power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent 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 against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the corporation would have the power to indemnify him against such liability under this section.

(h) For purposes of this section, references to "the corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, and employees

or agents, so that any person who is or was a director, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under this section with respect to the resulting or surviving corporation as he would have with respect to such constituent corporation if its separate existence had continued.

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(i) For purposes of this section, references to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on a person with respect to any employee benefit plan; and references to "serving at the request of the corporation" shall include any service as a director, officer, employee or agent of the corporation which imposes duties on, or involves services by, such director, officer, employee, or agent with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner he reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the corporation" as referred to in this section.

(j) The indemnification and advancement of expenses provided by, or granted pursuant to, this section shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

The Company maintains a directors and officers liability insurance policy for coverage of up to \$5,000,000.

ITEM 16. EXHIBITS.

The following Exhibits are included pursuant to Regulation S-K.

NO.	DESCRIPTION	REFERENCE
3.1	Certificate of Incorporation of Registrant, as amended	(1)
3.2	Bylaws of Registrant	(2)
4.1	Form of Common Stock Certificate	(3)
5.1	Opinion of Olshan Grundman Frome & Rosenzweig LLP (includes Consent)	(4)
10.1	Form of Registrant's 6% Convertible Subordinated Debenture due September 22, 2000	(4)
23.1	Consent of KPMG Peat Marwick LLP	(4)
23.2	Consent of Ernst & Young LLP	(4)
23.3	Consent of Olshan Grundman Frome & Rosenzweig LLP included in Exhibit 5.1	
24.1	Power of Attorney (included in the signature page to this Registration Statement)	

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- (1) Incorporated by reference to exhibit no. 3.1 filed with the Registrant's Report on Form 10-Q for the fiscal quarter ended June 30, 1997 filed with the Commission.
 - (2) Incorporated by reference to exhibit 3.2 filed with the Registrant's Report on Form 10-Q for the fiscal quarter ended June 30, 1997 filed with the Commission.
 - (3) Incorporated by reference to exhibit no. 4.1 filed with the Registrant's Annual Report on Form 10-KSB for the fiscal year ended December 31, 1995 filed with the Commission.
 - (4) Filed herewith.

ITEM 17. UNDERTAKINGS.

(a) Rule 415

The undersigned registrant will:

(1) File, during any period in which it offers or sells securities, a post-effective amendment to this Registration Statement to include any additional or changed material information on the plan of distribution.

(2) For determining liability under the Securities Act, treat each such post-effective amendment as a new Registration Statement of the securities offered, and the offering of the securities at that time to be the initial bona fide offering.

(3) File a post-effective to remove from registration any of the securities that remain unsold at the end of the offering.

(h) Request for Acceleration of Effective Date

Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the "Act") may be permitted to directors, officers and controlling persons of the small business issuer pursuant to the foregoing provisions, or otherwise, the small business issuer has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the small business issuer of expenses incurred or paid by a director, officer or controlling person of the small business issuer in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of a registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the small business issuer pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

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

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New York, State of New York, on October 21, 1997.

SHEFFIELD PHARMACEUTICALS, INC.

Dated: October 21, 1997 /S/ LOREN G. PETERSON

POWERS OF ATTORNEY AND SIGNATORIES

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed by the following persons in the capacities and on the date indicated. Each of the undersigned officers and directors of Sheffield Pharmaceuticals, Inc. hereby constitutes and appoints Douglas R. Eger and Loren G. Peterson and each of them singly, as true and lawful attorneys-in-fact and agents with full power of substitution and resubstitution, for him in his name in any and all capacities, to sign any and all amendments (including post-effective amendments) to this Registration Statement and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission and to prepare any and all exhibits thereto, and other documents in connection therewith, and to make any applicable state securities law or blue sky filings, granting unto said attorneys-in-fact and agents, full power and authority to do and perform each and every act and thing requisite or necessary to be done to enable Sheffield Pharmaceuticals, Inc. to comply with the provisions of the Securities Act of 1933, as amended, and all requirements of the Securities and Exchange Commission, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

SIGNATURE	TITLE	DATE
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/S/ DOUGLAS R. EGER ----- Douglas R. Eger	Director and Chairman	October 21, 1997
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/S/ LOREN G. PETERSON ----- Loren G. Peterson	Director and Chief Executive Officer	October 21, 1997
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/S/ THOMAS FITZGERALD ----- Thomas Fitzgerald	Director, President and Chief Operating Officer	October 21, 1997
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/S/ JOHN M. BAILEY ----- John M. Bailey	Director	October 21, 1997
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----- Digby W. Barrios	Director	October __, 1997
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/S/ GEORGE LOMBARDI ----- George Lombardi (Chief Financial and Chief Accounting Officer)	Vice President, Chief Financial Officer, Treasurer and Secretary	October 21, 1997
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Olshan Grundman Frome & Rosenzweig LLP
505 Park Avenue
New York, New York 10022
(212) 753-7200

October 21, 1997

Securities and Exchange Commission
450 Fifth Street, N.W.
Judiciary Plaza
Washington, D.C. 20549

Re: Sheffield Pharmaceuticals, Inc.
Registration Statement on Form S-3

Ladies and Gentlemen:

Reference is made to the Registration Statement on Form S-3 dated October 21, 1997 (the "Registration Statement") filed with the Securities and Exchange Commission by Sheffield Pharmaceuticals, Inc., a Delaware corporation (the "Company"). The Registration Statement relates to the resale of an aggregate of 2,893,334 shares (the "Shares") of Common Stock, \$.01 par value ("Common Stock"), of the Company consisting of (i) 2,333,334 shares of Common Stock issuable upon conversion of the Company's 6% Convertible Subordinated Debentures due September 22, 2000 (the "Debentures"), (ii) 420,000 shares of Common Stock issuable in lieu of cash interest on the Debentures and (iii) 140,000 shares of Common Stock issuable upon exercise of certain warrants issued to the initial purchasers of the Debentures.

We advise you that we have examined originals or copies certified or otherwise identified to our satisfaction of the Certificate of Incorporation and By-laws of the Company and minutes of meetings of the Board of Directors of the Company and such other documents, instruments and certificates of officers and representatives of the Company and public officials, and we have made such examination of the law, as we have deemed appropriate as the basis for the opinion hereinafter expressed. In making such examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us

Securities and Exchange Commission
October 21, 1997
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as originals, and the conformity to original documents of documents submitted to us as certified or photostatic copies.

Based upon the foregoing, we are of the opinion that the Shares, when issued in accordance with the terms and conditions of the respective agreements or instruments governing such issuance, will be duly and validly issued, fully paid and non-assessable.

We are qualified to practice law in the State of New York and we do not purport to be experts on any laws other than the laws of the State of New York, the General Corporation Law of the State of Delaware and the Federal laws of the United States of America.

We consent to the reference to this firm under the caption "Legal Matters" in the prospectus that constitutes a part of the Registration Statement.

We advise you that Daniel J. Gallagher, an attorney of this firm, holds options to purchase 15,000 shares of Common Stock.

Very truly yours,

OLSHAN GRUNDMAN FROME & ROSENZWEIG LLP

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EX-10.1

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6% CONVERTIBLE SUBORDINATED DEBENTURE

EXHIBIT 10.1 TO
FORM S-3 REGISTRATION STATEMENT

"THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE, AND ARE BEING OFFERED AND SOLD PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND SUCH LAWS. THESE SECURITIES MAY NOT BE SOLD OR TRANSFERRED EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT OR SUCH OTHER LAWS."

6% CONVERTIBLE SUBORDINATED DEBENTURE
DUE SEPTEMBER 22, 2000

\$ _____ SEPTEMBER 22, 1997

No. ____

Sheffield Pharmaceuticals, Inc., a Delaware corporation with principal executive offices located at 30 Rockefeller Plaza, Suite 4515, New York, New York 10112 (the "Company"), for value received, hereby promises to pay to the Holder (as defined below), or order, on September 22, 2000 (the "Maturity Date") the principal sum of _____ (\$ _____) and to pay interest thereon from the date of original issuance (or the most recent interest payment date to which interest has been paid), quarterly in arrears, on each March 31, June 30, September 30 and December 31 of each year (each an "Interest Payment Due Date" and collectively, the "Interest Payment Due Dates"), commencing on December 31, 1997, at the rate of 6% per annum (the "Debenture Interest Rate"), until the principal of this Debenture has been paid in full or duly and irrevocably provided for. The interest so payable on any Interest Payment Due Date shall be paid to the Person in whose name this Debenture is registered at the close of business on the 15th day next preceding the applicable Interest Payment Due Date and all interest payable on the principal amount of this Debenture shall be calculated on the basis of 360-day year for the actual number of days elapsed. Interest shall be paid through the issuance of duly and validly authorized and issued, fully paid and non-assessable, freely tradeable shares of the Company's common stock valued at the Interest Market Price. The common stock to be issued in lieu of cash interest payments shall be registered for resale in the Registration Statement to be filed by the Company to register the Common Stock issuable upon conversion of the Debenture and exercise of the Warrants as set forth in the Registration Rights Agreement. Notwithstanding the foregoing, until such Registration Statement has been declared effective under the Securities Act by the SEC, payment of interest on the Debenture shall be in cash.

ARTICLE 1
DEFINITIONS

SECTION 1.1 DEFINITIONS. The terms defined in this Article whenever used in this Debenture have the following respective meanings:

(a) "ADDITIONAL CAPITAL SHARES" has the meaning set forth in Section 3.1(c).

(b) "AFFILIATE" has the meaning ascribed to such term in Rule 12b-2 under the Securities Exchange Act of 1934, as amended.

(c) "AMEX" means the American Stock Exchange.

(d) "BUSINESS DAY" means a day other than Saturday, Sunday or any day on which banks located in the state of New York are authorized or obligated to close.

(e) "CAPITAL SHARES" means the Common Shares and any other shares of any other class or series of common stock, whether now or hereafter authorized and however designated, which have the right to participate in the distribution of earnings and assets (upon dissolution, liquidation or winding-up) of the Company.

(f) "CLOSING DATE" means September 22, 1997.

(g) "COMMON SHARES" or "COMMON STOCK" means shares of the common stock, \$.01 par value, of the Company.

(h) "COMMON STOCK ISSUED AT CONVERSION" when used with reference to the securities issuable upon conversion of this Debenture, means all Common Shares now or hereafter Outstanding and securities of any other class or series into which the Debenture hereafter shall have been changed or substituted, whether now or hereafter created and however designated.

(i) "COMPANY" means Sheffield Pharmaceuticals, Inc., a Delaware corporation, and any successor or resulting corporation by way of merger, consolidation, sale or exchange of all or substantially all of the Company's assets, or otherwise.

(j) "COMPANY CONVERSION NOTICE" has the meaning set forth in Section 3.3.

(k) "CONVERSION DATE" means any day on which all or any portion of the principal amount of this Debenture is converted in accordance with the provisions hereof.

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(l) "CONVERSION NOTICE" has the meaning set forth in Section 3.2.

(m) "CONVERSION PRICE" on any date of determination means the applicable price for the conversion of this Debenture into Common Shares on such day as set forth in Section 3.1.

(n) "CONVERSION RATIO" on any date means the applicable percentage of the Market Price for conversion of this Debenture into Common Shares on such day as set forth in Section 3.1.

(o) "CURRENT MARKET PRICE" on any date of determination means the closing price of a Common Share on such day as reported on the AMEX, or, if such security is not listed or admitted to trading on the AMEX, on the principal national security exchange or quotation system on which such security is quoted or listed or admitted to trading, or, if not quoted or listed or admitted to trading on any national securities exchange or quotation system, the closing price of such security on the over-the-counter market on the day in question as reported by the National Quotation Bureau Incorporated, or a similar generally accepted reporting service, or if not so available, in such manner as furnished by any Nasdaq member firm of the National Association of Securities Dealers, Inc. selected from time to time by the Board of Directors of the Company for that purpose, or a price determined in good faith by the Board of Directors of the Company as being equal to the fair market value thereof, as the case may be.

(p) "DEBENTURE" means this 6% Convertible Debenture due September 22, 2000 of the Company or such other convertible debentures or Debentures exchanged therefor as provided in Section 2.1.

(q) "DEFAULT INTEREST RATE" shall be equal to the Debenture Interest Rate plus an additional 4% per annum.

(r) "EVENT OF DEFAULT" has the meaning set forth in Section 6.1.

(s) "HOLDER" means _____, any successor

thereto, or any Person to whom this Debenture is subsequently transferred in accordance with the provisions hereof.

(t) "INTEREST MARKET PRICE" per Common Share means the average of the closing prices of the Common Shares as reported on the AMEX, or, if such security is not listed or admitted to trading on the AMEX, on the principal national security exchange or quotation system on which such security is quoted or listed or admitted to trading, or, if not quoted or listed or admitted to trading on any national securities exchange or quotation system,

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the closing bid price of such security on the over-the-counter market on the day in question as reported by the National Quotation Bureau Incorporated, or a similar generally accepted reporting service, or if not so available, in such manner as furnished by any Nasdaq member firm of the National Association of Securities Dealers, Inc. selected from time to time by the Board of Directors of the Company for that purpose, or a price determined in good faith by the Board of Directors of the Company, as being equal to the fair market value thereof, as the case may be, for the ten (10) Trading Days immediately preceding the applicable Interest Payment Due Date.

(u) "INTEREST PAYMENT DUE DATE" has the meaning set forth in the opening paragraph hereof.

(v) "MARKET DISRUPTION EVENT" means any event that results in a material suspension or limitation of trading of Common Shares on AMEX.

(w) "MARKET PRICE" per Common Share means the average of the closing prices of the Common Shares as reported on the AMEX, or, if such security is not listed or admitted to trading on the AMEX, on the principal national security exchange or quotation system on which such security is quoted or listed or admitted to trading, or, if not quoted or listed or admitted to trading on any national securities exchange or quotation system, the closing bid price of such security on the over-the-counter market on the day in question as reported by the National Quotation Bureau Incorporated, or a similar generally accepted reporting service, or if not so available, in such manner as furnished by any Nasdaq member firm of the National Association of Securities Dealers, Inc. selected from time to time by the Board of Directors of the Company for that purpose, or a price determined in good faith by the Board of Directors of the Company as being equal to the fair market value thereof, as the case may be, for the five (5) Trading Days in any Valuation Period.

(x) "MAXIMUM RATE" has the meaning set forth in Section 6.3.

(y) "ORIGINAL DEBENTURE" means this Debenture as originally issued to the initial holder thereof, _____, in the principal amount of \$180,000.

(z) "OUTSTANDING" when used with reference to Common Shares or Capital Shares (collectively, "Shares"), means, on any date of determination, all issued and outstanding Shares, and includes all such Shares issuable in respect of outstanding scrip or any certificates representing fractional interests in such Shares; PROVIDED, HOWEVER, that any such Shares directly or indirectly owned or held by or for the account of the Company or

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any Subsidiary of the Company shall not be deemed "Outstanding" for purposes hereof.

(aa) "PERSON" means an individual, a corporation, a partnership, an association, a limited liability company, a unincorporated business organization, a trust or other entity or organization, and any government or political subdivision or any agency or instrumentality thereof.

(ab) "REDEMPTION EVENT" has the meaning set forth in Section 3.6.

(ac) "REDEMPTION PRICE" has the meaning set forth in Section 3.6.

(ad) "REGISTRATION RIGHTS AGREEMENT" means that certain Registration Rights Agreement dated September 22, 1997, between the Company, _____ and _____, as the same may be amended from time to time.

(ae) "SEC" means the United States Securities and Exchange Commission.

(af) "SECURITIES ACT" means the Securities Act of 1933, as amended, and the rules and regulations of the SEC thereunder, all as in effect at the time.

(ag) "SECURITIES PURCHASE AGREEMENT" means that certain Securities Purchase Agreement dated as of September 22, 1997, between the Company, _____ and _____, as the same may be amended from time to time.

(ah) "_____ ORIGINAL DEBENTURE" means the convertible debenture dated September 22, 1997 issued to _____ by the Company in the principal amount of \$_____.

(ai) "SUBSIDIARY" means any entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions are owned directly or indirectly by the Company.

(aj) "TRADING DAY" means any day on which purchases and sales of securities authorized for quotation on the AMEX are reported thereon and on which no Market Disruption Event has occurred or, if the Common Stock is not listed or admitted to trading on the AMEX, a day on which the principal national securities exchange on which the Common Stock is listed or admitted to trading is open for the transaction of business, or, if the Common Stock is not so listed or admitted to trading on

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any national securities exchange, a day on which the Nasdaq National Market (or any successor thereto) or such other system then in use is open for the transaction of business, or, if the Common Stock is not quoted by any such organization, any day other than a Saturday, Sunday or a day on which banking institutions in the State of New York are authorized or obligated by law or executive order to close.

(ak) "VALUATION EVENT" has the meaning set forth in Section 3.1.

(al) "VALUATION PERIOD" means the five (5) Trading Day period immediately preceding the Conversion Date or Interest Payment Due Date, as applicable.

(am) "WARRANT" means the warrant to purchase Common Stock issued by the Company to the Holder pursuant to the Securities Purchase Agreement.

All references to "cash" or "\$" herein means currency of the United States of America.

ARTICLE 2 EXCHANGES AND TRANSFER

SECTION 2.1 EXCHANGE AND REGISTRATION OF TRANSFER OF DEBENTURES. The Holder may, at its option, surrender this Debenture at the principal executive offices of the Company and receive in exchange therefor a Debenture or Debentures, each in the denomination of \$10,000 or integral multiples of \$1,000 in excess thereof, dated as of the date of this Debenture, and, subject to Section 4.3, payable to such Person or order as may be designated by such Holder. The aggregate principal amount of the Debenture or Debentures exchanged in accordance with this Section 2.1 shall equal the aggregate unpaid principal amount of this Debenture as of the date of such surrender; PROVIDED, HOWEVER, that upon any exchange pursuant to this Section 2.1 there shall be filed with the Company the name and address for all purposes hereof of the Holder or

Holders of the Debenture or Debentures delivered in such exchange. This Debenture, when presented for registration of transfer or for exchange or conversion, shall (if so required by the Company) be duly endorsed, or be accompanied by a written instrument of transfer in form reasonably satisfactory to the Company duly executed, by the Holder duly authorized in writing.

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SECTION 2.2 LOSS, THEFT, DESTRUCTION OF DEBENTURE. Upon receipt of evidence satisfactory to the Company of the loss, theft, destruction or mutilation of this Debenture and, in the case of any such loss, theft or destruction, upon receipt of indemnity or security reasonably satisfactory to the Company, or, in the case of any such mutilation, upon surrender and cancellation of this Debenture, the Company shall make, issue and deliver, in lieu of such lost, stolen, destroyed or mutilated Debenture, a new Debenture of like tenor and unpaid principal amount dated as of the date hereof. This Debenture shall be held and owned upon the express condition that the provisions of this Section 2.2 are exclusive with respect to the replacement of a mutilated, destroyed, lost or stolen Debenture and shall preclude any and all other rights and remedies notwithstanding any law or statute existing or hereafter enacted to the contrary with respect to the replacement of negotiable instruments or other securities without the surrender thereof.

SECTION 2.3 WHO DEEMED ABSOLUTE OWNER. The Company may deem the Person in whose name this Debenture shall be registered upon the registry books of the Company to be, and may treat it as, the absolute owner of this Debenture (whether or not this Debenture shall be overdue) for the purpose of receiving payment of or on account of the principal amount of this Debenture, for the conversion of this Debenture and for all other purposes, and the Company shall not be affected by any notice to the contrary. All such payments and such conversion shall be valid and effectual to satisfy and discharge the liability upon this Debenture to the extent of the sum or sums so paid or the conversion so made.

SECTION 2.4 REPAYMENT AT MATURITY. At the Maturity Date, the Company shall repay the outstanding principal amount of this Debenture in whole (but only with respect to such principal amount as to which the Holder has not theretofore furnished a Conversion Notice in compliance with Section 3.2) at one hundred percent (100%) of the principal amount thereof, together with all accrued and unpaid interest thereon, in cash, to the Maturity Date.

ARTICLE 3 CONVERSION OF DEBENTURE

SECTION 3.1 CONVERSION; CONVERSION PRICE. At the option of the Holder, this Debenture may be converted, either in whole or in part, up to the full principal amount hereof (in increments of not less than \$5,000 principal amount) into Common Shares (calculated as to each such conversion to the nearest 1/100th of a share), at any time, and from time to time after the one hundred and fiftieth (150th) day following the Closing Date, subject to the limitations in the next sentence. During each of

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the periods from the ninety-first (91st) day to the one hundred and twentieth (120th) day and from the one hundred and twenty-first (121st) day to the one hundred and fiftieth (150th) day following the Closing Date, at the option of the Holder, up to five percent (5%) of this Debenture may be converted (in increments of not less than \$5,000 principal amount) into Common Shares (calculated as to each such conversion to the nearest 1/100th of a share). The number of Common Shares into which this Debenture may be converted is equal to (x) the principal amount of the Debenture being converted for the applicable Valuation Period, at the Conversion Date divided by (y) the Conversion Price (plus at the option of the Holder, any accrued and unpaid interest on the Debenture being converted through the Conversion Date). The Conversion Price shall be equal to seventy-five percent (75%) of the Market Price; PROVIDED, HOWEVER, that the Holder shall not have the right to convert any portion of this Debenture to the extent that the issuance to the Holder of Common Shares upon such conversion would result in the Holder being deemed the "beneficial owner" of 5% or more of the then outstanding Common Shares within the meaning of Rule

13d-3 of the Securities Exchange Act of 1934, as amended; and PROVIDED, FURTHER, that such limitation shall no longer be effective as of the 10th day following (i) an Event of Default and (ii) the delivery of a notice from the Holder to the Company that the Company is in material breach of any of its obligations under this Debenture, the Securities Purchase Agreement, the Registration Rights Agreement or the Warrant; and PROVIDED, FURTHER that the Company shall have no obligation to determine whether or not the Holder is the "beneficial owner" of 5% or more of the outstanding Common Stock in connection with any conversion of this Debenture. Notwithstanding the previous sentence, in no event shall the Holder have the right to convert any portion of this Debenture to the extent that the issuance to the Holder of Common Shares upon such conversion, when combined with shares of Common Stock received upon conversion (x) by such Holder and any other holders of convertible debentures issued in exchange for or upon transfer of the Original Debenture and (y) by the holder of the _____ Original Debenture and any other holders of convertible debentures issued in exchange for or upon transfer of the _____ Original Debenture would exceed 19.99% of the Common Stock outstanding on the Closing Date. Within ten (10) Business Days of the receipt of the Conversion Notice (as defined in Section 3.2) which upon conversion would, when combined with shares of Common Stock received upon other conversions by such Holder and any other holders of convertible debentures issued in exchange for or upon transfer of, the Original Debenture exceed 19.99% of the Common Stock outstanding on the Closing Date, the Company shall redeem this Debenture in whole (but only with respect to such principal amount as to which the Holder has not theretofore furnished a Conversion Notice in compliance with Section 3.2) at one hundred and fifteen percent (115%) of the

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principal amount thereof, together with all accrued and unpaid interest thereon, in cash, to the date of redemption.

Within two (2) Business Days of the occurrence of a Valuation Event, the Company shall send notice (the "Valuation Event Notice") of such occurrence to the Holder. Notwithstanding anything to the contrary contained herein, if a Valuation Event occurs during any Valuation Period, a new Valuation Period shall begin on the Trading Day immediately following the occurrence of such Valuation Event and end on the Conversion Date; PROVIDED, HOWEVER, if a Valuation Event occurs on the fifth day of any Valuation Period, then the Conversion Price shall be the Current Market Price of the Common Shares on such day; and PROVIDED, FURTHER, that the Holder may, in its discretion, postpone such Conversion Date to a Trading Day which is no more than five (5) Trading Days after the occurrence of the latest Valuation Event by delivering a notification (the "Postponement Notification") to the Company within two (2) Business Days of the receipt of the Valuation Event Notice. In the event that the Holder, in accordance with the preceding sentence, deems the Valuation Period to be other than the five (5) Trading Days immediately prior to the Conversion Date, the Holder shall give written notice of such fact to the Company in the related Conversion Notice at the time of conversion.

For purposes of this Section 3.1, a "VALUATION EVENT" shall mean an event in which the Company at any time during a Valuation Period takes any of the following actions:

- (a) subdivides or combines its Capital Shares;
- (b) pays a dividend in its Capital Shares or makes any other distribution of cash or property on its Capital Shares;
- (c) issues any additional Capital Shares (the "Additional Capital Shares"), otherwise than as provided in the foregoing Sections 3.1(a) and 3.1(b) above, at a price per share less, or for other consideration lower, than the Current Market Price in effect immediately prior to such issuances, or without consideration, except for the issuance of (i) Common Stock and other securities of the Company issuable upon the exercise or conversion of options, warrants or other rights to purchase securities of the Corporation outstanding as of the date hereof and (ii) securities to officers, directors or employees of the Company or any of its subsidiaries.
- (d) issues any warrants, options or other rights to subscribe for or purchase any Additional Capital Shares and the price per share for which Additional Capital Shares may at any time thereafter be issuable pursuant to such warrants, options or other rights shall be less than the Current Market

Price in effect immediately prior to such issuance; except for the

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issuance of (i) Common Stock and other securities of the Company issuable upon the exercise or conversion of options, warrants or other rights to purchase securities of the Corporation outstanding as of the date hereof and (ii) securities to officers, directors or employees of the Company or any of its subsidiaries.

(e) issues any securities convertible into or exchangeable or exercisable for Capital Shares and the consideration per share for which Additional Capital Shares may at any time thereafter be issuable pursuant to the terms of such convertible, exchangeable or exercisable securities shall be less than the Current Market Price in effect immediately prior to such issuance except for the issuance of (i) Common Stock and other securities of the Company issuable upon the exercise or conversion of options, warrants or other rights to purchase securities of the Corporation outstanding as of the date hereof and (ii) securities to officers, directors or employees of the Company or any of its subsidiaries.

(f) makes a distribution of its assets or evidences of indebtedness to the holders of its Capital Shares as a dividend in liquidation or by way of return of capital or other than as a dividend payable out of earnings or surplus legally available for the payment of dividends under applicable law or any distribution to such holders made in respect of the sale of all or substantially all of the Company's assets (other than under the circumstances provided for in the foregoing Sections 3.1(a) through 3.1(e)), PROVIDED, in each case, that such distribution described in this Section 3.1(f) does not constitute an Event of Default; or

(g) takes any action affecting the number of Outstanding Capital Shares, other than an action described in any of the foregoing Sections 3.1(a) through 3.1(f) hereof, inclusive, which in the opinion of the Company's Board of Directors, determined in good faith, would have a material adverse effect upon the rights of the Holder at the time of a conversion of this Debenture.

SECTION 3.2 EXERCISE OF CONVERSION PRIVILEGE. (a) Conversion of this Debenture may be exercised, in whole or in part, by the Holder by telecopying an executed and completed notice of conversion in the form annexed hereto as Exhibit A (the "Conversion Notice") to the Company and sending a copy of the Conversion Notice and this Debenture to the Company by nationally recognized overnight courier not later than five (5) Business Days next following the date on which the telecopied Conversion Notice has been transmitted to the Company. Each date on which a Conversion Notice is telecopied to and received by the Company in accordance with the provisions of this Section 3.2 shall constitute a Conversion Date. The Company shall convert the

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Debenture and issue the Common Stock Issued at Conversion effective as of the Conversion Date. The Conversion Notice also shall state the name or names (with addresses) of the persons who are to become the holders of the Common Stock Issued at Conversion in connection with such conversion, subject to compliance with Section 4.3, as applicable. Upon surrender for conversion, this Debenture shall be accompanied by a proper assignment hereof to the Company or be endorsed in blank. As promptly as practicable after the receipt of the Conversion Notice and the surrender of this Debenture as aforesaid, but in any event not more than five (5) Business Days after the Company's receipt of such Conversion Notice and surrender of this Debenture, the Company shall (i) issue the Common Stock issued at Conversion in accordance with the provisions of this Article 3, and (ii) cause to be mailed for delivery by overnight courier to the Holder (X) a certificate or certificate(s) representing the number of Common Shares to which the Holder is entitled by virtue of such conversion, (Y) cash, as provided in Section 3.3, in respect of any fraction of a Share issuable upon such conversion and (Z) cash or shares of Common Stock, as applicable, representing the amount of accrued and unpaid interest on the Debenture being converted as of the Conversion Date. Such conversion shall be deemed to have been effected at the time at which the Conversion Notice indicates so long as this Debenture shall have been surrendered as aforesaid at such time, and at such time the rights of

the Holder of this Debenture, as such, shall cease and the Person and Persons in whose name or names the Common Stock Issued at Conversion shall be issuable shall be deemed to have become the holder or holders of record of the Common Shares represented thereby. The Conversion Notice shall constitute a contract between the Holder and the Company, whereby the Holder shall be deemed to subscribe for the number of Common Shares which it will be entitled to receive upon such conversion and, in payment and satisfaction of such subscription (and for any cash adjustment to which it is entitled pursuant to Section 3.4), to surrender this Debenture and to release the Company from all liability thereon. No cash payment aggregating less than \$1.50 shall be required to be given unless specifically requested by the Holder.

(b) If, at any time after the date of this Debenture, (i) the Company challenges, disputes or denies the right of the Holder hereof to effect the conversion of this Debenture into Common Shares or otherwise dishonors or rejects any Conversion Notice delivered in accordance with this Section 3.2 or (ii) any third party who is not and has never been an Affiliate of the Holder commences any lawsuit or legal proceeding or otherwise asserts any claim before any court or public or governmental authority which seeks to challenge, deny, enjoin, limit, modify, delay or dispute the right of the Holder hereof to effect the conversion of this Debenture into Common Shares, then the Holder shall have the right, by written notice to the Company, to

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require the Company to promptly redeem this Debenture for cash at a redemption price equal to one hundred and twenty-five percent (125%) of the principal amount hereof together with all accrued and unpaid interest thereon (the "Mandatory Purchase Amount"). Under any of the circumstances set forth above, the Company shall be responsible for the payment of all costs and expenses of the Holder, including reasonable legal fees and expenses, as and when incurred in defending itself in any such action or pursuing its rights hereunder (in addition to any other rights of the Holder).

SECTION 3.3 FRACTIONAL SHARES. No fractional Common Shares or scrip representing fractional Common Shares shall be issued upon conversion of this Debenture. Instead of any fractional Common Shares which otherwise would be issuable upon conversion of this Debenture, the Company shall pay a cash adjustment in respect of such fraction in an amount equal to the same fraction multiplied by the Current Market Price on the Conversion Date. No cash payment of less than \$1.50 shall be required to be given unless specifically requested by the Holder.

SECTION 3.4 ADJUSTMENTS. The Conversion Price and the number of shares issuable upon conversion of this Debenture are subject to adjustment from time to time as follows.

(a) MERGER, SALE OF ASSETS, ETC. If at any time while this Debenture, or any portion thereof, is outstanding there shall be (i) a reorganization (other than a combination, reclassification, exchange or subdivision of shares otherwise provided for herein), (ii) a merger or consolidation of the Company with or into another corporation in which the Company is the surviving entity but the shares of the Company's capital stock outstanding immediately prior to the merger are converted by virtue of the merger into other property, whether in the form of securities, cash or otherwise, or (iii) a sale or transfer of the Company's properties and assets as, or substantially as, an entirety to any other person, then as a part of such reorganization, merger, consolidation, sale or transfer lawful provision shall be made so that the Holder shall thereafter be entitled to receive upon conversion of this Debenture, during the period specified herein, the number of shares of stock or other securities or property of the successor corporation resulting from such reorganization, merger, consolidation, sale or transfer that the Holder would have been entitled to receive in such reorganization, consolidation, merger, sale or transfer if this Debenture had been converted immediately before such reorganization, merger, consolidation, sale or transfer, all subject to further adjustment as provided in this Section 3.4. The foregoing provisions of this Section 3.4 shall similarly apply to successive reclassification, changes, consolidations, mergers, mandatory share exchanges and sales and transfers. If the per share consideration payable to the holder hereof for shares in connection with any such transaction is in a form other

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than cash or marketable securities, then the value of such consideration shall be determined in good faith by the Company's Board of Directors. In all events, appropriate adjustment (as determined in good faith by the Company's Board of Directors) shall be made in the application of the provisions of this Debenture with respect to the rights and interests of the Holder after the transaction, to the end that the provisions of the Debenture shall be applicable after that event, as near as reasonably may be, in relation to any shares or other property deliverable after that event upon conversion of this Debenture.

(b) RECLASSIFICATION, ETC. If the Company, at any time while this Debenture, or any portion thereof, remains outstanding, shall change any of the securities as to which conversion rights under this Debenture exist into the same or a different number of securities of any other class or classes, this Debenture shall thereafter represent the right to acquire such number and kind of securities as would have been issuable as the result of such change with respect to the securities that were subject to the conversion rights under this Debenture immediately prior to such reclassification or other change and the Conversion Price therefor shall be appropriately adjusted, all subject to further adjustment as provided in this Section 3.4.

(c) SPLIT, SUBDIVISION OR COMBINATION OF SHARES. If the Company at any time while this Debenture, or any portion thereof, remains outstanding shall split, subdivide or combine the securities as to which purchase rights under this Debenture exist, into a different number of securities of the same class, the Conversion Price shall be proportionately decreased in the case of a split or subdivision or proportionately increased in the case of a combination.

(d) ADJUSTMENTS FOR DIVIDENDS IN STOCK AND OTHER SECURITIES OR PROPERTY. If while this Debenture, or any portion hereof, remains outstanding, the holders of the securities as to which purchase rights under this Debenture exist at the time shall have received, or, on or after the record date fixed for the determination of eligible stockholders of the Company, shall have become entitled to receive, without payment therefor, other or additional stock or other securities or property (other than cash) of the Company by way of dividend, then and in each case, this Debenture shall represent the right to acquire, upon conversion, in addition to the number of shares of the security receivable upon conversion of this Debenture, and without payment of any additional consideration therefor, the amount of such other or additional stock or other securities or property (other than cash) of the Company that the Holder would hold on the date of such conversion had it been the holder of record of the security receivable upon conversion of this Debenture on the date hereof and had thereafter, during the period from the date hereof

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to and including the date of such conversion, retained such shares and/or additional stock available by it as aforesaid during such period, giving effect to all adjustments called for during such period by the provisions of this Section 3.4.

(e) CERTIFICATE AS TO ADJUSTMENTS. Upon the occurrence of each adjustment or readjustment pursuant to this Section 3.4, the Company at its expense shall promptly compute such adjustment or readjustment in accordance with the terms hereof and furnish to the Holder a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based.

SECTION 3.5 [Reserved].

SECTION 3.6 MANDATORY REDEMPTION UNDER CERTAIN CIRCUMSTANCES. Upon the occurrence of a Redemption Event (the "Redemption Date"), the Company shall redeem this Debenture (but only with respect to such principal amount as to which the Holder has not theretofore furnished a Conversion Notice in compliance with Section 3.2), at one hundred and twenty-five percent (125%) of the principal amount thereof (the "Redemption Price"), together with all accrued and unpaid interest thereon, in cash, to the Redemption Date. A Redemption Event shall be deemed to have occurred upon the occurrence of any of the following: (i) the sale, lease, transfer, conveyance or other disposition, in one or a series of related transactions, of all or substantially all of the assets of the Company and its subsidiaries taken as a whole to any Person or group (as such term is used in Section 13(d)(3) and 14(d)(2) of the Securities Exchange Act of

1934, as amended) other than to a Person or group who, prior to such transaction, held a majority of the voting power of the voting stock of the Company, (ii) the acquisition by any Person or group of a direct or indirect interest in more than fifty percent (50%) of the voting power of the voting stock of the Company, by way of merger or consolidation or otherwise, on (iii) the first day on which the majority of the members of the Board of Directors of the Company are not Continuing Directors. Continuing Directors means, as of any date or determination, any member of the Board of Directors of the Company who (i) was a member of such Board of Directors on the date of this Debenture or (ii) was nominated for election or elected to such Board of Directors with the approval of a majority of the Continuing Directors who were members of such Board at the time of such nomination or election. In addition, the Company shall redeem this Debenture (but only with respect to such principal amount as to which the Holder has not theretofore furnished a Conversion Notice in compliance with Section 3.2) at one hundred and fifteen percent (115%) of the principal amount thereof, together with all accrued and unpaid interest thereon, in cash, to the Redemption Date upon the issuance or sale by the Company of debt or equity securities of the Company in one or a series of related transactions

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aggregating at least \$6,000,000 in gross proceeds; PROVIDED, HOWEVER, that the Company shall not issue or sell a lesser amount of debt or equity securities with the intention of avoiding this redemption obligation.

SECTION 3.7 OPTIONAL REDEMPTION. At any time on or prior to a date one hundred and fifty (150) days after the Closing Date, the Company, upon notice delivered to the Holder as provided in Section 3.8, may redeem this Debenture in whole or in part (but only with respect to such principal amount as to which the Holder has not theretofore furnished a Conversion Notice in compliance with Section 3.2), at the Redemption Price, together with all accrued and unpaid interest thereon to the Redemption Date. During the period commencing on a date one hundred and fifty-one (151) days following the Closing Date and ending on the Maturity Date, the Company may only redeem this Debenture in whole or in part at the Redemption Price, together with all accrued and unpaid interest thereon (but only with respect to such principal amount as to which the Holder has not theretofore furnished a Conversion Notice in compliance with Section 3.2), so long as the Current Market Price on the date of redemption is not in excess of one hundred and thirty percent (130%) of the Current Market Price on the Closing Date. Except as set forth in Sections 3.1, 3.2, 3.6 and this Section 3.7, the Company shall not have the right to prepay or redeem this Debenture.

SECTION 3.8 NOTICE OF REDEMPTION. Notice of mandatory redemption pursuant to Sections 3.1, 3.6 or optional redemption pursuant to Section 3.7 shall be provided by the Company to the Holder in writing at the Holder's last address appearing in the Company's security registry not less than ten (10) Business Days prior to the Redemption Date, which notice shall be in substantially the form of Exhibit B hereto, specify the Redemption Date and refer to Sections 3.1, 3.6 or 3.7, as applicable, (including a statement of the Redemption Price) and this Section 3.8.

SECTION 3.9 SURRENDER OF DEBENTURES. Upon any redemption of this Debenture pursuant to Sections 3.2, 3.6 or 3.7, or upon maturity pursuant to Section 2.4, the Holder shall either deliver this Debenture by hand to the Company at its principal executive offices or surrender the same to the Company at such address by nationally recognized overnight courier. Payment of the Mandatory Purchase Amount specified in Section 3.2, the Redemption Price specified in Sections 3.6 or 3.7 or the amount due on maturity specified in Section 2.4, shall be made by the Company to the Holder against receipt of this Debenture (as provided in this Section 3.9) by wire transfer of immediately available funds to such account(s) as the Holder shall specify by written notice to the Company. If payment of such Redemption Price is not made in full by the Redemption Date, or the amount due on maturity is not paid in full by the Maturity Date, the

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Holder shall again have the right to convert this Debenture as provided in Article 3 hereof or to declare an Event of Default.

ARTICLE 4
STATUS; SUBORDINATION; RESTRICTIONS ON TRANSFER

SECTION 4.1 STATUS OF DEBENTURE. This Debenture is an unsecured obligation of the Company, and constitutes a legal, valid and binding obligation of the Company, enforceable in accordance with its terms subject, as to enforceability, to general principles of equity and to principles of bankruptcy, insolvency, reorganization and other similar laws of general applicability relating to or affecting creditors' rights and remedies generally.

SECTION 4.2 SUBORDINATION. The Company, for itself, its successors and assigns, covenants and agrees, and the Holder of this Debenture covenants and agrees, that the indebtedness evidenced by this Debenture, shall be subordinate in liquidation and subject in right of payment in liquidation, to the prior payment of all Senior Indebtedness of the Company. For purposes of this Section 4.2, "Senior Indebtedness" shall mean the principal or, premium, if any, and interest (including any interest accruing after the filing of a petition in bankruptcy) on and other amounts due on or in connection with any indebtedness of the Company as defined in an arising under any loan, credit, security or similar agreement with a bank, insurance company, or other financial institution or affiliate outstanding on the date of this Debenture, or any such indebtedness thereafter created, incurred, assumed, or guaranteed by the Company, and in each case, all renewals, extensions, and refunding thereof, which by the terms of the instrument creating or evidencing such indebtedness created, incurred, assumed, or guaranteed is expressly made senior to in right of payment to, the payment of principal or and interest on this Debenture.

SECTION 4.3 RESTRICTIONS ON TRANSFER. This Debenture, and any Common Shares issuable upon the conversion thereof, have not been registered under the Securities Act. The Holder by accepting this Debenture agrees that the Debenture and the shares of Common Stock to be acquired as interest on and upon conversion of this Debenture may not be assigned or otherwise transferred unless and until (i) the Company has received the opinion of counsel for the Holder that the Debenture or such shares may be sold pursuant to an exemption from registration under the Securities Act of 1933, as amended (the "Securities Act") or (ii) a registration statement relating to the Debenture or such shares has been filed by the Company and declared effective by the SEC.

Each certificate for shares of Common Stock issuable hereunder shall bear a legend as follows unless and until such

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securities have been sold pursuant to an effective registration statement under the Securities Act:

"The securities represented by this certificate have not been registered under the Securities Act of 1933 (the "Act"). The securities may not be offered for sale, sold or otherwise transferred except (i) pursuant to an effective registration statement under the Act or (ii) pursuant to an exemption from registration under the Act in respect of which the Company has received an opinion of counsel satisfactory to the Company to such effect. Copies of the agreement covering both the purchase of the securities and restricting their transfer may be obtained at no cost by written request made by the holder of record of this certificate to the Secretary of the Company at the principal executive offices of the Company."

ARTICLE 5
COVENANTS

The Company covenants and agrees that so long as this Debenture shall be outstanding:

SECTION 5.1 CONVERSION. The Company shall not later than five (5) Business Days after its receipt of the Conversion Notice and its receipt of the Debenture accompanied by a proper assignment or endorsement in blank pursuant to Section 3.2, issue and deliver to the Holder the requisite shares of common stock issuable upon conversion, according to the terms hereof.

SECTION 5.2 NOTICE OF DEFAULT. If any one or more events occur which constitute or which, with notice, lapse of time, or both, would constitute an

Event of Default, or if the Holder shall demand the issuance of Common Shares or take any other action permitted upon the occurrence of any such Event of Default, the Company shall forthwith give notice to the Holder, specifying the nature and status of the Event of Default or other event or of such demand or action, as the case may be.

SECTION 5.3 PAYMENT OF OBLIGATIONS. Prior to conversion of the entire principal amount of this Debenture, the Company shall pay, extend, or discharge at or before maturity, all its respective material obligations and liabilities, including, without limitation, tax liabilities, except where the same may be contested in good faith by appropriate proceedings.

SECTION 5.4 COMPLIANCE WITH LAWS. The Company shall comply with all applicable laws, ordinances, rules, regulations, and requirements of governmental authorities, except for such noncompliance which would not have a material adverse effect on

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the business, properties, prospects, condition (financial or otherwise) or results of operations of the Company.

SECTION 5.5 INSPECTION OF PROPERTY, BOOKS AND RECORDS. The Company shall keep proper books of record and account in which full, true and correct entries shall be made of all material dealings and transactions in relation to its business and activities and shall permit representatives of the Holder at the Holder's expense to visit and inspect any of its respective properties, to examine and make abstracts from any of its respective books and records, not reasonably deemed confidential by the Company, and to discuss its respective affairs, finances and accounts with its respective officers and independent public accountants, all at such reasonable times and as often as may reasonably be desired.

ARTICLE 6 REMEDIES

SECTION 6.1 EVENTS OF DEFAULT. "EVENT OF DEFAULT" wherever used herein means any one of the following events:

(a) the Company shall default in the payment of principal of or interest on this Debenture as and when the same shall be due and payable and, in the case of an interest payment default, such default shall continue for five Business Days after the date such interest payment was due, or the Company shall fail to perform or observe in any material respect any other covenant, agreement, term, provision, undertaking or commitment under this Debenture, the Warrant, the Securities Purchase Agreement or the Registration Rights Agreement and such default shall continue for a period of ten (10) Business Days after the delivery to the Company of written notice that the Company is in default hereunder; or

(b) any of the representations or warranties made by the Company herein, the Securities Purchase Agreement, the Warrant, the Registration Rights Agreement or in any certificate or financial or other written statements heretofore or hereafter furnished by or on behalf of the Company in connection with the execution and delivery of this Debenture, the Warrant, the Securities Purchase Agreement or the Registration Rights Agreement shall be false or misleading in any material respect on the Closing Date; or

(c) the entry of a decree or order by a court having jurisdiction in the premises adjudging the Company or any subsidiary a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Company under the United States Bankruptcy Code of 1978, as amended (the "Bankruptcy

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Code"), or any other applicable Federal or state law, or appointing a receiver, liquidator, assignee, trustee or sequestrator (or other similar official) of the Company or of any substantial part of its property, or ordering the winding-up or liquidation of its affairs, and any such decree or order continues and is unstayed and in effect for a period of sixty (60) calendar days; or

(d) the institution by the Company or any Subsidiary of proceedings to be adjudicated a bankrupt or insolvent, or the consent by it to the institution of bankruptcy or insolvency proceedings against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under the Bankruptcy Code or any other applicable federal or state law, or the consent by it to the filing of any such petition or to the appointment of a receiver, liquidator, assignee, trustee or sequestrator (or other similar official) of the Company or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as and when they become due, or the taking of corporate action by the Company in furtherance of any such action; or

(e) a final judgment or final judgments for the payment of money shall have been entered by any court or courts of competent jurisdiction against the Company and remains undischarged for a period (during which execution shall be effectively stayed) of thirty (30) days, provided that the aggregate amount of all such judgments at any time outstanding (to the extent not paid or to be paid, as evidenced by a written communication to that effect from the applicable insurer, by insurance) exceeds \$200,000; or

(f) it becomes unlawful for the Company to perform or comply with its obligations under this Debenture, the Securities Purchase Agreement or the Registration Rights Agreement in any material respect; or

(g) the Common Shares shall be delisted from the AMEX (the "Trading Market," or, to the extent the Company becomes eligible to list its Common Stock on The New York Stock Exchange or Nasdaq National Market System, upon official notice of listing on any such exchange or system, as the case may be, it shall be the "Trading Market") or suspended from trading on the Trading Market, and shall not be reinstated, relisted or such suspension lifted, as the case may be, within ten (10) days; or

(h) the Company shall default (giving effect to any applicable grace period) in the payment of principal or interest as and when the same shall become due and payable, under any indebtedness, individually or in the aggregate, of more than \$200,000.

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SECTION 6.2 ACCELERATION OF MATURITY; RESCISSION AND ANNULMENT. If an Event of Default occurs and is continuing, then and in every such case any Holder may rescind any outstanding Conversion Notice and obtain payment for the entire outstanding principal amount of the Debenture which remains unconverted, by a notice in writing to the Company, and upon any such declaration the entire principal amount of this Debenture shall become immediately due and payable by virtue of such rescission; PROVIDED, HOWEVER, in the case of any Event of Default described in paragraphs (c), (d) or (f) above, the entire then outstanding principal amount of this Debenture, together with all accrued and unpaid interest thereon, automatically shall become immediately due and payable without the necessity of any notice or declaration as aforesaid.

SECTION 6.3 DEFAULT INTEREST RATE. (a) If any portion of the principal of or interest on the Debenture shall not be paid when due (whether at the stated maturity, by acceleration or otherwise) such principal of and interest on the Debenture which is due and owing but not paid shall, without limiting the Holder's rights under this Debenture, bear interest at the Default Interest Rate until paid in full.

(b) Notwithstanding anything herein to the contrary, if at any time the applicable interest rate as provided for herein shall exceed the maximum lawful rate which may be contracted for, charged, taken or received by the Lender in accordance with applicable laws of the State of New York (the "Maximum Rate"), the rate of interest applicable to the Debenture shall be limited to the Maximum Rate.

SECTION 6.4 REMEDIES NOT WAIVED. No course of dealing between the Company and the Holder or any delay in exercising any rights hereunder shall operate as a waiver by the Holder.

SECTION 6.5 WAIVER. No recourse shall be had for the payment of the principal of, or the interest on, this Debenture, or for any claim based hereon,

or otherwise in respect hereof, against any incorporator, shareholder, officer or director, as such, past, present or future, of the Company or any successor corporation, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or otherwise, all such liability being, by the acceptance hereof and as part of the consideration for the issue hereof, expressly waived and released.

ARTICLE 7
MISCELLANEOUS

SECTION 7.1 NOTICE OF CERTAIN EVENTS. In the case of the occurrence of any event described in Sections 3.1, 3.4, 3.5 or

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3.6 of this Debenture, the Company shall cause to be mailed to the Holder of this Debenture at its last address as it appears in the Company's security registry, at least 20 days prior to the applicable record, effective or expiration date hereinafter specified (or, if such 20 days notice is not possible, at the earliest possible date prior to any such record, effective or expiration date), a notice stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution, issuance or granting of rights, options or warrants, or if a record is not to be taken, the date as of which the holders of record of Common Stock to be entitled to such dividend, distribution, issuance or granting of rights, options or warrants are to be determined or (y) the date on which such reclassification, consolidation, merger, sale, transfer, dissolution, liquidation or winding-up is expected to become effective, and the date as of which it is expected that holders of record of Common Stock will be entitled to exchange their shares for securities, cash or other property deliverable upon such reclassification, consolidation, merger, sale transfer, dissolution, liquidation or winding-up.

SECTION 7.2 REGISTER. (a) The Company shall keep at its principal office a register in which the Company shall provide for the registration of this Debenture. Upon any transfer of this Debenture in accordance with Article 2 and 4 hereof, the Company shall register such transfer on the Debenture register.

(b) The Company may deem the person in whose name this Debenture shall be registered upon the registry books of the Company to be, and may treat it as, the absolute owner of this Debenture (whether or not this Debenture shall be overdue) for the purpose of receiving payment of interest on or principal of this Debenture, for the conversion of this Debenture and for all other purposes, and the Company shall not be affected by any notice to the contrary. All such payments and such conversions shall be valid and effective to satisfy and discharge the liability upon this Debenture to the extent of the sum or sums so paid or the conversion or conversions so made.

SECTION 7.3 WITHHOLDING. To the extent required by applicable law, the Company may withhold amounts for or on account of any taxes imposed or levied by or on behalf of any taxing authority in the United States having jurisdiction over the Company from any payments made pursuant to this Debenture.

SECTION 7.4 TRANSMITTAL OF NOTICES. Except as may be otherwise provided herein, any notice or other communication or delivery required or permitted hereunder shall be in writing and shall be delivered personally or sent by certified mail, postage prepaid, or by a nationally recognized overnight courier service, and shall be deemed given when so delivered personally or by

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overnight courier service, or, if mailed, three (3) days after the date of deposit in the United States mails, as follows:

- (1) if to the Company, to:

Sheffield Pharmaceuticals, Inc.
30 Rockefeller Plaza, Suite 4515
New York, New York 10112
Attention: Douglas R. Eger, Chairman

With a copy to:

Olshan Grundman Frome & Rosenzweig LLP
505 Park Avenue
New York, New York 10022
Attention: Daniel J. Gallagher, Esq.

(2) if to the Holder, to the address of such Holder as shown on the books of the Company.

Either of the Holder or the Company may change the foregoing address by notice given pursuant to this Section 7.4.

SECTION 7.5 GOVERNING LAW. THIS DEBENTURE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK (WITHOUT GIVING EFFECT TO CONFLICTS OF LAWS PRINCIPLES). WITH RESPECT TO ANY SUIT, ACTION OR PROCEEDINGS RELATING TO THIS DEBENTURE, THE COMPANY IRREVOCABLY SUBMITS TO THE EXCLUSIVE JURISDICTION OF THE COURTS OF THE STATE OF NEW YORK AND THE UNITED STATES DISTRICT COURT LOCATED IN THE BOROUGH OF MANHATTAN IN THE CITY OF NEW YORK AND HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY CLAIM THAT ANY SUCH SUIT, ACTION OR PROCEEDING HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. SUBJECT TO APPLICABLE LAW, THE COMPANY AGREES THAT FINAL JUDGMENT AGAINST IT IN ANY LEGAL ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS DEBENTURE SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN ANY OTHER JURISDICTION WITHIN OR OUTSIDE THE UNITED STATES BY SUIT ON THE JUDGMENT, A CERTIFIED COPY OF WHICH JUDGMENT SHALL BE CONCLUSIVE EVIDENCE THEREOF AND THE AMOUNT OF ITS INDEBTEDNESS, OR BY SUCH OTHER MEANS PROVIDED BY LAW.

SECTION 7.6 HEADINGS. The headings of the Articles and Sections of this Debenture are inserted for convenience only and do not constitute a part of this Debenture.

SECTION 7.7 COUNTERPARTS. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which shall constitute one and the same agreement. A facsimile transmission of this signed Agreement shall be legal and binding on all parties hereto.

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[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

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IN WITNESS WHEREOF, the Company has caused this Debenture to be signed by its duly authorized officer under its corporate seal, attested by its duly authorized officer, on the date of this Debenture.

SHEFFIELD PHARMACEUTICALS, INC.

By: _____
Name:
Title:

ATTEST:

By: _____
Name:
Title:

INITIAL
HOLDER:

By: _____

Name:

Title:

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EXHIBIT A TO
CONVERTIBLE SUBORDINATED DEBENTURE

[FORM OF CONVERSION NOTICE]

Dated:

TO: Sheffield Pharmaceuticals, Inc.
30 Rockefeller Plaza, Suite 4515
New York, New York 10112
Attn: Douglas R. Eger, Chairman

The undersigned owner of this 6% Convertible Debenture due September __, 2000 (the "Debenture") issued by Sheffield Pharmaceuticals, Inc. (the "Company") hereby irrevocably exercises its option to convert \$_____ principal amount of the Debenture [and accrued and unpaid interest thereon to the date of this Notice] into shares of the common stock, \$.01 par value, of the Company ("Common Stock"), in accordance with the terms of the Debenture. The undersigned hereby instructs the Company to convert the portion of the Debenture specified above into shares of Common Stock issued at Conversion in accordance with the provisions of Article 3 of the Debenture. The undersigned directs that the Common Stock issuable and certificates therefor deliverable upon conversion, the Debenture recertificated in the principal amount, [and accrued and unpaid interest thereon to the date of this Notice not being surrendered for conversion hereby,] together with any check in payment for fractional Common Stock, be issued in the name of and delivered to the undersigned unless a different name has been indicated below. All capitalized terms used and not defined herein have the respective meanings assigned to them in the Debenture.

Signature

Fill in for registration of Debenture:

Please print name and address
(including zip code number):

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EXHIBIT B TO
CONVERTIBLE SUBORDINATED DEBENTURE

[FORM OF COMPANY REDEMPTION NOTICE]

Dated: _____

TO: [Holder]
[Address]

Sheffield Pharmaceuticals, Inc. (the "Company") hereby irrevocably exercises its option to redeem \$_____ principal amount of the 6% Convertible Debenture due September __, 2000 issued by the Company

(the "Debenture"), at a Redemption Price of \$_____ and of accrued and unpaid interest thereon into shares of the common stock, \$.01 par value, of the Company ("Common Stock"), in accordance with the terms of the Debenture. The undersigned hereby instructs the Holder to surrender the portion of the Debenture specified above in accordance with the provisions of Section 3.____ of the Debenture. Upon receipt of such surrendered Debenture, the Company shall deliver the Common Stock issuable and certificates therefor deliverable upon conversion, the Debenture recertificated in the principal amount, if any, not being surrendered for conversion hereby, together with any check in payment for fractional Common Stock, to be issued in the name of and delivered to the undersigned unless a different name has been indicated below. All capitalized terms used and not defined herein have the respective meanings assigned to them in the Debenture.

Very truly yours,

SHEFFIELD PHARMACEUTICALS, INC.

By: _____
Name:
Title:

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EX-23.1
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CONSENT OF KPMG PEAT MARWICK LLP

Exhibit 23.1

The Board of Directors
Sheffield Pharmaceuticals, Inc.;

We consent to incorporation by reference in the Registration Statement (Form S-3 No. 333-000000) of Sheffield Pharmaceuticals, Inc. (formerly Sheffield Medical Technologies, Inc.) of our report dated February 11, 1994, relating to the consolidated financial statements of Sheffield Medical Technologies, Inc. and subsidiary included in the Annual Report (Form 10-KSB) for the year ended December 31, 1996.

Our report dated February 11, 1994, contains an explanatory paragraph that states that the Company's recurring losses and net deficit position raise substantial doubt about its 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.

/s/ KPMG PEAT MARWICK LLP

KPMG PEAT MARWICK LLP

Houston, Texas
October 17, 1997

EX-23.2
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CONSENT OF INDEPENDENT AUDITORS

Exhibit 23.2

CONSENT OF INDEPENDENT AUDITORS

We consent to the reference to our firm under the caption "Experts" in the Registration Statement (Form S-3 No. 333-00000) and related Prospectus of Sheffield Pharmaceuticals, Inc. for the registration of 2,893,334 shares of its common stock and to the incorporation by reference therein of our report dated February 12, 1997, except for Note 9 as to which the date is March 14, 1997, with respect to the consolidated financial statements of Sheffield Pharmaceuticals, Inc. and subsidiaries included in its Annual Report (Form 10-KSB) for the year ended December 31, 1996, filed with the Securities and Exchange Commission.

/s/ Ernst & Young LLP

Ernst & Young LLP

Princeton, New Jersey
October 16, 1997

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