

DOR BIOPHARMA INC  
Form 10KSB/A  
April 15, 2004

As filed with the Securities and Exchange Commission on March 30, 2004

SECURITIES AND EXCHANGE COMMISSION Washington, D.C. 20549

FORM 10-KSB/A

Amendment No. 1

to

ANNUAL REPORT UNDER SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2003

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File No. 1-14778

DOR BioPharma, Inc. (Name of small business issuer in its charter)

Delaware (State or other jurisdiction of incorporation or organization) 41-1505029 (I.R.S. Employer Identification Number)  
1691 Michigan Ave, Suite 435 Miami, FL 33139 305-534-3383

(Address, including zip code, and telephone number, including area code of registrant's principal executive offices)

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

Title of Each Class of Securities to be Registered	Name of Each Exchange on Which Registered
Common Stock, par value \$.001 per share	American Stock Exchange

Securities registered under Section 12(g) of the Securities Exchange act:

Title of Each Class of Securities to be Registered	Name of Each Exchange on Which Registered
None	None

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

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

Issuer's revenues for its most recent fiscal year : \$83,817

The aggregate market value of the common stock held by non-affiliates (assuming, for this purpose, that executive officers, directors and holders of 10% or more of the common stock are affiliates), computed by reference to the closing price of such stock as of March 24, 2004, was \$34,854,985.

At March 24, 2004, 42,032,936 shares of the registrant's common stock (par value \$.001 per share) were outstanding.

Transitional Small Business Issuer: Yes  No

Documents Incorporated by Reference

### Purpose of Amendment

The purpose of this amendment on Form 10-KSB/A of DOR BioPharma, Inc. (the "Company") is to (a) provide a conformed signature on the report of the independent certified Public Accountants of Sweeney, Gates & Co. included in the Company's annual report on Form 10-KSB for the year ended December 31, 2003 (the "Form 10-KSB"), which signature was inadvertently omitted from the Form 10-KSB as filed by the Company with the SEC on March 30, 2004, and (b) to correct certain minor typographical errors contained in the financial statements included in the Form 10-KSB. Sweeney, Gates & Co. had provided the Company with a manually signed report of certified independent auditors prior to the filing of the Form 10-KSB, but due to a printing error, the conformed signature was not included in the Form 10-KSB as filed with the SEC.

#### Item 13. Exhibits, List and Reports on Form 8-K.

(a) The following financial statements and exhibits are filed as part of this report:

(1) Financial Statements:

(i) Report of Independent Certified Public Accountants.

(ii) Consolidated Balance Sheets as of December 31, 2003 and December 31, 2002.

(iii) Consolidated Statement of Operations for the periods ended December 31, 2003 and 2002 and cumulative from February 15, 1985 (date of inception) to December 31, 2003.

(iv) Consolidated Statement of Cash Flows for the periods ended December 31, 2003 and 2002 and cumulative from February 15, 1985 (date of inception) to December 31, 2003.

(v) Consolidated Statement of Stockholders Equity for the period from February 15, 1985 (date of inception) to December 31, 2003.

(vi) Notes to Consolidated Financial Statements.

(2) Exhibits:

3.1 Amended and Restated Certificate of Incorporation. (10)

3.2 By-laws. (11)

4.1 Form of Investor Warrant issued to each investor dated as of April 12, 2000. (1)

4.2 Finder Warrant issued to Paramount Capital, Inc. dated as of April 12, 2000. (1)

4.3 Warrant issued to Aries Fund dated as of May 19, 1997. (1)

4.4 Warrant issued to Aries Domestic Fund, L.P. dated as of May 19, 1997. (1)

- 4.5 Warrant issued to Paramount Capital, Inc. dated as of October 16, 1997. (2)
- 4.6 Warrant issued to Paramount Capital, Inc. dated as of October 16, 1997. (2)
- 4.7 Warrant issued to Élan International Services, Ltd. Dated January 21, 1998. (3)
- 4.8 Form of Warrant to be issued to CTD warrant holders. (4)
- 4.9 Form of Warrant issued to each investor in the December 2002 private placement.
- 4.10 Form of Warrant issued to each investor in the September 2003 private placement. (8)
- 4.11 Form of Warrant issued to each investor in the March 2004 private placement. (9)
- 10.1 Amended and Restated 1995 Omnibus Incentive Plan. (10)
- 10.2 Lease dated September 1, 2003 between the Company and L.N.R. Jefferson LLC.
- 10.3 Financial Advisory Agreement between the Company and Paramount Capital, Inc. dated as of October 18, 2001. (6)
- 10.4 Form of Affiliate Agreement dated as of August 15, 2001 by and between the Company and the affiliates of CTD. (5)
- 10.5 Noncompetition and Nonsolicitation Agreement entered into by and among the Company, CTD and Steve H. Kanzer dated as of November 29, 2001. (7)
- 10.6 Termination of the Endorex Newco joint venture between the Company, Élan Corporation, Élan international services, and Elan Pharmaceutical Investments dated December 12, 2002. (7)
- 10.7 Option Agreement with General Alexander M. Haig Jr. (7)
- 10.8 Employment agreement between the Company and Ralph Ellison dated March 13, 2003. (7)
- 10.9 License Agreement between the Company and The University of Texas Southwestern Medical Center
- 10.10 License Agreement between the Company and Thomas Jefferson University
- 10.11 License Agreement between the Company and The University of Texas Medical Branch
- 10.12 Consulting Agreement between the Company and Lance Simpson of Thomas Jefferson University (7)
- 10.13 Form of Subscription Agreement between the Company and each investor dated July, 18 2003. (8)
- 10.15 Form of Securities Purchase Agreement between the Company and each investor dated March 4, 2004. (9)
- 10.16 Form of Registration Rights Agreement between the Company and each Investor dated March 4, 2004. (9)
- 14.1 Code of Ethics for Financial Officers.

- 16.1 Letter from Ernst & Young ending their engagement.
- 21.1 Subsidiaries of the Company
- 31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
- 31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
- 32.1 Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002.
- 32.2 Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

\* Management contract or compensatory plan or arrangement required to be filed as an exhibit to this annual report .

- (1) Incorporated by reference to our Registration Statement on Form S-3 (File No. 333-36950), as amended on December 29, 2000.
- (2) Incorporated by reference to our Quarterly Report on Form 10-QSB, as amended, for the fiscal quarter ended September 30, 1997.
- (3) Incorporated by reference to our Annual Report on Form 10-KSB, as amended, for the fiscal year ended December 31, 1997.
- (4) Incorporated by reference to our Registration Statement on Form S-4 filed on October 2, 2001.
- (5) Incorporated by reference to our current report on Form 8-K filed on December 14, 2001.
- (6) Incorporated by reference to our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2001, as amended.
- (7) Incorporated by reference to our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2002, as amended.
- (8) Incorporated by reference to our current report on Form 8-K filed on July 18, 2003.
- (9) Incorporated by reference to our current report on Form 8-K filed on March 4, 2004.
- (10) Incorporated by reference to our Quarterly Report on Form 10-QSB, as amended, for the fiscal quarter ended September 30, 2003.
- (11) Incorporated by reference to our Quarterly Report on Form 10-QSB, as amended, for the fiscal quarter ended June 30, 2003.

(b) Reports on Form 8-K

We did not file any current reports on Form 8-K during the fourth quarter of 2003.

DOR BIOPHARMA, Inc. AND SUBSIDIARIES

(a development stage company)

CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors and

Stockholders

DOR BioPharma, Inc.

We have audited the accompanying consolidated balance sheet of DOR BioPharma, Inc., (a development stage company) as of December 31, 2003 and 2002, and the related statements of operations, stockholders' equity and cash flows for the years then ended and for the period February 15, 1985 (inception) to December 31, 2003. 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of DOR BioPharma, Inc., (a development stage company) as of December 31, 2003 and 2002 and the results of its operations and cash flows for the years then ended and the period February 15, 1985 (inception) to December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

\s\Sweeney, Gates & Co.

Fort Lauderdale, Florida

March 17, 2004

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DOR BioPharma, Inc.  
(a development stage company)  
Consolidated Balance Sheets

December 31,  
2003                      2002

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Assets

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Current assets:		
Cash and cash equivalents	\$ 4,117,539	\$ 4,147,164
Receivable	20,954	
Prepaid expenses	155,844	104,333
	<u>                    </u>	<u>                    </u>
Total current assets	4,294,337	4,251,497
Equipment, net of accumulated amortization of \$141,650 and \$1,162,247	60,795	262,921
Licenses and patent costs, net of accumulated amortization of \$384,333 and \$193,810	1,896,934	1,323,782
	<u>                    </u>	<u>                    </u>
Total assets	\$ 6,252,066	\$ 5,838,200
	<u>                    </u>	<u>                    </u>
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable	\$ 211,587	\$ 568,120
Accrued royalties	320,000	130,000
Accrued compensation and other expenses	116,638	124,480
Current portion of long-term debt	359,067	382,122
	<u>                    </u>	<u>                    </u>
Total current liabilities	1,007,292	1,204,722
	<u>                    </u>	<u>                    </u>
Long-term debt		347,845
	<u>                    </u>	<u>                    </u>
Total liabilities	1,007,292	1,552,567
	<u>                    </u>	<u>                    </u>
Stockholders equity:		
Preferred stock, \$.001 par value. Authorized 4,600,000 shares; none issued and outstanding		
Series B convertible preferred stock, \$.05 par value. Authorized 200,000 shares; 126,488 and 117,118 issued and outstanding, at liquidation value		
	12,648,768	11,711,822
Common stock, \$.001 par value. Authorized 100,000,000 shares; 34,893,765 and 26,794,642 issued, 34,721,423 and 26,622,300 outstanding		
	34,894	26,795
Additional paid-in capital	67,005,276	61,315,985
Common stock to be issued, 375,498 shares in 2002		436,812
Unearned compensation		(50,148)
Deficit accumulated during the development stage	(73,975,897)	(68,687,366)
	<u>                    </u>	<u>                    </u>

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	5,713,041	4,753,900
Less: Cost of 172,342 shares of common stock in treasury	(468,267)	(468,267)
<b>Total stockholders equity</b>	<b>5,244,774</b>	<b>4,285,633</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 6,252,066</b>	<b>\$ 5,838,200</b>

The accompanying notes are an integral part of these financial statements

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DOR BioPharma, Inc.  
(a development stage company)  
Consolidated Statement of Operations

	Year ended		Cumulative Period
	December 31,		February 15, 1985
	2003	2002	(Inception) to December 31, 2003
	<u>          </u>	<u>          </u>	<u>          </u>
Grant revenue	\$ 83,817	\$	\$ 183,817
Expenses:			
Cost of revenue	76,197		162,365
Proprietary research and development	2,729,430	2,943,493	22,976,729
General and administrative	2,505,071	2,988,020	20,538,590
Write-off of acquired in-process research and development			10,181,000
<b>Total expenses</b>	<b>5,310,698</b>	<b>5,931,513</b>	<b>53,858,684</b>
<b>Loss from operations</b>	<b>(5,226,881)</b>	<b>(5,931,513)</b>	<b>(53,674,867)</b>
Other income (expenses):			
Equity in earnings (losses) of joint ventures			)



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		868,859	(22,179,091)
Other income	(26,389)		236,500
Interest income	28,707	105,676	3,600,003
Interest expense	(63,968)	(9,103)	(422,221)
Total other income (expense)	(61,650)	965,432	(18,764,809)
Net loss	(5,288,531)	(4,966,081)	(72,439,676)
Preferred stock dividends	(936,945)	(1,456,385)	(7,260,631)
Net loss applicable to common stockholders	\$(6,225,476)	\$(6,422,466)	\$(79,700,307)
Basic and diluted net loss per share applicable to common shareholders	\$ (0.21)	\$ (0.29)	
Basic and diluted weighted average common shares outstanding	29,183,312	22,498,894	

The accompanying notes are an integral part of these financial statements

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DOR BioPharma, Inc.  
(a development stage company)  
Consolidated Statements of Stockholders' Equity

Common Stock	Common Stock		Series B and C Convertible Preferred Stock		Additional Paid-In Capital	Accumulated (deficit) During the Development Stage	Other Comprehensive Income	Treasury Stock		Unearned Compensation	Subscription Receivable
	Shares	Par Value	Shares	Stated Value				Shares	Stated Value		
Common stock issued for cash in February 1985	667	\$ 1	\$	\$	\$ 999	\$	\$	\$	\$	\$	\$

\$1.50 per share common stock issued for cash in October 1986				
\$750.00 per share	666	1	499,999	
Excess of fair market value over option price of nonqualified stock option granted in 1986			13,230	
Common stock issued in May 1987 at \$750.00 per share for legal services performed for the company	7		5,000	
Net Proceeds from initial public stock offering in June 1987 at \$5,000 per share, less insurance costs	333		1,627,833	
Nonqualified stock options exercised in 1987	48		33,808	(28,188 )
Amortization of unearned compensation 1987				7,425
Excess of fair market value over option price of nonqualified stock options granted in 1987			75,063	
	1,721	\$ 2.00	\$ 2,255,932	(20,763 )

Balance at December 31, 2017

The accompanying notes are an integral part of these financial statements

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DOR BioPharma, Inc.  
(a development stage company)  
Consolidated Statements of Stockholders' Equity - Continued

Common Stock Shares	Common Stock Par Value	Common Stock to be Issued Shares	Common Stock Stated Value	Series B and C Convertible Preferred Stock Shares	Series B and C Convertible Preferred Stock Stated Value	Additional Paid-In Capital	(deficit)		Treasury Stock		Unearned Compensation	
							Accumulated During the Development Stage	Other Comprehensive Income	Equity	Cost		
18	\$		\$		\$	256	\$	\$		\$	\$	\$
1						12,000						
(10)						(150)						
						36,524						
												19,113

71 1,060

(12) (175)

113,037

2,174 2 980,178

1,650

5,694 6 51,244

30,635

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9,657 \$ 10 \$ \$ \$ \$ \$ \$ \$ \$ \$

\$ 3,480,541

The accompanying notes are an integral part of these financial statements

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DOR BioPharma, Inc.  
(a development stage company)  
Consolidated Statements of Stockholders' Equity (Continued)

Common Stock		Common Stock to be Issued		Series B and C Convertible Preferred Stock		Additional Paid-In Capital	(deficit)	Other Comprehensive Income	Treasury Stock		Unearned Compensation
Shares	Par Value	Shares	Stated Value	Shares	Stated Value		Accumulated During the Development Stage		Equity	Cost	
2,772	\$ 3		\$		\$	\$ 24,947	\$		\$	\$	\$
15,333	15					22,985					
296,949	297					200,018					16,570

1				1			
66,666	66			6,230,985			
2,000	2			28			
				126,000			(126,000)
							40,750
67				57			
<hr/>							
393,445	\$ 393			\$ 10,102,132			\$ (85,250)

The accompanying notes are an integral part of these financial statements

DOR BioPharma, Inc.  
(a development stage company)  
Consolidated Statements of Stockholders Equity Continued

	Common Stock		Common Stock to be Issued		Series B and C Convertible Preferred Stock		Additional Paid-In Capital	During the Development Stage	(deficit) Accumulated Other Comprehensive Income	Treasury Stock		Unearned Compensation	S
	Shares	Par Value	Shares	Stated Value	Shares	Stated Value				Equity	Cost		
n of ock		\$		\$		\$	\$	\$		41,975	\$ (300,000)	\$	\$
of ed ons							(22,402)					22,402	
ion d ion												49,348	
n of ock										76,667	(143,750)		
of ed ons							(1,379)					1,379	
ion d ion												12,121	
ed at													
96	333,333	333					324,667						
ed at	333,333	333					999,667						

1996	145,283	146		379,003							
1997	1,173	1		1,407							
				5,000							
1997				5,407,546							
	8,648,718	8,650		15,122,943							
2011	9,855,285	\$ 9,856	\$	\$ 32,318,584	\$	\$		118,642	\$ (443,750)	\$	\$

The accompanying notes are an integral part of these financial statements

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DOR BioPharma, Inc.  
(a development stage company)  
Consolidated Statements of Stockholders' Equity - Continued

Common Stock		Common Stock		Series B and C		Additional	(deficit)	Other	Treasury Stock		Unearned	Subs
Shares	Par Value	to be Issued	Stated Value	Preferred Stock	Stated Value				Development	Comprehensive		
						Paid-In	Accumulated	Income				
						Capital	During the					
							Stage					



ds									
ce									
on									
nd									
ts									
ary			\$	\$	\$	\$	\$	\$	\$
	307,692	\$ 308			\$ 1,871,537				
ds									
e of									
s in	25,000	25			61,725				
se									
ent									
on									
n	(133,335)	(134 )			(129,866)				
eds									
ance									
B									
stock									
er									
March				80,100	8,010,000				
stock									
in				5,986	598,666	(713,187 )			
from									
of									
ons	334	4			347				
stock									
1999	819,319	819			1,535,403	(1,536,222 )			
stock									
in				6,887	688,634	(1,285,412 )			
eds									
ate									
t at									
er									
s									
costs	1,809,520	1,810			7,772,738				
of									
issued									
ge									
ial									
n					87,373	(87,373)			



							25,552		
			8,033	803,280	(1,486,501)			(14,631,175)	
								(75)	
,384	20,945	1,350,000	1,687,500	108,443	10,844,280	48,983,361	(63,721,285)	118,642	(443,750)
,569	3,593					1,220,476			
								368,836	
			8,675	867,542	(1,456,385)				
,187	1,245					10,936,331			
		37,000	13,690						
								53,700	(24,517)
,502	1,012	(1,011,502)	(1,264,378)			1,263,366			
								(4,966,081)	

,642	26,795	375,498	436,812	117,118	11,711,822	61,315,985	(68,687,366)	172,342	(468,267)
,912	6,797					4,718,038			
,974	41								
,305	391					329,689			
,434	494					187,224			
			9,370	936,946	(936,946)				
,498	376	(375,498)	(436,812)			436,436			
						954,850			
							(5,288,531)		
		\$						\$	
,765	\$ 34,894		126,488	\$ 12,648,768	\$ 67,005,276	\$ (73,975,897)		172,342	\$ (468,267)

The accompanying notes are an integral part of these financial statements

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**DOR BioPharma, Inc.**  
**(a development stage comapan)**  
**Consolidated Statement of Cash Flows**

Year ended		Cumulative Period
December 31, 2003	December 31, 2002	February 15, 1985 (Inception) to December 31, 2003

Operating activities:			
Net loss	\$ (5,288,531)	\$ (4,966,081)	\$ (72,439,676)
Adjustments to reconcile net loss to cash used in operating activities:			
Depreciation and amortization	226,140	345,495	2,134,741
Gain on sale of marketable securities			(110,244)
Noncash stock compensation	1,004,998	332,378	2,123,554
Equity in (earnings) losses of joint ventures		(868,859)	22,179,091
Amortization of fair value of warrants			3,307,546
Gain on sale of assets	26,389		21,859
Write-off patent issuance cost	59,340		499,065
Write-off of acquired research and development			10,181,000
Change in operating assets and liabilities:			
Receivables	(20,954)		(20,954)
Receivable from related party		44,447	
Prepaid expenses	(51,511)	(54,392)	(151,822)
Accounts payable and accrued expenses	(78,897)	(158,067)	564,269
Accrued compensation	(95,480)	(81,489)	29,000
Due to joint ventures		(594,232)	(1,635,466)
Total adjustments	1,070,025	(1,034,719)	39,121,639
Net cash used in operating activities	(4,218,506)	(6,000,800)	(33,318,037)
Investing activities:			
Cash received in acquisition of CTD, net			1,392,108
Patent issuance costs	(438,845)	(593,931)	(1,827,272)
Investment in joint ventures			(3,638,171)
Organizational costs incurred			(135)
Purchases of leasehold improvements and equipment	(17,854)	(83,089)	(1,888,052)
Proceeds from assets sold	103,407		108,237
Purchases of marketable securities			(11,004,080)
Proceeds from sale of marketable securities			11,114,324

Net cash provided by (used in) investing activities	(353,292)	(677,020)	(5,743,041)
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The accompanying notes are an integral part of these financial statements

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DOR BioPharma, Inc.  
(a development stage company)  
Consolidated Statement of Cash Flows - Continued

	Year ended		Cumulative Period
	December 31,		February 15, 1985
	2003	2002	(Inception) to December 31, 2003
	<u>          </u>	<u>          </u>	<u>          </u>
Financing activities:			
Net proceeds from issuance (costs incurred related to issuance) of common stock	\$4,724,849	\$974,069	\$43,477,317
Proceeds from exercise of options	187,224		604,711
Proceeds from borrowings under line of credit			1,150,913
Repayment of amounts due under line of credit, notes payable and capital lease obligations	(369,900)	(66,621)	(1,434,404)
Repayment of long-term receivable			50,315
Repayment of note payable issued in exchange for legal services			(71,968)
Purchase and retirement of common stock			(130,000)
Purchase of common stock for treasury		(24,517)	(468,267)
	<u>          </u>	<u>          </u>	<u>          </u>
Net cash provided by (used in) financing activities	4,542,173	882,931	43,178,617
	<u>          </u>	<u>          </u>	<u>          </u>
Net increase (decrease) in cash and cash equivalents	(29,625)	(5,794,889)	4,117,539
Cash and cash equivalents at beginning of period	4,147,164	9,942,053	
	<u>          </u>	<u>          </u>	<u>          </u>
Cash and cash equivalents at end	\$ 4,117,539	\$ 4,147,164	\$ 4,117,539

of year

Supplemental disclosure of cash flow:

Cash paid for interest	\$	5,330	\$	9,103
Non-cash transactions:				
Non-cash stock option expense	\$	1,004,998		
Issuance of preferred stock dividends in kind		936,945	\$	1,456,385
Issuance of note payable for joint venture termination			\$	579,742
Issuance of common stock for patent rights	\$	320,000	\$	250,000

The accompanying notes are an integral part of these financial statements

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DOR BioPharma, Inc.  
(a development stage company)  
Notes to Consolidated Financial Statements  
December 31, 2003

## 1. Organization and Nature of Business

### Principles of Consolidation

The consolidated financial statements include DOR BioPharma (DOR or the Company), Inc. and its wholly owned subsidiaries (Enteron RxEyes, Inc., Orasomal Technologies, Inc., Formulation Technologies Inc., Oral Solutions, Inc., Oradel Systems, Inc. and Corporate Technology Development, Inc.) The Company owns an 80.1% interest in Enteron Pharmaceutical, Inc., its subsidiary developing orBec®. All significant intercompany accounts and transactions have been eliminated in consolidation.

### Nature of Business

DOR BioPharma, Inc. is a biopharmaceutical company focused on the development of biodefense vaccines, and therapeutics intended for areas of unmet medical need. Through the Company's biodefense program it is developing bioengineered vaccines designed to protect against the deadly effects of ricin toxin and botulinum toxin exposure, both of which are considered serious bioterrorism threats. The underlying technologies are exclusively licensed by the Company from two leading university research centers. In addition to the biodefense vaccines, the Company is developing orBec® (oral beclomethasone 17, 21-dipropionate), a potent locally-active corticosteroid, for the treatment of intestinal inflammation associated with acute Graft-versus-Host Disease (GvHD) following allogeneic bone marrow transplant. There are currently no Food and Drug Administration (FDA) approved products on the market for acute intestinal GvHD. The drug is currently being tested in a pivotal phase III clinical trial with the goal of filing a

New Drug Application (NDA) with the FDA in late 2004. Oral BDP is also being considered for a number of additional therapeutic indications that involve inflammatory conditions. DOR's business strategy is to a) advance the existing product pipeline through focused use of resources, establishment of strategic manufacturing and commercial partnerships, and pursuit of government funding and b) acquire additional clinical stage compounds to broaden the pipeline.

## 2. Development Stage Enterprise

The Company's activities to date principally have been raising capital and conducting research and development in conjunction with developing new products. Consequently, as shown in the accompanying financial statements, the Company has not realized substantial revenue and has a deficit accumulated during the development stage for the period from inception, February 15, 1985 through December 31, 2003 of \$73,975,897. The Company will continue to be a development stage company, as defined in Statement of Financial Accounting Standards (SFAS) No. 7, "Accounting and Reporting by Development Stage Enterprises," until it begins sales of its anticipated products.

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## 3. Summary of Significant Accounting Policies

### Segment and Geographic Information

The Company operates in the biotechnology drug delivery industry and does not have any reportable operating segments.

### Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of 90 days or less when purchased to be cash equivalents.

### Research and Development Costs

Research and development costs are charged to expense when incurred. Research and development includes costs such as clinical trial expenses, contracted research and license agreement fees with no alternative future use, supplies and materials, salaries and employee benefits, equipment depreciation and allocations of various corporate costs. Purchased in-process research and development expense (IPR&D) represents the value assigned or paid for acquired research and development for which there is no alternative future use as of the date of acquisition.

### Licenses and Patent Costs

Patent costs, principally legal fees, are capitalized and, upon issuance of the patent, are amortized on a straight-line basis over the shorter of the estimated useful life of the patent or the regulatory life. Licenses of technology with alternative future use are capitalized and are amortized on a straight-line basis over the shorter of the estimated useful life or the regulatory life. Licenses of technology with no alternative future use are expensed as incurred. The useful lives of licenses and patent costs at December 31, 2003 ranged from 13 to 17 years.

### Impairment of Long-Lived Assets

Equipment, leasehold improvements, licenses and patent costs, and amortizable intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected undiscounted cash flows is less than the carrying value of the related asset or group of assets,



a loss is recognized for the difference between the fair value and the carrying value of the related asset or group of assets. Such analyses necessarily involve significant judgment.

The Company recorded impairment of licenses and patents of \$59,340 for the year ended December 31, 2003.

#### Net Loss Per Share

In accordance with accounting principles generally accepted in the United States, basic and diluted net loss per share has been computed using the weighted-average number of shares of common stock outstanding during the respective periods (excluding shares that are not yet issued). The effect of stock options, warrants and convertible preferred stock is antidilutive for all periods presented.

#### Income Taxes

Deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year-end, based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the current tax payable for the period plus or minus the change during the period in deferred tax assets and liabilities. No current or deferred income taxes have been provided through December 31, 2003 because of the net operating losses incurred by the Company since its inception.

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### 3. Summary of Significant Accounting Policies (Continued)

#### Stock Based Compensation

The Company has stock-based compensation plans (see Note 8). SFAS No. 123, "Accounting for Stock-Based Compensation," encourages, but does not require companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has chosen to continue using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, in accounting for its stock option plans. Had compensation cost been determined based upon the fair value at the grant date for awards under the plans based on the provisions of SFAS No. 123, the Company's SFAS No. 123 pro forma net loss and net loss per share would have been as follows:

	Year ended December 31,	
	2003	2002
	<u>                    </u>	<u>                    </u>
Net loss applicable to common stockholders:		
As reported	\$ (6,225,476)	\$ (6,422,466)
Add stock-based employee compensation expense related to stock options determined under fair value method	(1,919,282)	(577,326)
Deduct amounts charged to expense	645,850	--
	<u>                    </u>	<u>                    </u>

Pro forma net income available to common stock holders	\$ (7,498,908)	\$ (6,999,792)
<hr/>		
Net loss per share:		
As reported, basic and diluted	\$ (0.21)	\$ (0.29)
Pro forma, basic and diluted	\$ (0.25)	\$ (0.31)

The weighted average fair value of options granted with an exercise price equal to the fair market value of the stock was \$0.30 and \$0.26 for 2003 and 2002, respectively.

The fair value of options in accordance with SFAS 123 was estimated using the Black-Scholes option-pricing model and the following weighted-average assumptions: dividend yield 0%, expected life of four years, volatility of 185% and 148% in 2003 and 2002, respectively and average risk-free interest rates in 2003 and 2002 of 3.0% and 4.0%, respectively.

Stock compensation expense for options granted to nonemployees has been determined in accordance with SFAS 123 and Emerging Issues Task Force (EITF) 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services," and represents the fair value of the consideration received, or the fair value of the equity instruments issued, whichever may be more reliably measured. For options that vest over future periods, the fair value of options granted to non-employees is periodically remeasured as the options vest.

#### Fair Value of Financial Instruments

Accounting principles generally accepted in the United States require that fair values be disclosed for the Company's financial instruments. The carrying amounts of the Company's financial instruments, which include cash and cash equivalents, current liabilities and debt obligations, are considered to be representative of their respective fair values.

#### Use of Estimates

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

#### Risk and Uncertainties

The Company is subject to risks common to companies in the biotechnology industry, including, but not limited to, litigation, product liability, development of new technological innovations, dependence on key personnel, protections of proprietary technology, and compliance with FDA regulations.

#### New Accounting Pronouncements

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, No. 44 and No. 64 and Amendment of SFAS No. 13." As a result of SFAS 145, gains and losses from extinguishment of debt should be classified as extraordinary items only if they meet the criteria in APB Opinion No. 30, that they are unusual and infrequent and not part of an entity's recurring operations. The Company adopted SFAS 145 for the year beginning January 1, 2003 and it has not had any effect on the consolidated financial statements for the year ending December 31, 2003.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities."

This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF 94-3. SAFS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. This differs from the

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### 3. Summary of Significant Accounting Policies (Continued)

guidance in EITF 94-3, which requires that a liability for costs associated with an exit plan or disposal activity be recognized at the date of an entity's commitment to an exit plan. SFAS No. 146 also requires all charges related to an exit activity, including accretion of interest related to the discounting of future liability related to that activity, to be classified in the same line item on the statement of operations. The Company adopted the statement for the fiscal year beginning January 1, 2003 and it had no material effect during the year.

In November 2002, the FASB issued FASB Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees Including Guarantees of Indebtedness of Others". FIN No. 45 requires entities to establish liabilities for certain types of guarantees and expands financial statement disclosures for others. The accounting requirements of FIN No. 45 are effective for guarantees issued or modified after December 31, 2002, and the disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. The adoption of FIN No. 45 did not have any impact on the Company's financial position or results of operations.

In January 2003, the EITF released Issue No. 00-21, ("EITF 00-21"), "Revenue Arrangements with Multiple Deliveries", which addressed certain aspects of the accounting by a vendor for arrangements under which it will perform multiple revenue-generating activities. Specifically, EITF 00-21 addresses whether an arrangement contains more than one unit of accounting and the measurement and allocation to the separate units of accounting in the arrangement. EITF 00-21 is effective for revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The adoption of this standard on July 1, 2003, did not have an impact on the Company's consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for how companies classify and measure certain financial instruments with characteristics of both liabilities and equity. It requires companies to classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003. The adoption of this standard did not impact the Company's consolidated financial statements.

#### 4. Investment in Joint Ventures and Preferred Stock

In 1998, the Company formed two joint ventures with Élan International Services, Ltd. (Élan) as follows:

##### InnoVaccines Corporation

InnoVaccines was established in January 1998 pursuant to agreements between the Company and Élan. The Company issued to Élan 307,692 shares of common stock and a six-year warrant to purchase an additional 230,770 shares of common stock at an exercise price of \$10.00 per share for an aggregate value of \$2.0 million. In addition, Élan purchased \$8.0 million of DOR Series B convertible preferred stock, which is convertible into common stock at a price of \$5.11 per share, subject to adjustment, with automatic conversion at such point that the common stock trades

at over 100,000 shares per day at a closing price of at least \$9.75 per share for 20 out of 30 consecutive trading days. The Series B convertible preferred stock pays an 8% annual in-kind dividend, which was valued at \$936,946 and \$867,542 in 2003 and 2002, respectively. The company issued 9,349 and 8,675 shares respectively.

InnoVaccines was owned 80.1% by DOR and 19.9% by Élan. Although DOR was the majority shareholder, the joint development agreement of InnoVaccines gave management participation to both DOR and Élan equally. Therefore, because the minority shareholder, Élan, had substantive participating veto rights, DOR accounted for its investment in the joint venture using the equity method of accounting in accordance with EITF-96-16 "Investor's Accounting for an Investee, When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights." InnoVaccines licensed certain technology from Élan and certain other technology from DOR. DOR and Élan originally invested \$8.0 and \$2.0 million in the joint venture, respectively.

InnoVaccines paid Élan an initial \$10.0 million license payment. As the technology did not yet represent a commercial product, the joint venture recorded an expense in 1998 for the initial license fee. The Company recorded its \$8.0 million share of the license fee expense in accordance with the equity method.

InnoVaccines contracted with both DOR and Élan, which performed research and development on behalf of the joint venture. Élan and DOR each funded research and development related to InnoVaccines technology equally from the inception of the joint venture through March 31, 1999, in accordance with the joint development and operating agreement. Such payments were not funded through the joint venture, and DOR expensed its payments. Subsequent to April 1, 1999, DOR and Élan were responsible for funding joint venture expenditures in proportion to their respective ownership levels through the joint venture entity (as a loan).

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#### 4. Investment in Joint Ventures and Preferred Stock (Continued)

DOR and Élan also incurred approximately \$0 and \$139,000 of expenditures during the years ended December 31, 2003 and 2002, respectively, related to certain licenses that DOR and Élan acquired for further development on behalf of InnoVaccines. Élan and DOR each agreed to pay 50% of the license costs outside of the joint venture entity. The Company's portion of the license costs through the dissolution of the joint venture, \$69,732 in 2002, was included in equity in losses from joint ventures in the accompanying statements of operations. In November 2002, the Company purchased Élan's ownership interest in the license for 500,000 shares of common stock, recorded at \$250,000, which was capitalized in 2002 because the technology at the time of purchase was determined to have alternative future use in the nasal route of administration of ricin vaccine.

#### Endorex Newco, LTD.

Endorex Newco, Ltd (Newco) was established in October 1998 pursuant to agreements between DOR and Élan. At closing, DOR and Élan paid \$8.4 million and \$2.1 million to purchase Newco's common stock, respectively. In addition, Élan purchased \$8,410,500 of DOR Series C Convertible Preferred Stock. The Series C Preferred Stock was exchangeable at Élan's option for an additional 30.1% ownership interest of Newco's common stock, which caused the classification of the Series C Preferred Stock to be outside of equity. The Series C Preferred Stock automatically converted to common stock at the conversion price of \$8.86 on October 21, 2002. Conversion of Series C Preferred Stock caused total stockholders' equity to increase by the liquidation value of the Series C Preferred Stock. The Series C Preferred Stock paid a 7% annual in-kind dividend, which was valued at \$588,843 in 2002. The Series C Preferred Stock was converted to approximately 1.25 million shares of common stock in November 2002.

Newco was owned 80.1% by DOR and 19.9% by Élan. Although DOR was the majority shareholder, the joint development agreement of Newco gave management participation to both DOR and Élan equally. Therefore, because the minority shareholder, Élan, had substantive participating veto rights, DOR accounted for its investment in the joint venture using the equity method of accounting in accordance with EITF-96-16. At closing, Newco paid Élan an initial \$10.0 million license payment. Because the technology did not represent a commercial product, Newco recorded an expense in 1998 for the initial license fee expense. The Company recorded its \$8.0 million share of the license fee in accordance with the equity method.

Newco entered into an agreement with Schein Pharmaceuticals (Bermuda) Ltd. (Schein) for the manufacture of the MEDIPAD. In 2001, Schein terminated the agreement and agreed to pay Newco \$300,000 as a settlement. DOR recorded its portion of the settlement amount, \$240,000, as a reduction of joint venture related expenses.

#### Dissolution of the Élan Joint Ventures

On June 29, 2002, DOR and Élan signed a definitive agreement for the dissolution of their joint ventures, based on this agreement DOR retained the joint venture entities, InnoVaccines and Newco. In connection with this settlement, the Company's balance of \$2,042,833 due to joint ventures (which had been recorded as a current liability) at December 31, 2001 was restructured into payments totaling \$1,104,242: \$524,500 paid immediately in cash and the remaining \$579,742 payable under a note with scheduled payments of principal and interest of \$231,897 (June 30, 2003), \$231,897 (June 30, 2004) and \$115,948 (December 30, 2004), respectively (see Note 7).

The joint ventures had no revenues in any period. In 2002, DOR incurred costs related to InnoVaccines of \$69,732 and had a gain on the dissolution of InnoVaccines of \$938,859, for a net of \$869,859.

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#### 5. Equipment

Office and lab equipment is stated at cost. Depreciation is computed on a straight-line basis over five years. Leasehold improvements are depreciated utilizing the straight-line method over the term of the lease. Depreciation expense was \$90,185 and \$186,387 for the periods ended December 31, 2003 and 2002, respectively. Leasehold improvements and equipment consisted of the following at December 31:

	December 31,	
	2003	2002
	<u>          </u>	<u>          </u>
Leasehold improvements	\$ 262,985	\$ 262,985
Laboratory equipment	117,588	927,189
Office equipment	84,857	234,994
	<u>          </u>	<u>          </u>
	202,445	1,425,168
Accumulated depreciation	(141,650)	(1,162,247)
	<u>          </u>	<u>          </u>
	<u>\$ 60,795</u>	<u>\$ 262,921</u>

#### 6. Intangible Assets

During 1998, Innovaccines (see Note 4), the Company's former joint venture with Élan, acquired a license to broadly issued U.S. and International patents relating to the oral administration of vaccines. Specifically, these patents claim the use of microencapsulation for oral and mucosal administration of vaccines using biocompatible microspheres below 10 microns in diameter. During 2002, the Company acquired Élan's interest in the patent license for 500,000 shares of common stock. Also during 2002, the Company entered into a binding letter of intent with Southern Research Institute (SRI) to expand its license to include intranasal vaccine delivery, which is considered by the Company to be better suited for biodefense vaccines. The Company capitalized the fair value of 500,000 shares (\$250,000) of common stock to Élan, as well as a \$175,000 payment to the Southern Research Institute for the expanded license because the acquired technology is considered to have alternative future uses. Upon execution of a royalty bearing license agreement in July 2003, the Company paid an additional license fee of \$175,000. The Company also agreed to provide \$125,000 of sponsored research during 2003, a \$60,000 annual license fee and \$60,000 annually for patent maintenance.

In May 2003, the Company signed a license agreement with Thomas Jefferson University (TJU) for the licensure of detoxified botulinum toxin for use as a vaccine, under this license the Company paid TJU \$30,000 in cash and issued common stock worth a total \$130,000. The Company also agreed to reimburse TJU for past and future patent maintenance. The patent maintenance expense was \$92,834.94 for 2003. The Company is also responsible for a license maintenance fee of \$10,000 in 2004 and 2005 and \$15,000 in 2005 and each year thereafter.

In July 2003, the Company entered into an exclusive license agreement with the University of Texas Southwestern Medical Center (UT Southwestern) for administering the ricin vaccine via the intramuscular route. Under the terms of this agreement, the Company issued UT Southwestern \$200,000 of common stock. The Agreement further provides for license maintenance fees of \$200,000 in 2004 and minimum yearly royalty of \$50,000 in 2005 and subsequent years.

In October 2003, the Company executed an exclusive license agreement with the Board of Regents of the University of Texas System (UTMB) for the use of luminally-active steroids, including beclomethasone/eclomethasone in the treatment of irritable bowel syndrome. Pursuant to this agreement the company paid UTMB a license fee of \$10,000 and also agreed to pay an additional \$10,000 license fee each year on the anniversary of this agreement. The company also agreed to pay past and future patent maintenance costs, for 2003 this cost was \$7,830.

The Company acquired a sublicense agreement and is to receive payments on this sublicense in the event of the sublicensee reaching certain milestones; The Company currently has a capitalized \$120,101 with one year life remaining.

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## 6. Intangible Assets (Continued)

The following is a summary of License and Patent Assets:

Year	Weighted Average Amortization period (years)	Cost	Accumulated Amortization	Net
	10.62 years	\$1,517,592	\$193,810	\$1,323,782

December 31, 2002				
December 31, 2003	11.85 years	\$2,281,267	\$ 384,333	\$1,896,934

Based on the balance of License and Patent assets at December 31, 2003, the annual amortization expense for each of the succeeding five years is to be as follows:

<u>Year</u>	<u>Amortization Amount</u>
2004	\$ 254,802
2005	134,791
2006	134,791
2007	134,791
2008	134,791

## 7. Long-Term Debt

Long-term debt was as follows:

	December 31,	
	2003	2002
Note payable to Elan (see Note 4)	\$ 347,845	\$ 579,742
Note payable to a bank	11,222	150,225
	<u>359,067</u>	<u>729,967</u>
Less current portion	359,067	382,122
	<u>\$ --</u>	<u>\$ 347,845</u>

The note payable to a bank has a final payment on January 15, 2004. The note bears interest at prime less .25% (4.0%) and borrowings are secured by a short-term certificate of deposit which is included in cash and cash equivalents.

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## 8. Stockholders' Equity

### Private Placements

In September 2003, the Company sold an aggregate of 6,796,919 shares of common stock in a private placement. Gross proceeds were \$5,410,348 (net after commissions and expenses was \$4,711,189). Commissions of approximately \$100,000 were paid to related parties who were agents for the private placement.

Investors in the September 2003 private placement also received warrants for the purchase of 6,796,919 shares of DOR common stock. The warrants issued to these investors are immediately exercisable at \$0.8756 per share and

expire September 15, 2008. Also, as part of the compensation received for its assistance in the private placement, the placement agents/dealers received warrants to purchase an aggregate 1,359,383 shares of DOR common stock. These warrants are immediately exercisable at \$0.8756 per share and expire September 15, 2008. The Company has the right to call the warrants if the closing bid price of DOR's common stock equals or exceeds \$2.62 per share for at least 20 consecutive days.

In December 2002, the Company sold an aggregate of 3,093,569 shares of common stock in a private placement. Gross proceeds were \$1,082,750 (net after commission was \$973,569). Commissions of approximately \$53,000 were paid to related parties who were agents for the private placement. Several directors and officers of the Company were investors in the private placement. Investors in the December 2002 private placement also received warrants for the purchase of 1,546,789 shares of DOR common stock. The warrants issued to these investors are immediately exercisable at \$.75 per share and expire December 31, 2007. Also, as part of the compensation received for its assistance in the private placement, the placement agents/dealers received warrants to purchase an aggregate 463,073 shares of DOR common stock. These warrants are immediately exercisable at \$.35 - \$.75 per share and expire December 31, 2007. The Company has the right to call the warrants if the closing bid price of DOR's common stock equals or exceeds \$3.00 per share for at least 10 consecutive days.

In connection with an April 2000 private placement, the Company sold 1,809,520 shares of common stock for net proceeds of 7,774,548. The Company issued warrants to the investors for the purchase of 452,383 shares of its common stock. The warrants issued to these investors are immediately exercisable at \$5.91 per share and expire in April 2005. Also, as part of the compensation received for its assistance in the private placement, the placement agent received warrants to purchase 226,190 shares of DOR common stock. These warrants are immediately exercisable at \$5.25 per share, expire in October 2007 and the Company has the right to call the warrants if the closing bid price of DOR's common stock equals or exceeds \$13.125 per share for at least 20 consecutive trading days.

In connection with a 1997 private placement, the Company sold 8,648,718 shares of common stock for net proceeds of \$15,131,593. The Company issued warrants for the purchase of 864,865 shares of DOR common stock at an exercise price of \$1.65 per share to the placement agent, and certain of its affiliates and employees. The Company also issued warrants to purchase 1,297,297 shares of DOR common stock at an exercise price of \$1.65 per share to certain employees of the placement agent. The warrants are exercisable and expire on April 16, 2008. Through December 31, 2002, 148,161 of these warrants have been exercised.

#### Stock Compensation to Non-employees

During 2003, the Company issued at market 6,674 shares of common stock to settle a dispute with their former placement agent, Atlas Capital.

During 2003, the Company issued at market 392,000 shares valued at \$330,000 to Thomas Jefferson University and the University of Texas System for license agreements.

### 9. Stock Option Plans and Warrants

The Amended and Restated 1995 Omnibus Plan (the Plan) is divided into three separate equity programs: 1) the Discretionary Option Grant Program, under which eligible persons may, at the discretion of the Plan Administrator, be granted options to purchase shares of common stock, 2) the Salary Investment Option Grant Program, under which eligible employees may elect to have a portion of their base salary invested each year in options to purchase shares of common stock, 3) the Automatic Option Grant Program, under which eligible nonemployee Board members will automatically receive options at periodic intervals to purchase shares of common stock, and 4) the Director Fee Option Grant Program, under which non-employee Board members may elect to have all, or any portion, of their



annual retainer fee otherwise payable in cash applied to a special option grant.

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## 9. Stock Option Plans and Warrants

The rollforward of shares available for grant was as follows:

	December 31,	
	2003	2002
	<u>          </u>	<u>          </u>
Shares available for grant at beginning of year	4,474,443	1,101,238
Increase in shares available	-	208,257
Amendment to increase shares available in plan	-	5,291,743
Options granted under the Plan	(4,520,000)	(3,087,420)
Options forfeited	1,676,144	960,625
Shares available for grant at end of year	<u>1,630,587</u>	<u>4,474,443</u>

Option activity for the years ended December 31, 2003 and 2002 was as follows:

	Options	Weighted-Average Options Exercise Price
	<u>          </u>	<u>          </u>
Balance at December 31, 2001	3,411,667	\$ 1.69
Granted	3,626,000	0.33
Forfeited	(960,625)	1.27
	<u>          </u>	<u>          </u>
Balance at December 31, 2002	6,077,042	0.95
Granted	4,520,000	0.80
Forfeited	(1,676,144)	1.85
Exercised	(424,054)	0.39
	<u>          </u>	<u>          </u>
Balance at December 31, 2003	<u>8,496,844</u>	<u>\$ 0.72</u>

The weighted-average exercise price, by price range, for outstanding options at December 31, 2003 is:

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	Weighted-Average Remaining Contractual Life	Outstanding Options	Exercisable Warrants
Price Range \$0.20 \$0.40	8.92	3,250,000	3,162,500
Price Range \$0.71 \$0.99	8.70	4,681,844	2,138,506
Price Range \$1.25 \$2.00	5.11	180,000	180,000
Price Range \$2.47 \$6.75	3.71	385,000	385,000

From time to time, The Company gives warrants to consultants and in connection with private placements. The weighted-average exercise price, by price range, for outstanding options at December 31, 2003 was:

Weighted-Average Remaining Contractual Life		Outstanding Warrants	Exercisable Warrants
Price Range \$0.75 \$1.00	4.41	11,952,000	11,952,000
Price Range \$1.50 \$2.00	2.36	1,944,000	1,944,000
Price Range \$5.25 \$8.50	2.11	885,000	885,000

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## 10. Income Taxes

The types of temporary differences between tax bases of assets and liabilities and their financial reporting amounts that give rise to the deferred tax asset (liability) and their approximate tax effects are as follows:

	December 31,	
	2003	2002
Deferred tax assets:		
Net operating loss carryforwards	\$ 22,893,000	\$ 21,712,000
Research and development credit carryforwards	1,988,000	1,910,000
Work opportunity credit carryforwards	260,000	260,000
Orphan drug credit carryforwards	2,595,000	2,552,000
	<u>27,736,000</u>	<u>26,434,000</u>
Valuation allowance	(27,736,000)	(26,434,000)
Net deferred tax assets	<u>\$</u>	<u>\$</u>

At December 31, 2003, the Company had net operating loss carryforwards of approximately \$54.2 million for U.S. Federal and state tax purposes, which expire beginning in 2004.

The following is the approximate amount of the Company's net operating losses that expire over the next five years:

Year of expiration	Amount
2004	\$ 893,000
2005	544,000
2006	222,000
2007	981,000
2008	910,000

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#### 11. Lease Commitments

The Company leases its corporate office under an operating lease through September 2006, which provides for annual minimum rent and additional rent based on increases in operating costs and real estate taxes. Rent expense was \$74,110 in 2003 and \$61,262 in 2002.

Future minimum lease payments under the non-cancelable operating lease will be:

Year	L e a s e Payments
2004	\$ 64,502
2005	\$ 66,914
2006	\$ 52,628

#### 12. Subsequent Events (Unaudited)

##### Conversion of Series B Preferred Stock

On March 4, 2004, Élan Pharmaceutical Investments, Ltd., the sole holder of the Company's Series B Preferred Stock executed its right to convert its preferred stock to common stock; this was done at a conversion price of \$5.11 per share for a total of 2,509,552 shares of common stock. In addition Élan received from the Company and additional 376,886 shares of common stock in payment for the early conversion.

##### Private Placement

On March 12, 2004, the Company closed on a private equity financing with certain accredited investors. The Company issued 4,113,924 shares of common stock and warrants to purchase 1,645,570 shares of common stock at a price of \$0.87 per share. The gross proceeds to the Company were \$3.25 Million.

SIGNATURES

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

DOR BIOPHARMA, INC.

By: /s/ Ralph M. Ellison

Ralph M. Ellison, Chief Executive

Officer and President

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Date: April 15, 2004

In accordance with the Exchange Act, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated, on April 15, 2004.

Signature	Title
<hr/> /s/ Ralph M. Ellison Ralph M. Ellison	Chief Executive Officer, President and Director (principal executive officer)
<hr/> /s/ William D. Milling William D. Milling	Controller, Treasurer and Corporate Secretary (principal financial and accounting officer)