-----BEGIN PRIVACY-ENHANCED MESSAGE----- Proc-Type: 2001,MIC-CLEAR Originator-Name: webmaster@www.sec.gov Originator-Key-Asymmetric: MFgwCgYEVQgBAQICAf8DSgAwRwJAW2sNKK9AVtBzYZmr6aGjlWyK3XmZv3dTINen TWSM7vrzLADbmYQaionwg5sDW3P6oaM5D3tdezXMm7z1T+B+twIDAQAB MIC-Info: RSA-MD5,RSA, B3yJDZ4ryEIyCihafxPISDH4d7L2iBTW9BlzbLwUWwgFu3Tmfdj7qEo5yezecinV NcHzK6ojvtTBJu1qH3IBZw== 0000921895-98-000362.txt : 19980504 0000921895-98-000362.hdr.sgml : 19980504 ACCESSION NUMBER: 0000921895-98-000362 CONFORMED SUBMISSION TYPE: 10-K/A PUBLIC DOCUMENT COUNT: 3 CONFORMED PERIOD OF REPORT: 19971231 FILED AS OF DATE: 19980430 SROS: NASD FILER: COMPANY DATA: COMPANY CONFORMED NAME: SHEFFIELD PHARMACEUTICALS INC CENTRAL INDEX KEY: 0000894158 STANDARD INDUSTRIAL CLASSIFICATION: PHARMACEUTICAL PREPARATIONS [2834] IRS NUMBER: 133808303 STATE OF INCORPORATION: DE FISCAL YEAR END: 1231 FILING VALUES: FORM TYPE: 10-K/A SEC ACT: SEC FILE NUMBER: 001-12584 FILM NUMBER: 98606208 BUSINESS ADDRESS: STREET 1: 30 ROCKEFELLER PLAZA STREET 2: SUITE 4515 CITY: NEW YORK STATE: NY ZIP: 10112 BUSINESS PHONE: 2129576600 MAIL ADDRESS: STREET 1: 30 ROCKEFELLER PLAZA STREET 2: SUITE 4515 CITY: NEW YORK STATE: NY ZIP: 10112 FORMER COMPANY: FORMER CONFORMED NAME: SHEFFIELD MEDICAL TECHNOLOGIES INC DATE OF NAME CHANGE: 19940606
10-K/A
1
FORM 10-K/A

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

- --
(Mark One)

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

For the fiscal year ended DECEMBER 31, 1997

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

For the transition period from _________ to __________

Commission file number 1-12584

SHEFFIELD PHARMACEUTICALS, INC.

(Name of Registrant as Specified in its Charter)

DELAWARE	13-3808303
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification Number)

425 Woodsmill Road, St. Louis, Missouri	63017
(Address of Principal Executive Offices)	(Zip Code)

Issuer's Telephone Number, Including Area Code: (314) 579-9899

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $.01 par value	American Stock Exchange

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

None

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes /X/ No / /

(CONTINUED ON NEXT PAGE)

/ / Indicate by check mark if disclosure of delinquent filers to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value at March 31, 1998 of the voting stock of the Registrant held by non-affiliates (based upon the closing price of $0.6875 per share of such stock on the American Stock Exchange on such date) was approximately $10,197,487. Solely for the purposes of this calculation, shares held by directors and officers of the issuer have been excluded. Such exclusion should not be deemed a determination or an admission by the issuer that such individuals are, in fact, affiliates of the issuer.

Indicate the number of shares outstanding of each of the registrant's classes of common equity, as of the latest practicable date: At

March 31, 1998, there were outstanding 15,742,762 shares of the issuer's Common Stock, $.01 par value.

ITEM 6. SELECTED FINANCIAL DATA

SELECTED FINANCIAL INFORMATION
(IN DOLLARS, EXCEPT PER SHARE INFORMATION

	YEARS ENDED DECEMBER 31,				
	1997	1996	1995	1994	1993
STATEMENT OF OPERATIONS DATA:					
Sublicense and interest income	$ 556,914	$ 673,664	$ 80,610	$ 63,290	$ 81,671
Operating costs and expenses					
Research and development	5,379,193	3,841,818	4,424,154	3,989,838	2,134,330
General and administrative	4,666,859	3,840,735	3,044,173	2,393,082	1,823,631
Total operating costs and expenses	10,046,052	7,682,553	7,468,327	6,382,920	3,957,961
Loss from operations	$ (9,489,138)	$ (7,008,889)	$ (7,387,717)	$ (6,319,630)	$(3,876,290)
Loss per share of common stock - basic	$ (0.80)	$ (0.65)	$ (0.90)	$ (0.96)	$ (0.75)
Weighted average common shares outstanding	11,976,090	10,806,799	8,185,457	6,596,227	5,169,830
BALANCE SHEET DATA:					
Working capital (net)	$ (837,564)	$ 1,433,773	$ 1,585,675	$ (799,629)	$ 1,570,183

Total assets	689,937	2,773,884	2,221,050	371,073	1,834,560
Long-term obligations and redeemable preferred stock	4,019,263	27,206	--	--	--
Accumulated deficit	(36,157,290)	(26,588,652)	(19,579,763)	(12,192,046)	(5,872,416)
Shareholders' equity (net capital deficiency)	(4,716,751)	1,695,837	1,792,363	(573,853)	1,673,113

No cash dividends have been paid for any of the periods presented.

Net loss per share is based upon the weighted average number of common and certain common equivalent shares outstanding.

See consolidated financial statements and accompanying footnotes.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

DIRECTORS AND EXECUTIVE OFFICERS

The directors and executive officers of the Company and their positions with the Company are set forth below.

NAME	AGE	POSITION
Thomas M. Fitzgerald	47	Chairman
Loren G. Peterson	41	President and Chief Executive Officer
Douglas R. Eger	36	Director
John M. Bailey	50	Director
Digby W. Barrios	60	Director
David A. Byron	49	Executive Vice President - Scientific Affairs
Carl. F. Siekmann	54	Executive Vice President - Corporate Development
Judy Roeske Bullock	40	Chief Financial Officer, Vice President, Treasurer and Secretary

THOMAS M. FITZGERALD. Mr. Fitzgerald has been a Director of the Company since September, 1996 and has served as Chairman of the Company since December 1997. From June 1996 to December 1997, Mr. Fitzgerald served as Chief Operating Officer of the Company and, from February 1997 to December 1997, he served as President of the Company. From 1989 to 1996 Mr. Fitzgerald was the Vice President and General Counsel of Fisons Corporation, an operating unit of Fisons Group plc, a U.K.-based ethical pharmaceutical company ("Fisons"). Mr. Fitzgerald was Assistant General Counsel of SmithKline Beecham prior to joining Fisons.

LOREN G. PETERSON. Mr. Peterson has been the Chief Executive Officer and a Director of the Company since April 1997. Mr. Peterson has served as President of the Company since December 1997. From January 1997 to April 1997, Mr. Peterson was a principal of Camelot Pharmacal, L.L.C., a privately held pharmaceutical development company he co-founded. From 1993 to 1996, Mr. Peterson served as Vice President - Finance and Chief Financial Officer of Bock Pharmacal Company, a privately held pharmaceutical company. From 1989 to 1993, Mr. Peterson was a partner of the accounting firm of Coopers & Lybrand LLP.

DOUGLAS R. EGER. Mr. Eger has been a Director of the Company since November 1991, served as President of the Company from March 1992 through June 1994, and served as Chairman of the Company from June 1994 to December 1997. Mr. Eger served as Chief Executive Officer of the Company from February 1996 to December 1997. Mr. Eger is the principal of Taconic Enterprises, Inc., a merchant banking company providing capital and management advisory services to high growth companies.

JOHN M. BAILEY. Mr. Bailey has been a Director of the Company since April 1997. Mr. Bailey is the founder and majority shareholder of Bailey Associates, a consultancy specializing in providing companies with strategic advice and support through mergers, collaborations and divestments. From 1978 to 1996, Mr. Bailey was employed by Fisons, where he has held a number of senior positions. In 1993, Mr. Bailey was appointed to the main board of Fisons and, in 1995, he was appointed Corporate Development Director of Fisons. In that role he was directly responsible for worldwide strategic and corporate development and for all merger, divestment, acquisition and business development activities of Fisons Group worldwide.

DIGBY W. BARRIOS. Mr. Barrios has been a Director of the Company since April 1997. Since 1992, Mr. Barrios has been a private consultant to the pharmaceutical industry. Mr. Barrios served from 1985 to 1987

as Executive Vice President, and from 1988 to 1992 as President and Chief Executive Officer, of Boehringer Ingelheim Corporation. Mr. Barrios is a member of the Board of Directors of Sepracor Inc., Roberts Pharmaceutical Corporation and Cypros Pharmaceutical Corporation.

DAVID A. BYRON. Mr. Byron has been Executive Vice President - Corporate Development of the Company since April 1997. From January 1997 to April 1997, Mr. Byron was a principal of Camelot Pharmacal, L.L.C., a privately held pharmaceutical development company he co-founded. From 1994 to December 1996, Mr. Byron served as Vice President of Scientific Affairs of Bock Pharmacal Company, a privately held pharmaceutical company. From 1990 to 1994, Byron served as Senior Director - New Product Development of Sanofi-Winthrop

Pharmaceutical Corporation.

CARL F. SIEKMANN. Mr. Siekmann has been Executive Vice President - Corporate Development of the Company since April 1997. From January 1997 to April 1997, Mr. Siekmann was a principal of Camelot Pharmacal, L.L.C., a privately held pharmaceutical development company he co-founded. From 1992 to 1996, Mr. Siekmann served as Vice President of Business Development of Bock Pharmacal Company, a privately held pharmaceutical company.

JUDY ROESKE BULLOCK. Ms. Bullock has been Chief Financial Officer, Vice President, Treasurer and Secretary of the Company since November 1997. From October 1995 to November 1997, Ms. Bullock served as Director of Executive Compensation and Benefits of Deere & Company. From January 1994 to October 1995, Ms. Bullock served as a senior consultant for the consulting firm of Towers Perrin. From August 1987 to December 1993, Ms. Bullock served as a senior manager for the accounting firm of Price Waterhouse. Ms. Bullock is a CPA licensed in the states of Missouri and Florida.

MEETINGS AND COMMITTEES

The Board of Directors of the Company held ten meetings during the fiscal year ended December 31, 1997. From time to time during such fiscal year, the members of the Board acted by unanimous written consent. The Company has standing Stock Option, Compensation, and Audit Committees. The Stock Option Committee reviews, analyzes and approves grants of stock options and stock to eligible persons under the Company's 1993 Stock Option Plan and the Company's 1993 Restricted Stock Plan. The current members of the Stock Option Committee (appointed in June 1997) are Digby W. Barrios and John M. Bailey. The Stock Option Committee held three meetings in 1997, and approved certain actions by written consent. The Compensation Committee reviews, analyses and makes recommendations to the Board of Directors regarding compensation of Company directors, employees, consultants and others, including grants of stock options (other than stock option grants under the Company's 1993 Stock Option Plan and the Company's Directors Plan). The current members of the Compensation Committee (appointed in June 1997) Douglas R. Eger, Digby W. Barrios and John M. Bailey. The Compensation Committee held two meetings in 1997, and approved certain actions by written consent. The Audit Committee reviews, analyzes and makes recommendations to the Board of Directors with respect to the Company's compensation and accounting policies, controls and statements, and coordinates with the Company's independent public accountants. The current members of the Audit Committee (appointed in June 1997) are Loren G. Peterson, Digby W. Barrios and John M. Bailey. The Audit Committee held one formal meeting in 1997. The Company does not have a standing nominating committee or a committee which serves nominating functions.

ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth, for the fiscal years indicated, all compensation awarded to, earned by or paid to the chief executive officer of the Company ("CEO") and the executive officers of the Company (other than the CEO) who were executive officers of the Company during the fiscal year ended December 31, 1997 and whose salary and bonus exceeded $100,000 with respect to the fiscal year ended December 31, 1997.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation Salary($)	Bonus($)	Other Annual Compensation ($)(1)	Long-Term Compensation Awards Securities Underlying Options(#)
Thomas M. Fitzgerald,					
Chairman.............................	1997	$175,000	0	0	300,000
	1996	$94,792	0	0	0
Loren G. Petersonn,					
President and Chief Executive Officer.	1997	$118,655	0	0	400,0000
David A. Byron					
Executive Vice President.............	1997	$108,485	0	0	400,0000
Carl F. Siekmann					
Executive Vice President.............	1997	$108,485	0	0	400,000
Douglas R. Eger, former Chairman					
and Chief Executive Officer...........	1997	$238,730	0	0	500,000(2)
	1996	$230,000	$25,000	0	0
	1995	$172,500	0	0	80,000

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(1) Perquisites and other personal benefits, securities or property delivered to each executive officer did not exceed the lesser of $50,000 or 10% of such executive's salary and bonus.

(2) On March 31, 1997 the Stock Option Committee approved the extension of the expiration date of stock options to purchase 500,000 shares of the Company's common stock then outstanding to Mr. Eger to March 31, 2002. No other terms of such stock options were amended or modified.

The following table sets forth certain information regarding stock option grants made to Messrs. Fitzgerald, Peterson, Byron, Siekmann and Eger during the fiscal year ended December 31, 1997.

OPTION GRANTS IN LAST FISCAL YEAR

Individual Grants

Name	Options Granted(#)	% of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price ($/sh)	Expiration Date
	~~50,000~~		~~$2.75~~	~~June 1, 2001~~
	~~150,000~~		~~$2.75~~	~~June 1, 2002~~
~~Thomas M. Fitzgerald,~~	~~50,000~~		~~$3.50~~	~~June 1, 2001~~
~~Chairman......................~~	~~50,000~~		~~$4.50~~	~~June 1, 2001~~
	~~300,000~~	~~12.45%~~		
~~Loren G. Peterson, President and Chief Executive Officer..............~~	~~400,000~~	~~16.60%~~	~~$2.75~~	~~April 27, 2007~~
~~David A. Byron, Executive Vice President........~~	~~400,000~~	~~16.60%~~	~~$2.75~~	~~April 27, 2007~~
~~Carl F. Siekmann, Executive Vice President........~~	~~400,000~~	~~16.60%~~	~~$2.75~~	~~April 27, 2007~~
~~Douglas R. Eger, former Chairman and Chief Executive Officer..............~~	~~0~~	~~0~~	~~0~~	~~0~~

The following table sets forth certain information regarding stock options held by Messrs. Fitzgerald, Peterson, Byron, Siekmann and Eger as of December 31, 1997.

AGGREGATED OPTION EXERCISES
DURING THE MOST RECENTLY COMPLETED
FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

Name	Shares Acquired on Exercise(#)	Value Realized	No. of Securities Shares Underlying Unexercised Options at FY-End (#) Exercisable/ Unexercisable	Value (1) of Unexercised in The-Money Options at FY-End($) Exercisable/ Unexercisable
~~Thomas M. Fitzgerald, Chairman~~	~~0~~	~~0~~	~~50,000/300,000~~	~~0~~
~~Loren G. Petersen President and Chief Executive Officer~~	~~0~~	~~0~~	~~0/400,000~~	~~0~~
~~David A. Byron Executive Vice President~~	~~0~~	~~0~~	~~0/400,000~~	~~0~~
~~Carl F. Siekmann, Executive Vice President~~	~~0~~	~~0~~	~~0/400,000~~	~~0~~
~~Douglas R. Eger, former Chairman and Chief Executive Officer~~	~~0~~	~~0~~	~~500,000/0~~	~~$16,125/0~~

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(1) Represents the total gain that would be realized if all-in-the-money options held at December 31, 1997 were exercised, determined by multiplying the number of shares underlying the options by the difference between the per share option exercise price and the closing sale price of Common Stock of $1.375 per share reported on the American Stock Exchange for December 31, 1997. An option is in-the-money if the fair market value of the underlying shares exceeds the exercise price of the option.

BOARD OF DIRECTORS COMPENSATION

The Company does not currently compensate directors who are also executive officers of the Company for their service on the Board of Directors. Under current Company policy, each non-employee Director of the Company receives a fee of $750 for each Board meeting attended and $400 for each Board committee meeting attended. Directors are reimbursed for their expenses incurred in attending meetings of the Board of Directors.

LONG-TERM INCENTIVE AND PENSION PLANS

During the year ended December 31, 1996, the Company adopted a defined contribution 401(k) plan in accordance with the Internal Revenue Code. Employees are eligible to participate in the 401(k) plan upon completion of three months of service provided they are over 21 years of age. Participants may defer up to

15% of eligible compensation. Currently, the Company does not provide matching contributions under the 401(k) Plan.

OTHER

No director or executive officer is involved in any material legal proceeding in which he is a party adverse to the Company or has a material interest adverse to the Company.

EMPLOYMENT AGREEMENTS

In June 1996, the Company entered into a three-year employment agreement with Thomas M. Fitzgerald pursuant to which Mr. Fitzgerald agreed to serve as Chief Operating Officer of the Company. The employment agreement requires Mr. Fitzgerald to devote his full business and professional time in furtherance of the business of the Company. Such agreement automatically renews for successive one-year terms unless one party provides written notice to the other of his or its intent to terminate at least six months prior to the end of the then current term. If Mr. Fitzgerald's employment is terminated other than for cause, he is entitled to receive a severance payment of $87,500, payable in six equal monthly installments. The agreement contains non-compete and confidentiality provisions. Mr. Fitzgerald's annual base salary under the agreement is currently $175,000.

In April 1997, the Company entered into a five-year employment agreement with Loren G. Peterson pursuant to which Mr. Peterson agreed to serve as Chief Executive Officer of the Company. The term of the agreement is automatically extended for an additional one year term from year to year unless one party notifies the other of its intention to terminate at least six months prior to the end of the then current term. The employment agreement requires Mr. Peterson to devote his full business and professional time in furtherance of the business of the Company. If Mr. Peterson's employment is terminated other than for cause, he is entitled to receive a severance payment of $131,250, payable in nine equal monthly installments. The employment agreement includes confidentiality and non-compete provisions. Mr. Peterson's annual base salary under the employment agreement is currently $175,000.

In April 1997, the Company entered into a five-year employment agreement with David A. Byron pursuant to which Mr. Byron agreed to serve as Executive Vice President - Scientific Affairs of the Company. The term of the agreement is automatically extended for an additional one year term from year to year unless one party notifies the other of its intention to terminate at least six months prior to the end of the then current term. The employment agreement requires Mr. Byron to devote his full business and professional time in furtherance of the business of the Company. If Mr. Byron's employment is terminated other than for cause, he is entitled to receive a severance payment of $120,000, payable in nine equal monthly installments. The employment agreement includes confidentiality and non-compete provisions. The employment agreement includes confidentiality and non-compete provisions. Mr. Byron's annual base salary under the employment agreement is currently $160,000.

In April 1997, the Company entered into a five-year employment agreement with Carl F. Siekmann pursuant to which Mr. Siekmann agreed to serve as Executive Vice President - Corporate Development of the Company. The term of the agreement is automatically extended for an additional one year term from year to year unless one party notifies the other of its intention to terminate at least six months prior to the end of the then current term. The employment agreement requires Mr. Siekmann to devote his full business and professional time in furtherance of the business of the Company. If Mr. Siekmann's employment is terminated other than for cause, he is entitled to receive a severance payment of $120,000, payable in nine equal monthly installments. The employment agreement includes confidentiality and non-compete provisions. Mr. Siekmann's annual base salary under the employment agreement is currently $160,000.

In October 1995, the Company entered into a two-year agreement with Douglas R. Eger, pursuant to which Mr. Eger served as the Company's Chairman and Chief Executive Officer. The term of the agreement was automatically extended for an additional one year term from year to year unless one party notifies the other of its intention to terminate at least 60 days prior to the end of the then current term. Under such agreement, Mr. Eger was required to devote such time, attention and energy to the Company as required for performance of his duties under the agreement. The employment agreement includes confidentiality and non-compete provisions. Mr. Eger served as Chief Executive Officer of the Company until April 1997. Mr. Eger's annual base salary under the employment agreement at the time of his resignation was $230,000. In connection with Mr. Eger's resignation as employee of the Company in December 1997, Mr. Eger and the Company entered into a severance agreement terminating his employment agreement with the Company.

COMPLIANCE WITH SECTION 16(A) OF THE SECURITIES EXCHANGE ACT OF 1934

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's officers and directors, and persons who own more than ten percent of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission (the "Commission"). Officers, directors and greater than ten percent shareholders are required by the Commission's regulations to furnish the Company with copies of all Section 16(a) forms they file. To the Company's knowledge, except for one Form 4 for Thomas M. Fitzgerald and one Form 4 for Mr. Eger that were filed late, all Section 16(a) forms that were required to be filed during the fiscal year ended December 31, 1997 were filed in compliance with the applicable requirements of Section 16(a).

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The compensation of the Company's senior management is determined by a Compensation Committee, presently consisting of Douglas R. Eger, Digby W. Barrios and John M. Bailey. Except for Mr. Eger, who resigned as an employee of the Company on December 24, 1997, none of the members of the Compensation Committee are executive officers of the Company.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The voting securities of the Company outstanding on March 31, 1998 consisted of 15,742,762 shares of Common Stock. The following table sets forth information concerning ownership of the Company's Common Stock, as at March 31, 1998, by (i) each director, (ii) each executive officer, (iii) all directors and executive officers as a group, and (iv) each person who, to the knowledge of management, owned beneficially more than 5% of the Common Stock.

BENEFICIAL OWNER(1)	SHARES BENEFICIALLY OWNED(2)	PERCENT OF OUTSTANDING COMMON STOCK(2)
~~Thomas M. Fitzgerald.............................~~	~~64,097(3)~~	~~*~~
~~Loren G. Peterson................................~~	~~256,000(4)~~	~~1.5%~~
~~David A. Byron..................................~~	~~245,500(5)~~	~~1.5%~~
~~Carl F. Siekmann................................~~	~~247,000(6)~~	~~1.5%~~
~~Judy Roeske Bullock.............................~~	~~50,000(7)~~	~~*~~
~~Douglas R. Eger.................................~~	~~752,456(8)~~	~~4.5%~~
~~John M. Bailey..................................~~	~~65,000(9)~~	~~*~~
~~Digby W. Barrios................................~~	~~40,000(10)~~	~~*~~
~~All Directors and Executive Officers as a Group..~~	~~1,709,853~~	~~10.3%~~

- --------------------
* 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) Calculations assume that all options and warrants held by each director, director nominee and executive officer and exercisable within 60 days after March 31, 1998 have been exercised.

(3) Includes 50,000 shares of common stock issuable upon exercise of options exercisable within 60 days after March 31, 1998. Mr. Fitzgerald's address is c/o Sheffield Pharmaceuticals, Inc., 425 South Woodsmill Road, St. Louis, Missouri 63017.

(4) Includes 40,000 shares of Common Stock issuable upon exercise of options exercisable within 60 days after March 31, 1998. Mr. Peterson's address is c/o Sheffield Pharmaceuticals, Inc., 425 South Woodsmill Road, Suite 270, St. Louis, Missouri 63017.

(5) Includes 40,000 shares of Common Stock issuable upon exercise of options exercisable within 60 days after March 31, 1998. Mr. Byron's address is c/o Sheffield Pharmaceuticals, Inc., 425 South Woodsmill Road, Suite 270, St. Louis, Missouri 63017.

(6) Includes 40,000 shares of Common Stock issuable upon exercise of options exercisable within 60 days after March 31, 1998. Mr. Siekmann's address is c/o Sheffield Pharmaceuticals, Inc., 425 South Woodsmill Road, Suite 270, St. Louis, Missouri 63017.

(7) Includes 25,000 shares of Common Stock issuable upon exercise of options exercisable within 60 days after March 31, 1998. Ms. Bullock's address is c/o Sheffield Pharmaceuticals, Inc., 425 South Woodsmill Road, St. Louis, Missouri 63017.

(8) Includes 500,000 shares of Common Stock issuable upon exercise of options and warrants exercisable within 60 days of March 31, 1998. Mr. Eger's address is c/o Sheffield Pharmaceuticals, Inc., 425 South Woodsmill Road, St. Louis, Missouri 63017.

(9) Includes 65,000 shares of Common Stock issuable upon exercise of options exercisable within 60 days after March 31, 1998. Mr. Bailey's address is c/o Sheffield Pharmaceuticals, Inc., 425 South Woodsmill Road, St. Louis, Missouri 63017.

(10) Includes 25,000 shares of Common Stock issuable upon exercise of options exercisable within 60 days after March 31, 1998. Mr. Barrios' address is c/o Sheffield Pharmaceuticals, Inc., 425 South Woodsmill Road, St. Louis, Missouri 63017.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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. 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. In connection with the merger, Anthony B. Alphin, Jr., Bernard Laurent, Stephen Sohn and Michael Zeldin resigned as Directors of the Company.

In April 1997, the Company made a loan of $80,000 to Douglas R. Eger (the "Eger Loan"). On December 22, 1997, the Company entered into a severance agreement with Mr. Eger pursuant to which Mr. Eger resigned as an employee of the Company. The severance agreement provided, among other things, for the principal amount of the Eger Loan to be paid in six equal quarterly installments commencing on September 30, 1998, with all remaining principal and interest being paid in full on December 31, 1999, a severance payment of $135,000 payable in six equal installments of $22,500 each, with $2,500 of each such installment being applied to repay Mr. Eger's obligations under the Eger Loan, and the grant by Mr. Eger of a security interest in 30,000 shares of the Company's common stock to secure his obligations under the Eger Loan. The extension of the maturity date of the Eger Loan is subject to the satisfaction of certain conditions by Mr. Eger.

In April 1997, the Company entered into a consulting agreement with John M. Bailey, a director of the Company, pursuant to which Mr. Bailey agreed to provide certain business and financial consulting advise to the Company. Mr. Bailey is paid a monthly retainer of 2,000 British Pounds Sterling under such agreement, which monthly retainer is reduced to 1,500 British Pounds Sterling for any month during which a Board of Directors meeting is held.

In February 1998, the Company entered into an agreement (the "Engagement Agreement") with an unaffiliated individual pursuant to which such individual was retained by the Company to facilitate an alliance with Zambon Corporation or its affiliates ("Zambon"). Pursuant to the Engagement Agreement, the Company agreed to pay such individual a fee of between 2.5% and 4.0% of any equity investment or other financing received from Zambon. The Company also agreed to issue such individual warrants to purchase 150,000 shares of the Company's common stock at 125% of market price for a financing of $7.5 million or greater, with such warrants to be prorated proportionally on financing of a lesser amount. The Engagement Agreement also provides that the Company shall pay such individual a fee of 5.0% of amounts actually received by the Company from Zambon attributable to marketing or other rights to the Company's MSI system (net of any third party

royalty obligations). On April 15, 1998, the Company announced that it had entered into an option agreement with Zambon (the "Option Agreement") to form a strategic alliance with Zambon for the worldwide development and commercialization of drugs to treat respiratory disease in the Company's Metered Solution Inhaler (MSI) system. The Company received a $650,000 option fee from Zambon in the form of an equity investment in connection with the signing of the option agreement. The Option Agreement contemplates (i) an additional equity investment in the Company by Zambon, (ii) funding by Zambon of development of respiratory drugs and (iii) co-promotion rights to respiratory drugs developed for the MSI system and (iv) retention by the Company of all non-respiratory disease applications of the MSI system. Douglas R. Eger, a director of the Company, has advised the Company that he is entitled to receive a portion of the fees payable by the Company to the individual who is the Company's counterparty to the Engagement Agreement.

During the period January 1, 1998 through April 30, 1998 certain executive officers provided funds for use by the Company in excess of $60,000 in the aggregate. These funds were comprised of short-term notes having a 7% annual interest rate, unpaid salaries and unreimbursed expenses. The largest aggregate amounts due to certain executives during this period are as follows: Loren G. Peterson, $85,923; David A. Byron, $80,343; and Carl F. Siekmann, $75,474. As of April 30, 1998 a portion of the short-term notes payable and the unreimbursed expenses have been paid, leaving balances due to such executive officers as follows: Loren G. Peterson, $63,825; David A. Byron, $60,075; and Carl F. Siekmann, $60,075.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a)(1) Financial Statements

The following Financial Statements are included:

Reports of Independent Auditors
Consolidated Balance Sheets as of December 31, 1997 and 1996
Consolidated Statements of Operations for the three years in the period ended December 31, 1997 and for the period from October 17, 1986 (inception) to December 31, 1997
Consolidated Statements of Stockholders' Equity (Net Capital Deficiency) for the period from October 17, 1986 (inception) to December 31, 1997
Consolidated Statements of Cash Flow for the three years in the period ended December 31, 1997 and for the period from October 17, 1986 (inception) to December 31, 1997
Notes to Consolidated Financial Statements

(a)(2) Financial Statement Schedules

All financial statement schedules are omitted because they are not applicable, or not required, or because the required information is included in the financial statements or notes thereto.

(a)(3) Exhibits

NO.		REFERENCE
~~3.1~~	~~Certificate of Incorporation of the Company, as amended~~	~~(4)~~
~~3.2~~	~~By-Laws of the Company~~	~~(4)~~
~~4.1~~	~~Form of Common Stock Certificate~~	~~(2)~~
~~4.2~~	~~Certificate of Designation defining the powers, designations, rights, preferences, limitations and restrictions applicable to the Company's Series A Cumulative Convertible Redeemable Preferred Stock~~	~~(7)~~
~~10.1~~	~~Employment Agreement dated as of October 1, 1995 between the Company and Douglas R. Eger~~	~~(2)~~
~~10.2~~	~~Employment Agreement dated as of September 7, 1995 between the Company and George Lombardi~~	~~(2)~~
~~10.3~~	~~Amendment dated as of September 22, 1996 to Employment Agreement dated as of September 7, 1995 between the Company and George Lombardi~~	~~(7)~~
~~10.4~~	~~Employment Agreement dated as of March 28, 1996 between the Company and Michael Zeldin~~	~~(2)~~
~~10.5~~	~~Amendment dated June 6, 1996 to Employment Agreement dated as of March 28, 1996 between the Company and Michael Zeldin~~	~~(7)~~

~~10.6~~	~~Employment Agreement dated as of June 6, 1996 between the Company and Thomas M. Fitzgerald~~	~~(3)~~
~~10.65~~	~~Employment Agreement dated as of November 17, 1997 between the Company and Judy Roeske Bullock~~	~~(1)~~
~~10.7~~	~~Agreement of Sublease dated as of November 17, 1995 between the Company and Brumbaugh Graves Donohue & Raymond relating to 30 Rockefeller Plaza, Suite 4515, New York, New York~~	~~(2)~~
~~10.8~~	~~1993 Stock Option Plan, as amended~~	~~(1)~~
~~10.9~~	~~1993 Restricted Stock Plan, as amended~~	~~(2)~~

~~10.10~~	~~1996 Directors Stock Option Plan~~	~~(7)~~
~~10.11~~	~~Agreement and Plan of Merger among the Company, Camelot Pharmacal, L.L.C., David A. Byron, Loren G. Peterson and Carl Siekmann dated April 25, 1997~~	~~(6)~~
~~10.12~~	~~Employment Agreement dated as of April 25, 1997 between the Company and David A. Byron~~	~~(6)~~
~~10.13~~	~~Employment Agreement dated as of April 25, 1997 between the Company and Loren G. Peterson~~	~~(6)~~
~~10.14~~	~~Employment Agreement dated as of April 25, 1997 between the Company and Carl Siekmann~~	~~(6)~~
~~10.15~~	~~Form of the Company's 6% Convertible Subordinated Debentures due September 22, 2000.~~	~~(8)~~
~~10.16~~	~~Lease dated August 18, 1997 between Corporate Center, L.L.C. and the Company relating to the lease of office space in St. Louis, Missouri.~~	~~(5)~~
~~10.17~~	~~Assignment and License Agreement dated as of December 3, 1997 between 1266417 Ontario Limited and Ion Pharmaceuticals, Inc. (portions of this exhibit are omitted and were filed separately with the Securities Exchange Commission pursuant to the Company's application requesting confidential treatment in accordance with Rule 24b-2 as promulgated under the Securities Exchange Act of 1934, as amended).~~	~~(9)~~
~~10.18~~	~~Sub-License Agreement dated as of December 3, 1997 between 1266417 Ontario Limited and Ion Pharmaceuticals, Inc. (portions of this exhibit are omitted and were filed separately with the Securities Exchange Commission pursuant to the Company's application requesting confidential treatment in accordance with Rule 24b-2 as promulgated under the Securities Exchange Act of 1934, as amended).~~	~~(9)~~
~~10.19~~	~~Severance Agreement dated December 24, 1997 between the Company and Douglas R. Eger.~~	~~(1)~~
~~10.20~~	~~Severance Agreement dated October 15, 1997 between the Company and George Lombardi.~~	~~(1)~~
~~21~~	~~Subsidiaries of Registrant~~	~~(1)~~

~~23.1 Consent of Ernst & Young LLP (1)~~

~~23.2 Consent of KPMG Peat Marwick LLP (10)~~

~~27 Financial Data Schedule (10)~~

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(1) Filed with the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 1997 filed with the Securities and Exchange Commission on April 15, 1998.
(2) Incorporated by reference to the Company's Annual Report on Form 10-KSB for its fiscal year ended December 31, 1995 filed with the Securities and Exchange Commission.
(3) Incorporated by reference to the Company's Quarterly Report on Form 10-QSB for the quarter ended June 30, 1996 filed with the Securities and Exchange Commission.
(4) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997 filed with the Securities and Exchange Commission.
(5) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997 filed with the Securities and Exchange Commission.
(6) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997 filed with the Securities and Exchange Commission.
(7) Incorporated by reference to the Company's Annual Report on Form 10-KSB for the year ended December 31, 1996 filed with the Securities and Exchange Commission.
(8) Incorporated by reference to the Company's Registration Statement on Form S-3 (File No. 333-38327) filed with the Securities and Exchange Commission on October 21, 1997.
(9) Incorporated by reference to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 17, 1997.
(10) Filed with this report on Form 10-K/A (Amendment No. 1).

(b) Reports on Form 8-K:

The Company filed a Current Report on Form 8-K with the Securities and Exchange Commission on December 17, 1997 relating to the Company's sale of certain patent and other proprietary interests.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SHEFFIELD PHARMACEUTICALS, INC.

Dated: April 30, 1998 /S/ LOREN G. PETERSON

Loren G. Peterson
President and Chief Executive Officer

SHEFFIELD PHARMACEUTICALS, INC. AND SUBSIDIARIES
(a development stage enterprise)

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Report of Independent Auditors

The Board of Directors and Stockholders
Sheffield Pharmaceuticals, Inc.

We have audited the accompanying consolidated balance sheets of Sheffield Pharmaceuticals, Inc. (formerly known as Sheffield Medical Technologies Inc.) and subsidiaries (a development stage enterprise) as of December 31, 1997 and 1996, and the related consolidated statements of operations, stockholders' equity (net capital deficiency), and cash flows for each of the three years in the period ended December 31, 1997 and for the period October 17, 1986 (inception) through December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The consolidated financial statements as of December 31, 1993, and for the period October 17, 1986 (inception) through December 31, 1993, were audited by other auditors whose report dated February 11, 1994 expressed an unqualified opinion on those statements and included an explanatory paragraph that stated that the Company's "recurring losses and net deficit position raise substantial doubt about its ability to continue as a going concern. The 1993 financial statements do not include any adjustments that might result from the outcome of this uncertainty." The consolidated financial statements for the period October 17, 1986 (inception) through December 31, 1993 include cumulative net losses of $5,872,416. Our opinion on the consolidated statements of operations, stockholders' equity (net capital deficiency) and cash flows for the period October 17, 1986 (inception) through December 31, 1997, insofar as it relates to amounts for prior periods through December 31, 1993, is based solely on the report of other auditors.

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

In our opinion, based on our audits, and for the period October 17, 1986 (inception) through December 31, 1993, the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sheffield Pharmaceuticals, Inc. and subsidiaries at December 31, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1997 and the period from October 17, 1986 (inception) through December 31, 1997, in conformity with generally accepted accounting principles.

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

/s/ Ernst & Young LLP

Princeton, New Jersey
February 13, 1998 except for Note 11
as to which the date is April 15, 1998

Independent Auditors' Report

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

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

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

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

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

/s/ KPMG Peat Warwick LLP

Houston, Texas
February 11, 1994

SHEFFIELD PHARMACEUTICALS, INC. AND SUBSIDIARIES
(a development stage enterprise)
Consolidated Balance Sheets

December 31,

	1997	1996
Assets		
~~Current assets:~~		
~~Cash and cash equivalents~~	~~$ 393,608~~	~~$ 1,979,871~~
~~Marketable securities~~	~~--~~	~~460,768~~
~~Loan receivable - former officer~~	~~80,000~~	~~--~~
~~Prepaid expenses and other current assets~~	~~47,378~~	~~43,975~~
~~Total current assets~~	~~520,986~~	~~2,484,614~~
~~Property and equipment:~~		
~~Laboratory equipment~~	~~185,852~~	~~185,852~~
~~Office equipment~~	~~142,562~~	~~89,019~~
~~Leasehold improvements~~	~~--~~	~~61,390~~
	~~328,414~~	~~336,261~~
~~Less accumulated depreciation and amortization~~	~~185,201~~	~~162,007~~
~~Net property and equipment~~	~~143,213~~	~~174,254~~
~~Segregated cash~~	~~--~~	~~75,000~~
~~Other assets~~	~~25,738~~	~~40,016~~
~~Total assets~~	~~$ 689,937~~	~~$ 2,773,884~~
~~Liabilities and Stockholders' Equity (Net Capital Deficiency)~~		
~~Current liabilities:~~		
~~Accounts payable and accrued liabilities~~	~~$ 887,782~~	~~$ 446,965~~
~~Sponsored research payable~~	~~470,768~~	~~580,157~~
~~Capital lease obligation-current portion~~	~~--~~	~~23,719~~
~~Total current liabilities~~	~~1,358,550~~	~~1,050,841~~
~~Capital lease obligation - non-current portion~~	~~--~~	~~27,206~~
~~6% convertible subordinated debenture~~	~~1,551,000~~	~~--~~
~~Interest payable on 6% convertible subordinated debenture~~	~~28,875~~	~~--~~
~~Cumulative convertible redeemable preferred stock, $.01 par value. Authorized, 3,000,000 shares; issued and outstanding, 25,000 and 0 shares at December 31, 1997 and 1996, respectively~~	~~2,468,263~~	~~--~~
~~Commitments and contingencies~~		
~~Stockholders' equity (net capital deficiency):~~		
~~Common stock, $.01 par value. Authorized, 50,000,000 shares; issued and outstanding, 12,649,539 and 11,388,274 shares at December 31, 1997 and 1996, respectively~~	~~126,495~~	~~113,883~~
~~Notes receivable in connection with sale of stock~~	~~(72,600)~~	~~(110,000)~~
~~Additional paid-in capital~~	~~31,386,644~~	~~28,319,838~~

~~Unrealized loss on marketable securities~~	~~--~~	~~(39,232)~~
~~Deficit accumulated during development stage~~	~~(36,157,290)~~	~~(26,588,652)~~
	~~------------~~	~~------------~~
	~~(4,716,751)~~	~~1,695,837~~
	~~------------~~	~~------------~~
~~Total liabilities and stockholders' equity (net capital deficiency)~~	~~$ 689,937~~	~~$ 2,773,884~~
	~~============~~	~~============~~

SHEFFIELD PHARMACEUTICALS, INC. AND SUBSIDIARIES
(a development stage enterprise)
Consolidated Statements of Operations
For the years ended December 31, 1997, 1996 and 1995 and for the period
from October 17, 1986 (inception) to December 31, 1997

	Years ended December 31, 1997	1996	1995	October 17, 1986 (inception) to December 31, 1997
~~Revenues:~~				
~~Sub-license revenue~~	~~$ 500,000~~	~~$ 510,000~~	~~$ --~~	~~$ 1,010,000~~
~~Interest income~~	~~56,914~~	~~163,664~~	~~80,610~~	~~453,827~~
~~Total revenue~~	~~556,914~~	~~673,664~~	~~80,610~~	~~1,463,827~~
~~Expenses:~~				
~~Acquisition of R & D in-process technology~~	~~1,650,000~~	~~--~~	~~--~~	~~1,650,000~~
~~Research and development~~	~~3,729,193~~	~~3,841,818~~	~~4,424,154~~	~~19,252,390~~
~~General and administrative~~	~~4,627,567~~	~~3,831,204~~	~~2,979,437~~	~~16,522,259~~
~~Interest~~	~~39,292~~	~~9,531~~	~~64,736~~	~~159,755~~
~~Total expenses~~	~~10,046,052~~	~~7,682,553~~	~~7,468,327~~	~~37,584,404~~
~~Loss before extraordinary item~~	~~(9,489,138)~~	~~(7,008,889)~~	~~(7,387,717)~~	~~(36,120,577)~~
~~Extraordinary item~~	~~--~~	~~--~~	~~--~~	~~42,787~~
~~Net loss~~	~~$ (9,489,138)~~	~~$ (7,008,889)~~	~~$ (7,387,717)~~	~~$(36,077,790)~~
~~Accretion of mandatorily redeemable preferred stock~~	~~(79,500)~~	~~--~~	~~--~~	~~(79,500)~~
~~Net loss - attributable to common shares~~	~~$ (9,568,638)~~	~~--~~	~~--~~	~~$(36,157,290)~~
~~Loss per share of common stock - basic:~~				
~~Loss before extraordinary item~~	~~$ (0.80)~~	~~$ (0.65)~~	~~$ (0.90)~~	~~$ (7.30)~~
~~Extraordinary item~~	~~--~~	~~--~~	~~--~~	~~0.01~~
~~Basic net loss per share~~	~~$ (0.80)~~	~~$ (0.65)~~	~~$ (0.90)~~	~~$ (7.29)~~
~~Weighted average common shares outstanding - basic~~	~~11,976,090~~	~~10,806,799~~	~~8,185,457~~	~~4,946,268~~

SHEFFIELD PHARMACEUTICALS, INC. AND SUBSIDIARIES
(a development stage enterprise)
Consolidated Statements of Stockholders' Equity (Net Capital Deficiency)

For the period from October 17, 1986 (inception) to December 31, 1997

	Common stock	Notes receivable in connection with sale of stock	Additional paid-in capital	Unrealized gain (loss) on marketable securities	Deficit accumulated during development stage	Total stockholders' equity (Net capital deficiency)
Balance at October 17, 1986	--	--	--	--	--	
Common stock issued	$ 11,288,329	--	$ 254,864	--	--	11,543,193
Common stock options issued	--	--	75,000	--	--	75,000
Net loss	--	--	--	--	(12,192,046)	(12,192,046)
Balance at December 31, 1994	11,288,329	--	329,864	--	(12,192,046)	(573,853)
Reincorporation in Delaware at $.01 par value	(11,220,369)	--	11,220,369	--	--	--
Common stock issued	27,656	--	9,726,277	--	--	9,753,933
Net loss	--	--	--	--	(7,387,717)	(7,387,717)
Balance at December 31, 1995	95,616	--	21,276,510	--	(19,579,763)	1,792,363
Common stock issued	18,267	--	7,043,328	--	--	7,061,595
Common stock subscribed	--	(110,000)	--	--	--	(110,000)
Unrealized loss on marketable securities	--	--	--	(39,232)	--	(39,232)
Net loss	--	--	--	--	(7,008,889)	(7,008,889)
Balance at December 31, 1996	113,883	(110,000)	28,319,838	(39,232)	(26,588,652)	1,695,837
Issuance of common stock in connection with acquisition of Camelot Pharmacal, L.L.C	6,000	--	1,644,000	--	--	1,650,000
Common stock issued	6,612	37,400	1,041,750	--	--	1,085,762
Common stock options and warrants issued	--	--	165,868	--	--	165,868
Common stock options extended	--	--	215,188	--	--	215,188
Accretion of issuance costs for cumulative convertible redeemable preferred stock					(79,500)	(79,500)
Unrealized gain on marketable securities	--	--	--	39,232	--	39,232
Net loss	--	--	--	--	(9,489,138)	(9,489,138)
Balance at December 31, 1997	$ 126,495	$ (72,600)	$ 31,386,644	$ --	$(36,157,290)	$ (4,716,751)

SHEFFIELD PHARMACEUTICALS, INC. AND SUBSIDIARIES
(a development stage enterprise)
Consolidated Statements of Cash Flows
For the years ended December 31, 1997, 1996 and 1995 and for the period from October 17, 1986 (inception) to December 31, 1997

Years ended December 31,			October 17, 1986 (inception) to December 31,
1997	1996	1995	1997

~~Cash outflows from development stage activities and extraordinary gain:~~				
~~Loss before extraordinary item~~	~~$ (9,489,138)~~	~~$ (7,008,889)~~	~~$ (7,387,717)~~	~~(36,120,577)~~
~~Extraordinary gain on extinguishment of debt~~	~~--~~	~~--~~	~~--~~	~~42,787~~
~~Net loss~~	~~(9,489,138)~~	~~(7,008,889)~~	~~(7,387,717)~~	~~(36,077,790)~~
~~Adjustments to reconcile net loss to net cash used by development stage activities:~~				
~~Issuance of common stock, stock options/warrants for services~~	~~381,056~~	~~640,762~~	~~357,032~~	~~1,922,059~~
~~Non-cash interest expense~~	~~28,875~~	~~--~~	~~50,000~~	~~78,875~~
~~Write-off of in-process technology~~	~~1,650,000~~	~~--~~	~~--~~	~~1,650,000~~
~~Securities aquired under sub-license agreement~~	~~--~~	~~(500,000)~~	~~--~~	~~(500,000)~~
~~Issuance of common stock for intellectual property rights~~	~~--~~	~~--~~	~~--~~	~~866,250~~
~~Amortization of organizational and debt issuance costs~~	~~--~~	~~--~~	~~--~~	~~77,834~~
~~Depreciation and amortization~~	~~84,584~~	~~71,652~~	~~47,992~~	~~246,591~~
~~Increase in debt issuance and organizational costs~~	~~--~~	~~--~~	~~--~~	~~(77,834)~~
~~Loss realized on sale of marketable securities~~	~~324,915~~	~~--~~	~~--~~	~~324,915~~
~~Decrease (increase) in prepaid expenses and other current assets~~	~~(3,403)~~	~~109,810~~	~~(88,618)~~	~~(106,419)~~
~~Decrease (increase) in other assets~~	~~14,278~~	~~44,354~~	~~(4,387)~~	~~33,303~~
~~Increase (decrease) in accounts payable, accrued liabilities~~	~~440,817~~	~~245,680~~	~~(375,785)~~	~~310,712~~
~~Increase (decrease) in sponsored research payable~~	~~(109,389)~~	~~352,755~~	~~(140,454)~~	~~1,047,838~~
~~Net cash used by development stage activities~~	~~(6,677,405)~~	~~(6,043,876)~~	~~(7,541,937)~~	~~(30,198,450)~~
~~Cash flows from investing activities:~~				
~~Proceeds on sale of marketable securities~~	~~175,085~~	~~--~~	~~--~~	~~175,085~~
~~Acquisition of laboratory and office equipment~~	~~(53,543)~~	~~(51,136)~~	~~(24,517)~~	~~(317,352)~~
~~Decrease (increase) in segregated cash~~	~~75,000~~	~~(75,000)~~	~~--~~	~~--~~
~~Increase in notes receivable in connection with sale of stock~~	~~--~~	~~(240,000)~~	~~--~~	~~(240,000)~~
~~Increase in loan receivable - former officer~~	~~(80,000)~~	~~--~~	~~--~~	~~(80,000)~~
~~Payments of notes receivable~~	~~37,400~~	~~130,000~~	~~--~~	~~167,400~~
~~Purchase of Camelot Pharmacal, L.L.C., net of cash acquired~~	~~(46,687)~~	~~--~~	~~--~~	~~(46,687)~~
~~Net cash provided (used) by investing activities~~	~~107,255~~	~~(236,136)~~	~~(24,517)~~	~~(341,554)~~
~~Cash flows from financing activities:~~				
~~Principal payments under capital lease~~	~~(50,925)~~	~~(21,528)~~	~~--~~	~~(72,453)~~
~~Conversion of convertible, subordinated notes~~	~~--~~	~~--~~	~~--~~	~~749,976~~
~~Proceeds from issuance of convertible debenture~~	~~1,750,000~~	~~--~~	~~550,000~~	~~2,300,000~~
~~Proceeds from issuance of common stock~~	~~--~~	~~--~~	~~7,699,574~~	~~13,268,035~~
~~Proceeds from issuance of preferred stock~~	~~3,284,812~~	~~--~~	~~--~~	~~3,284,812~~
~~Proceeds from exercise of stock options~~	~~--~~	~~471,550~~	~~866,127~~	~~1,337,677~~
~~Proceeds from exercise of warrants~~	~~--~~	~~5,949,284~~	~~231,200~~	~~10,064,481~~
~~Net cash and cash equivalents provided by financing activities~~	~~4,983,887~~	~~6,399,306~~	~~9,346,901~~	~~30,932,528~~
~~Net increase in cash and cash equivalents~~	~~(1,586,263)~~	~~119,294~~	~~1,780,447~~	~~392,524~~
~~Cash and cash equivalents at beginning of period~~	~~1,979,871~~	~~1,860,577~~	~~80,130~~	~~1,084~~
~~Cash and cash equivalents at end of period~~	~~$ 393,608~~	~~$ 1,979,871~~	~~$ 1,860,577~~	~~$ 393,608~~

~~Noncash investing and financing activities:~~

Common stock, stock options and warrants issued for services	$ 381,056	$ 640,762	$ 357,032	$ 1,921,259
Common stock issued for acquisitions	1,650,000	--	--	1,655,216
Common stock issued for intellectual property rights	--	--	--	866,250
Common stock issued to retire debt	--	--	600,000	600,000
Common stock issued to redeem convertible securities	1,334,105	--	--	1,334,105
Securities acquired under sub-license agreement	--	500,000	--	500,000
Unrealized (realized) depreciation of investments	(39,232)	39,232	--	--
Equipment acquired under capital lease	--	72,453	--	72,453
Notes payable converted to common stock	--	--	--	749,976
Stock dividends	182,352	--	--	182,352

Supplemental disclosure of cash flow information:

Interest paid	$ 10,417	$ 9,531	$ 64,736	$ 130,880

SHEFFIELD PHARMACEUTICALS, INC. AND SUBSIDIARIES
(a development stage enterprise)
Notes to Consolidated Financial Statements

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Sheffield Medical Technologies Inc. ("Sheffield") was incorporated on October 17, 1986. The Company's wholly-owned subsidiary, U-Tech Medical Corporation ("U-Tech") was incorporated on January 13, 1992 and was liquidated on June 30, 1997. On January 10, 1996, Ion Pharmaceuticals, Inc. ("Ion"), was formed as a wholly-owned subsidiary of the Company. At that time, Ion acquired the Company's rights to certain early-stage biomedical technologies. On April 17, 1997, CP Pharmaceuticals, Inc. ("CP") was formed for the purpose of acquiring Camelot Pharmacal, L.L.C., a privately held pharmaceutical development company, which acquisition was consummated on April 25, 1997. On January 26, 1995, the Company's shareholders approved the proposal to reincorporate Sheffield in Delaware, which was effected on June 13, 1995. On June 26, 1997, the Company's shareholders approved the proposal to change Sheffield's name from Sheffield Medical Technologies Inc. to Sheffield Pharmaceuticals, Inc. Unless the context requires otherwise, Sheffield, U-Tech, Ion and CP are referred to as "the Company." All significant inter-company transactions are eliminated in consolidation.

The Company is in the development stage and to date has been principally engaged in research, development and licensing efforts. The Company has generated minimal operating revenue and requires additional capital which the Company intends to obtain through out-licensing as well as through equity and debt offerings to continue to operate its business. The Company's ability to meet its obligations as they become due and to continue as a going concern must be considered in light of the expenses, difficulties and delays frequently encountered in developing a new business, particularly since the Company will focus on product development that may require a lengthy period of time and substantial expenditures to complete. Even if the Company is able to successfully develop new products, there can be no assurance that the Company will generate sufficient revenues from the sale or licensing of such products to be profitable. Management believes that the Company's ability to meet its obligations as they become due and to continue as a going concern through December 1998 are dependent upon obtaining additional financing. (See Note 11.) Until such financing is obtained, the Company must rely on short-term loans from its officers in order to meet certain of its obligations.

The accompanying consolidated financial statements have been prepared on a going concern basis which contemplates the realization of assets and satisfaction of liabilities and commitments in the normal course of business. The Company has incurred net losses of $9,489,138 $7,008,889 and $7,387,717 during the years ended December 31, 1997, 1996 and 1995 respectively, and has an accumulated deficit of $36,157,290 from inception (October 17, 1986) through December 31, 1997.

2. SIGNIFICANT ACCOUNTING POLICIES

CASH EQUIVALENTS

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

MARKETABLE SECURITIES

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

PROPERTY AND EQUIPMENT

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

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

RESEARCH AND DEVELOPMENT COSTS

Research and development costs ("R & D costs") are expensed as incurred, except for fixed assets to which the Company has title, which are capitalized and depreciated over their estimated useful lives.

BASIC LOSS PER SHARE OF COMMON STOCK

In 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 128, Earnings Per Share. SFAS No. 128 replaced the previously reported primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants and convertible securities. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. Basic net loss per share is based upon the weighted average Common Stock outstanding during each year. Common Stock equivalents are not included as their effect is antidilutive. The effect of adoption of SFAS No. 128 had no financial impact, and accordingly, no restatement of loss per share for prior years was necessary. Use of Estimates

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

STOCK BASED COMPENSATION

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

IMPACT OF RECENTLY ISSUED ACCOUNTING STANDARDS

In June 1997, the FASB issued SFAS No. 130, Reporting Comprehensive Income. SFAS No. 130 establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements and applies to all enterprises. SFAS No. 130 is effective for financial statements for fiscal years beginning after December 15, 1997. The adoption of SFAS No. 130 will have no impact on the Company's consolidated results of operations, financial position or cash flows.

In June 1997, the FASB issued SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, which is effective for years beginning after December 15, 1997. SFAS No. 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports. It also establishes standards for related disclosures about products and services, geographic areas and major customers. The Company will adopt the new requirements retroactively in 1998. Management is currently evaluating SFAS No. 131 and does not anticipate that the adoption of this statement will have significant effect on the Company's financial reporting.

3. ACQUISITION

On April 25, 1997, the Company completed its acquisition of Camelot Pharmacal, L.L.C., a newly formed, privately held Missouri limited liability company focusing on the development of specialty pharmaceuticals. The purchase price consisted of 600,000 shares of the Company's common stock (valued at $2.75 per share) and the assumption of certain liabilities in excess of tangible assets acquired of $8,262. The transaction was treated as a purchase for accounting purposes, and accordingly, the assets and liabilities assumed have been recorded at their estimated fair market values at the date of acquisition. Since technological feasibility of the in-process research and development costs have not yet been established and the technology had no alternative future use at the acquisition date, the in-process research and development costs of $1,650,000 were immediately written-off and included in the results of operations as a non-recurring charge for the year ended December 31, 1997. Camelot had no revenue and minimal operating losses for the period ended April 24, 1997 and therefore proforma disclosure has not been included.

4. LEASES

There were no assets under capital leases at December 31, 1997. Capital lease for property and equipment at December 31, 1996 was $51,990 (net of accumulated amortization).

Future minimum lease commitments under operating leases at December 31, 1997 are as follows:

1998	$108,504	
1999	110,011	
2000	113,025	
2001	114,532	
2002	83,262	

Total future minimum lease commitments		$529,334

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Rent expense for the years ended December 31, 1997, 1996, 1995 and the period from October 17, 1986 (inception) to December 31, 1997 was $190,584, $147,104, $105,946, and $523,109, respectively.

5. CAPITAL STOCK TRANSACTIONS

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

	Number of common shares issued
Date of incorporation	900,000
Issued during year ended December 31, 1986	990,000
Issued during year ended December 31, 1991	412,500
Issued during year ended December 31, 1992	850,000
Issued during year ended December 31, 1993	2,509,171
Issued during year ended December 31, 1994	1,134,324
Issued during year ended December 31, 1995	2,765,651
Issued during year ended December 31, 1996	1,826,628
Issued during year ended December 31, 1997	1,261,265
Balance outstanding at December 31, 1997	12,649,539

The shares issued during 1993 included (i) 1,666,668 shares related to the initial public offering; (ii) 272,500 shares related to the exercise of warrants at a price of Can. $3.50 per share; (iii) 31,250 shares as consideration for fiscal agency fees; (iv) 10,000 shares related to the exercise of warrants at a price of Can. $1.00 per share; (v) 524,753

shares related to the conversion of 10% Convertible Notes at an average price of Can. $1.82 per share; (vi) 4,000 shares to members of the Scientific Advisory Board, in consideration of their services, at $1.78 per share.

Under the UGIF Technology Option Agreement (the "Option Agreement") dated November 11, 1992, and approved by the shareholders of the Company on December 2, 1993, the Company obtained an option from E/J Development Corporation d/b/a TechSource Development Corporation ("TechSource") to acquire an exclusive sublicense to the UGIF Technology in exchange for 300,000 shares of Common Stock of the Company (after taking into account a one-for-two reverse stock split effective on February 11, 1993). Mr. Douglas R. Eger, who was formerly Chairman of the Company, is a former 50% shareholder of TechSource. On January 10, 1994, TechSource assigned its right to receive 215,000 shares of Common Stock pursuant to the Option Agreement to Mr. Eger and assigned its right to receive 85,000 shares of Common Stock pursuant to the Option Agreement to Mr. Jenke. Effective January 10, 1994, the Company issued such shares to Messrs. Eger and Jenke at approximately $0.02 per share (market value of $4.8125 per share) on January 10, 1994, at which time the Company recorded the estimated fair market value of $866,250 as an expense. Mr. Eger sold his interest in TechSource to Mr. A.M. Jenke, a former director and officer of Sheffield, in September 1994.

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

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

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

In July 1995, the Company completed a private placement of 1,375,000 units to accredited investors at a price of $4.00 per unit for gross proceeds of $5,500,000. Each such unit consists of one share of the Company's Common Stock and a warrant to purchase one share of common stock at a price of $4.50 at any time up until and including February 10, 2000. The warrants are redeemable by the Company under certain circumstances.

On April 30, 1996, the Company completed its warrant discount program through which the Company offered holders of warrants issued in private placements completed in 1995 the opportunity to exercise such warrants at up

to a 121/2 % discount from the actual exercise prices of such warrants. A total of $5.6 million was received from the exercise of such warrants with the related issuance of 1,373,250 shares of common stock.

On February 26, 1997, 35,700 shares of Series A Preferred Stock were issued pursuant to a private placement. 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. As of December 31, 1997, 25,000 shares of Series A Preferred Stock were outstanding. Between August 26, 1997 and December 31, 1997, 10,700 shares of Series A Preferred stock, plus related accrued dividends thereon, were converted into 44,769 shares of Common Stock. The number of shares of Common Stock issuable upon conversion of Series A Preferred Stock is determined by reference to the lesser of (i) $3.31875 and (ii) 85% of the "current market price" per share of Common Stock, 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 payable at the time of conversion. Stock dividends payable on the Series A Preferred Stock toatalled $139,368 at December 31, 1997. Under certain circumstances, cash is payable to holders of Series A Preferred Stock in lieu of Common Stock. The Series A Preferred Stock is redeemable upon the occurance of certain events.

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, wholly owned 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. 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. (See Note 3.)

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, $1,551,000 of which was outstanding as of December 31, 1997. In addition, the Company granted the holder of the Debenture warrants to purchase 140,000 shares of the Company's common stock at $2.80 per share. A value of $115,500 was assigned to these warrants. 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 shares 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 redemption upon the occurrence of certain events.

6. STOCK OPTIONS AND WARRANTS

The 1993 Stock Option Plan was adopted by the Board of Directors in August 1992 and approved by the shareholders at the annual meeting in December 1993. An amendment to the Plan received shareholder approval on March 15, 1995. Under the Stock Option Plan, the maximum aggregate number of shares which may be optioned and sold is 1,000,000 shares of common stock. The Stock Option Plan permits the grant to employees and officers of the Company of both incentive stock options and non-statutory stock options. The Stock Option Plan is administered by the Board of Directors or a committee of the Board, which determines the persons to whom options will be granted and the terms thereof, including the exercise price, the number of shares subject to each option, and the exercisability of each option. The exercise price of all options for common stock granted under the Stock Option Plan must be at least equal to the fair market value on the date of grant in the case of incentive stock options and 85% of the fair market value on the date of grant in the case of non-statutory stock options. Options generally expire five years from the date of grant and vest upon continuous employment by the Company for 12 months after the date of grant.

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

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

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

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

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

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

At the annual meeting of stockholders of the Company held on June 26, 1997, the Company's shareholders approved an increase in the number of shares available for issuance pursuant to the Company's 1993 Stock Option Plan from 1,000,000 shares to 3,000,000 shares.

See also the discussion contained in Note 5 related to the Series A Preferred Stock, the Camelot acquisition, and the 6% Convertible Subordinated Debentures.

SFAS No. 123 requires pro forma information regarding net income and earnings per share as if the Company has accounted for its stock options and warrants granted subsequent to December 31, 1994, under the fair value method of SFAS No. 123. The fair value of these stock options and warrants is estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for 1997, 1996 and 1995: risk-free interest of 5.54%, 6.23%, 6.13%, 6.00% and 5.57%; expected volatility of 0.526 and 0.60; expected option life of one to four years from vesting and an expected dividend yield of 0.0%.

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

	1997	1996	1995
~~Pro forma net loss...............................~~	~~$9,500,810~~	~~$8,500,149~~	~~$8,993,554~~
~~Pro forma basic net loss per share of common stock~~	~~$ 0.79~~	~~$ 0.79~~	~~$ 1.10~~

Because SFAS No. 123 is applicable only to equity awards granted subsequent to December 31, 1994, its pro forma effect will not be fully reflected until 1998.

Transactions involving stock options and warrants are summarized as follows:

	1997 Common Stock Options	1997 Weighted Average Exercise Price	1996 Common Stock Options	1996 Weighted Average Exercise Price	1995 Common Stock Options	1995 Weighted Average Exercise Price
Outstanding, January 1, ...	3,033,755	4.49	4,164,834	4.02	1,792,000	3.33
Granted	3,683,039	3.92	1,014,922	5.52	3,091,408	4.63
Expired	327,500	3.18	70,000	3.77	0	0
Exercised	0	0	1,942,501	3.76	345,500	3.51
Canceled	1,608,004	4.11	133,500	4.53	373,074	4.79
Outstanding December 31, ...	4,781,290	3.65	3,033,755	4.49	4,164,834	4.02
Exercisable at end of year..................	2,900,290		2,094,833		1,727,759	
Weighted average fair value of options granted during the year	$4.05		$2.30		$2.30	

Stock options outstanding at December 31, 1997 are summarized as follows:

Range of Exercise Prices	Outstanding Options at Dec. 31, 1997	Weighted Average Remaining Contractual Life (Yrs.)	Weighted Average Exercise Price
$ .73 - $3.18	2,046,000	7.25	$ 2.62
$3.25 - $5.00	2,290,791	2.89	$ 4.06
$5.06 - $8.25	444,499	2.60	$ 6.26
$ .73 - $8.25	4,781,290	4.73	$ 3.65

~~During the period January 1, 1995 through December 31, 1997, the exercise prices of options and warrants issued by the Company were as follows:~~

Year	Number of Options/Warrants	Exercise Price
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1995.............	3,091,408	$3.25 - 5.00
1996.............	1,014,922	$3.38 - 8.25
1997...............	3,683,039	$1.50 - 6.00

At December 31, 1997, a total of 1,501,500 shares were available for future grants under the 1993 Stock Option Plan, the 1993 Restricted Stock Plan, and the 1996 Directors Stock Option Plan.

7. RESEARCH AND DEVELOPMENT AGREEMENTS

On May 31, 1996, the Company obtained an exclusive, worldwide right and license with Baylor College of Medicine. The License Agreement gives the Company an exclusive license to inventions and discoveries relating to ps20/Urogenital Sinus Derived Growth Inhibitory Factor ("UGIF"). The agreement, which is still in effect, requires the Company to pay Baylor College 30% of gross compensation received for licensed products covered by a valid claim and 10% of gross compensation not covered by a valid claim for a period of ten years. The Company funding of UGIF research was approximately $80,000 and $14,000 in the years ended December 31, 1997 and 1996, respectively.

On June 1, 1996, the Company entered into a Research Agreement with Children's Hospital of Boston, MA. Under the agreement, Children's Hospital has agreed to perform certain scientific research, under the direction of principal investigator Dr. Wayne I. Lencer, related to the discovery, manufacturing and novel uses of certain imidazoles, their metabolites and analogues thereof, and other related compounds. The agreement, which is still in effect, requires the Company to pay $200,050 for related research and related equipment on an agreed upon payment schedule through March 1997, subject to extensions upon the occurrence of certain events. This agreement also grants the Company an exclusive option to obtain a world-wide license under the Background Technology, Research Technology, Patent Rights and Research Patent rights. Under this agreement the Company funding of research was approximately $54,000 and $144,000 for the years ended December 31, 1997 and 1996, respectively.

In July, 1996, the Company entered into a sub-license agreement with SEQUUS Pharmaceuticals, Inc. ("SEQUUS") whereby the Company granted an exclusive sub-license to SEQUUS for the continued development and commercialization of the Liposome-CD4 technology. In connection with the signing of the sub-license agreement, the Company received a license issue fee payment from SEQUUS in the form of SEQUUS common stock which was sold in 1997. The Company is also entitled to receive milestone payments and royalty payments based on clinical trial results and future product sales, if any, which utilize the sub-licensed technology.

On August 22, 1996, the Company entered into Amendment #2 to the Research Agreement, dated August 22, 1994, with The President and Fellows of Harvard College. Under the agreement, Harvard has agreed to conduct research under the direction of principal investigator Dr. Jose A. Halperin to conduct laboratory and animal studies for the potential use of Clotrimazole and to screen new proprietary analogues and/or drugs that potentially have the same effect as Clotrimazole. The agreement, which is still in effect, requires the Company to pay $992,232 for related research and equipment on an agreed upon payment schedule through July 1996, subject to extensions upon the occurrence of certain events. Under this amendment and its previous agreement the Company has funded approximately $776,000 and $985,000 for the years ended December 31, 1997 and 1996, respectively.

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

Agreement the Company has agreed to pay $100,000 for related research through April 1997. In connection with this research, the Company has entered into an agreement with Association Claude Bernard, also in October of 1996. The agreement, which is still in effect, requires the Company to pay $300,000 for the related research and supplies on an agreed upon payment schedule through April 1997. Under both agreements, the Company has funded approximately $50,000 and $300,000 for the years ended December 31, 1997 and 1996, respectively.

On November 1, 1996, the Company entered into Amendment #6 to the Research Agreement, dated June 1, 1995 with Children's Hospital of Boston, MA. Under the agreement, Children's Hospital has agreed to perform certain research under the direction of principal investigator Dr. Carl Brugnara on the study of analogues of Clotrimazole and/or Clotrimazole metabolites. The agreement, which is still in effect, requires the Company to pay $224,468 for related research and equipment on an agreed upon payment schedule through July 1997, subject to extensions upon the occurrence of certain events. Also on November 1, 1996, the Company elected to exercise its option to a license agreement related to the Research Agreement. This agreement grants the Company the exclusive worldwide license on the Background Technology and the Research Technology derived from the agreement. Under this amendment and its previous agreement, the Company has funded approximately $203,000 and $180,000 for the years ended December 31, 1997 and December 31, 1996, respectively.

In 1996, the Company entered into quarterly Research and Consulting Agreements with Pharm-Eco Laboratories, Inc. for the development and synthesis of novel compounds related to the Ion technologies. The agreements require the Company to pay $175,000 plus expenses each quarter for related research and consulting. Under these agreements the Company has funded approximately $251,000 and $774,000 for the years ended December 31, 1997 and 1996, respectively.

In March 1997, the Company entered into exclusive supply and license agreements for the world-wide rights to the multi-dose inhaler technology (MSI) of Siemens A.G. The agreements call for Siemens to be the exclusive supplier of the MSI system, a hand-held, portable pulmonary drug delivery system. The Company paid a licensing fee of $1.1 million in April 1997 to Siemens pursuant to these agreements. Under the terms of these agreements another DM 2.0 million payment was due in January, 1998. (See Note 11.) In addition, under certain circumstances, the Company will be required to make another DM 2.0 million payment to Siemens in January, 1999.

On November 20, 1997, the Company entered into agreement with Imutec Pharma Inc. Under this sub-license, Imutec acquired from the Company the rights to a series of clotrimazole-related compounds for the treatment of cancer, Kaposi's sarcoma and actinic keratosis. In exchange, Imutec agreed to manage and fund the remaining development program. The Company received $500,000 in cash upon signing the agreement, which has been recognized as revenue during the year ended December 31, 1997, and will receive $350,000 of Imutec stock in June, 1998. In addition, the Company is entitled to receive additional payments upon the completion of certain milestones in the development of these compounds and retains a 20 percent ownership interest upon commercialization.

8. RELATED PARTY TRANSACTIONS

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

9. INCOME TAXES

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

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's net deferred tax asset at December 31, 1997 and 1996 which is considered noncurrent, are as follows:

Deferred tax assets:	1997	1996
~~Net operating loss carryforwards~~	~~$ 12,400,000~~	~~$ 8,800,000~~
~~Capitalized start-up costs for tax purposes~~	~~578,000~~	~~578,000~~
~~Deferred tax asset valuation allowance~~	~~(12,978,000)~~	~~(9,378,000)~~
~~Net deferred tax asset~~	~~$ -~~	~~$ -~~

The valuation allowance for deferred tax assets as of December 31, 1996 and 1995 was $9,378,000 and $6,678,000, respectively. The net change in the total valuation allowance for the year ended December 31, 1997 was an increase of $3,600,000. At December 31, 1997, the Company has net operating loss carryforwards of approximately $34,000,000 for tax purposes which are available to offset federal taxable income, if any, through 2012. An ownership change pursuant to Section 382 of the Internal Revenue Code occurred in April 1995 as a result of a private placement of the Company's common stock and warrants. Accordingly, utilization of the Company's pre-change net operating loss carryforward (approximately $13,600,000) is restricted to approximately $2,220,000 per year, and the related deferred tax assets have been fully reserved. The Company has not performed a detailed analysis to determine whether an additional ownership change under Section 382 of the Internal Revenue Code of 1986 occurred during 1997, but believes that it is very likely that such a change occurred during 1997. The effect of an ownership change would be the imposition of an additional annual limitation on the use of NOL carryforwards attributable to periods before change. If the change occurred in late 1997, substantially all of the NOL carryforwards would be subject to the limitation. The amount of the annual limitation depends upon the value of the Company immediately before the change, changes to the Company's capital during a specified period prior to the change, and an interest rate which is published monthly. Due to uncertainty as to the date of an ownership change during 1997, the Company has not determined the amount of the potential limitation.

10. CONTINGENCY

The Company is a defendant in Dr. Bonnie S. Dunbar v. E/J

Development Corporation, U-Tech Medical Corporation, Sheffield Medical Technologies, Inc. and Douglas R. Eger, No. 97-28899, in the District Court of Harris County, Texas (133rd Judicial District). The plaintiff in this action asserts breach of contract, fraud and a claim for quantum meruit relating principally to certain stock options exercisable for a total of 40,000 shares of Common Stock issued in 1992 and 1993 to the plaintiff in consideration of consulting and research services provided to the Company. The plaintiff served as the principal investigator at Baylor College of Medicine in Houston, Texas on an ovarian cancer research project that was funded for several years by the Company. The plaintiff seeks actual damages against Sheffield and the other defendants, including Douglas R. Eger, a former Chairman of the Company, together with punitive damages, attorneys' fees, costs and expenses of the lawsuit, and pre- and post-judgement interest. The Company has denied the plaintiff's allegations and is vigorously contesting this action. This action is currently in the discovery phase. The Company and the plaintiff have engaged in settlement discussions, but no agreement has been reached to date. The Company is currently unable predict the likely outcome of this action. However, an unfavorable decision could have a material adverse effect on the business and financial condition of the Company.

11. SUBSEQUENT EVENTS

On April 15, 1998, the Company entered into an option agreement with Zambon Group SpA ("Zambon") of Milan, Italy for a sublicense to the Company's proprietary MSI drug delivery system. Under this contemplated transaction, Zambon will receive an exclusive world-wide marketing and development sub-license for respiratory products to be delivered by the MSI system including four drugs currently under development by Sheffield. Sheffield will maintain certain co-promotion rights in the U.S. for respiratory drugs as well as the world-wide marketing and development rights for all applications of the MSI delivery system outside the respiratory therapeutic area. As part of this transaction, Zambon will agree to fund all remaining development costs relating to these respiratory products, will pay Sheffield an up-front fee in the form of an equity investment as well as milestone payments upon marketing approval for each of the four products and royalties upon commercialization. In addition, Zambon will provide Sheffield with an interest free line of credit upon the achievement of certain early milestones. Sheffield is receiving a $650,000 option fee from Zambon in the form of an equity investment. The consummation of the sublicensing transaction with Zambon will be subject to the negotiation by the parties of a definitive sublicensing agreement.

On April 15, 1998, the Company issued 1,250 shares of its Series B Cummulative Convertible Redeemable Preferred Stock (the "Series B Preferred Stock") in a private placement for an aggregate purchase price of $1,250,000. Under the terms of this offering, the Company must redeem the preferred stock at the time it concludes a definitive sub-license agreement on the MSI or other financing.

On April 15, 1998, the Company made the DM 2.0 million payment to Siemens, A.G. that was originally due in January 1998 under the terms of the MSI license agreement. This payment was made with the proceeds of the Series B Preferred Stock offering.

For the period January 1, 1998 through April 15, 1998, a total of 4,075,797 shares of common stock were issued as a result of conversion of Series A Preferred Stock. As of April 15, 1998, all of the Series A Preferred Stock has been converted. For the period January 1, 1998 through April 15, 1998, a total of 2,291,798 shares of common stock were issued as a result of partial conversion and interest payments made on the 6% subordinated convertible debenture. As of April 15, 1998, $447,500 in principal remains to be repaid or available for conversion.

EX-23.2
2
CONSENT

Exhibit 23.2

The Board of Directors
Sheffield Pharmaceuticals, Inc.

We consent to incorporation by reference in the Registration Statements (Form S-3 No. 33-95732, Form S-8 No. 33-95262, Form S-8 No. 333-14867, Form S-3 No. 333-27753 and S-3 No. 333-38327) 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-K/A) for the year ended December 31, 1997.

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

Houston, Texas
April 15, 1998

EX-27
3
ARTICLE 5 FDS

~~5~~

~~THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONDENSED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH STATEMENTS.~~

~~12-MOS~~
~~DEC-31-1997~~
~~DEC-31-1997~~
~~393,608~~
~~0~~
~~0~~
~~0~~
~~0~~
~~520,986~~
~~328,414~~
~~185,201~~
~~689,937~~
~~1,358,550~~
~~1,579,875~~
~~2,468,263~~
~~0~~
~~126,495~~
~~(4,716,751)~~
~~689,937~~
~~0~~
~~556,914~~
~~0~~
~~0~~
~~10,046,052~~
~~0~~
~~39,292~~
~~(9,489,138)~~
~~0~~
~~(9,489,138)~~
~~0~~
~~0~~
~~0~~
~~(9,489,138)~~
~~(0.80)~~
~~(0.80)~~

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