IMARX THERAPEUTICS INC
Form 10-Q
August 29, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

þ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2007

o **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 001-33043

ImaRx Therapeutics, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**86-0974730**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
1635 East 18th Street, Tucson, AZ	**85719-6803**
(Address of Principal Executive Offices)	**(Zip Code)**

(520) 770-1259
(Registrant s Telephone Number, Including Area Code)

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

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

Large Accelerated Filer o Accelerated Filer o Non-accelerated filer þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES o NO þ

The number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date is as follows:

Class	**Outstanding at August 27, 2007**
Common Stock $0.0001 par value	**10,008,183**

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PART 1. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements.

ImaRx Therapeutics, Inc.
Consolidated Balance Sheets

	June 30 2007 (Unaudited)	December 31 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,598,074	$ 4,256,399
Restricted cash	4,420,831	
Accounts receivable, less allowances of $2,731 in 2007 and $20,819 in 2006	194,147	575,610
Inventory	11,680,168	16,059,730
Inventory subject to return	4,209,149	445,245
Prepaid expenses and other	356,579	539,048
Deferred financing costs	1,003,913	
Total current assets	28,462,861	21,876,032
Long-term assets:		
Property and equipment, net	1,108,826	916,966
Intangible assets, net	1,983,333	2,500,000
Total assets	$ 31,555,020	$ 25,292,998
LIABILITIES AND STOCKHOLDERS DEFICIT		
Current liabilities:		
Accounts payable	$ 1,428,350	$ 1,413,032
Accrued expenses	1,174,893	1,235,510
Accrued chargebacks and administrative fees	2,579,367	
Deferred revenue	8,189,605	955,263
Notes payable	16,065,000	15,615,000
Total current liabilities	29,437,215	19,218,805
Other long-term liability		218,856
Total liabilities	29,437,215	19,437,661
Redeemable convertible preferred stock:		
Series A 8% Redeemable Convertible Preferred Shares, $.0001 par, at carrying value including accrued dividends (liquidation value of $9,658,830 and $9,406,804 at June 30, 2007 (unaudited) and December 31, 2006, respectively):		
Authorized shares 2,302,053 at June 30, 2007 (unaudited) and December 31, 2006		
Issued and outstanding shares 2,291,144 at June 30, 2007 (unaudited) and December 31, 2006	9,580,773	9,328,747
Series B 7% Mandatorily Redeemable Convertible Preferred Shares, $.0001 par, at carrying value (liquidation value of $9,491,622 at June 30, 2007 (unaudited) and December 31, 2006, respectively):		

Authorized shares 593,226 at June 30, 2007 (unaudited) and December 31, 2006		
Issued and outstanding shares 593,226 at June 30, 2007 (unaudited) and December 31, 2006	9,491,622	9,491,622
Series C Mandatorily Redeemable Convertible Preferred Shares, $.0001 par, at carrying value (liquidation value of $1,999,998 at June 30, 2007 (unaudited) and December 31, 2006 , respectively):		
Authorized shares 285,714 at June 30, 2007 (unaudited) and December 31, 2006		
Issued and outstanding shares 285,714 at June 30, 2007 (unaudited) and December 31, 2006	1,945,563	1,945,563

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	June 30 2007 (Unaudited)	December 31 2006
Series D 8% Redeemable Convertible Preferred Shares, $.0001 par, at carrying value including accrued dividends (liquidation value of $1,631,949 and $1,583,743 at June 30, 2007 (unaudited) and December 31, 2006, respectively):		
Authorized shares 438,232 at June 30, 2007 (unaudited) and December 31, 2006		
Issued and outstanding shares 438,232 at June 30, 2007 (unaudited) and December 31, 2006	1,610,212	1,562,007
Series F 8% Redeemable Convertible Preferred Shares, $.0001 par, at carrying value including accrued dividends (liquidation value of $15,309,000 and $14,742,000 at June 30, 2007(unaudited) and December 31, 2006, respectively):		
Authorized shares 4,000,000 at June 30, 2007 (unaudited) and December 31, 2006		
Issued and outstanding shares 2,835,000 at June 30, 2007 (unaudited) and December 31, 2006	14,102,559	13,535,559
Total redeemable convertible preferred stock	36,730,729	35,863,498
Stockholders deficit:		
Series E Redeemable Convertible Preferred Shares, $.0001 par:		
Authorized shares 1,000,000 at June 30, 2007 (unaudited) and December 31, 2006		
Issued and outstanding shares 1,000,000 at June 30, 2007 (unaudited) and December 31, 2006	4,000,000	4,000,000
Common stock, $.0001 par:		
Authorized shares 70,000,000 at June 30, 2007 (unaudited) and December 31, 2006		
Issued and outstanding shares 2,607,054 at June 30, 2007 (unaudited) and 2,606,739 at December 31, 2006	260	260
Additional paid-in capital	28,766,958	28,619,883
Accumulated deficit	(67,380,142)	(62,628,304)
Total stockholders deficit	(34,612,924)	(30,008,161)
Total liabilities and stockholders deficit	$ 31,555,020	$ 25,292,998

See accompanying notes.

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ImaRx Therapeutics, Inc.
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2007	**2006**	**2007**	**2006**
Revenues:				
Product sales, net	$ 1,991,913	$	$ 3,077,612	$
Research and development	160,646	251,423	282,650	428,761
Total revenue	2,152,559	251,423	3,360,262	428,761
Costs and expenses:				
Cost of product sales	958,848		1,419,912	
Research and development	1,606,221	2,313,307	3,142,541	4,075,046
General and administrative	1,157,524	1,734,232	2,581,919	3,374,136
Total cost and expenses	3,722,593	4,047,539	7,144,372	7,449,182
Operating loss	(1,570,034)	(3,796,116)	(3,784,110)	(7,020,421)
Interest and other income, net	89,271	111,210	130,648	215,796
Interest expense	(225,000)	(390,000)	(450,000)	(615,000)
Gain on extinguishment of debt	218,856		218,856	
Net loss	(1,486,907)	(4,074,906)	(3,884,606)	(7,419,625)
Accretion of dividends on preferred stock	(433,616)	(150,116)	(867,232)	(300,230)
Net loss attributed to common stockholders	$ (1,920,523)	$ (4,225,022)	$ (4,751,838)	$ (7,719,855)
Net loss per share:				
Basic and diluted	$ (0.74)	$ (1.62)	$ (1.82)	$ (2.98)
Shares used in computing net loss per share:				
Basic and diluted	2,606,019	2,600,275	2,605,968	2,592,836

See accompanying notes.

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ImaRx Therapeutics, Inc.
Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30	
	2007	**2006**
Operating activities		
Net loss	$ (3,884,606)	$ (7,419,625)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	648,873	331,872
Stock-based compensation	147,072	505,293
Warrant amortization expense		173,909
Gain on extinguishments of debt	(218,856)	
Loss on sale of property and equipment		2,983
Changes in operating assets and liabilities:		
Accounts receivable	381,463	
Inventory	4,379,562	(4,175,000)
Inventory subject to return	(3,763,904)	
Prepaid expenses and other	182,469	(209,612)
Accounts payable	15,320	183,167
Accrued expenses and other liabilities	2,968,750	1,127,579
Deferred revenue	7,234,342	
Net cash provided by (used in) operating activities	8,090,485	(9,479,434)
Investing activities		
Purchase of property and equipment	(324,066)	(300,722)
Purchase of intangibles		(825,000)
Net cash used in investing activities	(324,066)	(1,125,722)
Financing activities		
Deferred financing costs	(1,003,913)	(1,098,281)
Change in restricted cash	(4,420,831)	
Proceeds from issuance of common stock		55,100
Net proceeds from issuance of preferred stock		12,968,559
Net cash (used in) provided by financing activities	(5,424,744)	11,925,378
Net increase in cash and cash equivalents	2,341,675	1,320,222
Cash and cash equivalents at the beginning of the period	4,256,399	8,513,387
Cash and cash equivalents at the end of the period	$ 6,598,074	$ 9,833,609
Supplemental Schedule of Noncash Investing and Financing Activities:		
Accretion of undeclared dividends on Series A/D Redeemable Convertible Preferred Stock	$ 867,232	$ 300,230
Fair value of stock warrants issued for consulting services and placement agreement amendment		173,909

Note issued for acquisition of technology and related inventory and intangibles	15,000,000

See accompanying notes.

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ImaRx Therapeutics, Inc.
Notes to Consolidated Financial Statements
June 30, 2007
(Unaudited)

1. Nature of Business

ImaRx Therapeutics, Inc. (the Company or ImaRx) is a biopharmaceutical company focused on developing and commercializing therapies for vascular disorders. The Company has devoted substantially all of its efforts towards the research and development of its product candidates and the commercialization of its currently marketed product, Abbokinase®.

2. Basis of Presentation

The Company has prepared the accompanying unaudited financial statements in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10-01 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by generally accepted accounting principles for complete financial statements. In the opinion of management, the accompanying unaudited financial statements reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the Company s interim financial information. The results of operation for the three and six months ended June 30, 2007 are not necessarily indicative of the results that may be reported for the year ended December 31, 2007 or any other future interim period. The accompanying unaudited financial statements and notes thereto should be read in conjunction with the audited financial statements for the year ended December 31, 2006 included in the Company s Registration Statement on Form S-1 (as amended), which was declared effective by the Securities and Exchange Commission (the SEC) on July 25, 2007.

The condensed consolidated financial statements include the accounts of the Company and its consolidated subsidiaries, ImaRx Oncology, Ltd. (IOL) and ImaRx Europe Limited (IEL). Since October 2, 2002, IOL has been a wholly owned subsidiary of ImaRx. The dissolution of IOL was completed on March 9, 2007. IEL is a wholly owned subsidiary created in 2005 by the Company to facilitate clinical trials in Europe. It was later determined that the European subsidiary was not required and IEL was dissolved in December 2006 with no activity reported for the period. All significant inter-company accounts and transactions have been eliminated.

3. Recently Issued Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* (FIN 48) which became effective January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements and requires the impact of a tax position to be recognized in the financial statements if that position is more likely than not of being sustained by the taxing authority. The adoption of FIN 48 had no effect on the Company s consolidated financial position or results of operations.

In September 2006, the FASB issued SAFS No. 157, *Fair Value Measurements.* SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS 157 does not require any new fair value measurements, but may change current practice for some entities. SFAS 157 is effective for fiscal years beginning after December 15, 2006. The adoption of SFAS No. 157 had no material effect on the Company s financial position or results of operations.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, which provides interpretive guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB No. 108 requires registrants to quantify misstatements using both the balance sheet and income statement approaches and to evaluate whether either approach results in quantifying an error that is material based on relevant quantitative and qualitative factors. The guidance is effective for the first fiscal period ending after November 15, 2006. The adoption of SAB No. 108 did not have any impact on these financial statements.

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In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The standard requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings. SFAS 159 is effective for the fiscal years beginning after November 15, 2007. The adoption of SFAS No. 159 had no material effect on the Company s financial position or results of operations.

4. Restricted Cash

Restricted cash consists of cash pledged as repayment of debt to secure the guarantees described in Note 10.

5. Inventory and Inventory Subject to Return

Inventory is comprised of finished goods and is stated at the lower of cost or market value. Inventory subject to return is comprised of finished goods, stated at the lower of cost or market value, and represents the amount of inventory that has been sold to wholesale distributors. When product is sold by the wholesale distributor to a hospital or other health care provider, a reduction in this account occurs and cost of sales is recorded.

The Company has one commercially available product, marketed as a clot-dissolving, or thrombolytic, urokinase drug called Abbokinase. Abbokinase is FDA approved and marketed for the treatment of acute massive pulmonary embolism. Of the vials of Abbokinase held in inventory either by the Company or by its wholesalers as of June 30, 2007, approximately 66% of the vials the Company expects hospitals to purchase, or approximately $10.5 million in inventory value, are unlabeled and will expire by October 2007 based on current stability data. The remaining approximately 34% of the vials the Company expects hospitals to purchase, or approximately $5.4 million in inventory value, are labeled and will expire at various times up to August 2009. The Company has an ongoing stability program to allow for expiration date extensions. The next testing point of the ongoing stability program, at which the Company may obtain data sufficient to extend the expiration dates of its unlabeled inventory, will be completed in the fall of 2007. If the parameters tested are within the specifications previously approved by the FDA, the Company may then label vials with extended expiration dating at that time to between June and August 2009. The Company must obtain FDA approval for each lot release of inventory. Inventory is labeled with an expiration date upon approval of a lot release by the FDA. Once labeled, the Company cannot extend the expiration date of the vials labeled. If the Company is successful in extending the expiration dates of its unlabeled inventory, the Company intends to continue the stability program after the fall of 2007 to potentially enable further expiration extensions for future product labeling. The Company periodically reviews the composition of inventory in order to identify obsolete, slow-moving or otherwise un-saleable inventory. The Company will write down inventory for estimated obsolete or un-saleable inventory in an amount equal to the difference between the cost of the inventory and the estimated market value based upon assumptions about future demand and market conditions. The Company believes the expiration dates will be extended.

6. Revenue Recognition

Revenue from product sales is recognized pursuant to Staff Bulletin No. 104 (SAB 104), Revenue Recognition in Financial Statements. Accordingly, revenue is recognized when all four of the following criteria are met: (i) persuasive evidence that an arrangement exists; (ii) delivery of the products has occurred; (iii) the selling price is both fixed and determinable; and (iv) collectibility is reasonably assured. The Company applies SFAS No. 48, Revenue Recognition When the Right of Return Exists, which amongst other criteria requires that future returns can be reasonably estimated in order to recognize revenue. The amount of future returns is uncertain due to the lack of returns history data. Due to the uncertainty of returns, the Company is accounting for these product shipments to wholesale distributors using a deferred revenue recognition model. Under the deferred revenue model, the Company does not recognize revenue upon product shipment to wholesale distributors; therefore, recognition of revenue is deferred until the product is sold by the wholesale distributor to a hospital or other health care providers expected to be the end user. The Company s returns policy allows end users to return product within 12 months after expiration, but current practice by wholesalers and end users is a just in time purchasing methodology, meaning that the product is purchased on an as-needed basis, typically on a daily or weekly basis. Although the product was previously marketed by Abbott Laboratories, the Company was unable to obtain historical returns data for the product from Abbott Laboratories at the time of its acquisition of Abbokinase. Based on input from its wholesalers, current

purchasing practices and the estimated amount of product in the channel, the Company anticipates immaterial product returns from hospitals.

The Company s customers consist primarily of large pharmaceutical wholesalers who sell directly to hospitals and other healthcare providers. Provisions for product returns and exchanges, sales discounts, chargebacks, managed care and Medicaid

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rebates and other adjustments are established as a reduction of product sales revenues at the time such revenues are recognized. These deductions from gross revenue are established by the Company as its best estimate at the time of sale adjusted to reflect known changes in the factors that impact such reserves.

7. Stock-Based Compensation

The Company maintains performance incentive plans under which incentive and non-qualified stock options are granted primarily to employees and non-employee directors. Prior to January 1, 2006, the Company accounted for stock-based compensation in accordance with Accounting Principles Board Opinion No. 25 (APB No. 25), *Accounting for Stock Issued to Employees*, SFAS No. 123, *Accounting for Stock Based Compensation*, and related interpretations. Effective January 1, 2006, the Company adopted SFAS 123(R), requiring measurement of the cost of employee services received in exchange for all equity awards granted, based on the fair market value of the award as of the grant date. Under this standard, the fair value of each employee stock option is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Expected dividend yield	0.00%	0.00%
Expected stock price volatility	75.0%	75.0%
Risk free interest rate	5.05%	5.03%
Expected life of option	7 years	7 years

The dividend yield assumption is based on the Company s history and expectation of dividend payouts. The Company uses guideline companies to determine volatility. The expected life of the stock options is based on historical data and future expectations. The risk-free interest rate assumption is based on observed interest rates appropriate for the terms of the Company s stock options.

Stock Options

A summary of activity under the Company s 2000 Stock Plan is as follows:

	Options	Exercise Price Per Share	Weighted-Average Exercise Price
Balance at December 31, 2006	630,351	$2.50-30.00	$ 18.15
Granted			
Exercised	(315)	2.50	2.50
Canceled	(84,792)	2.50-27.50	16.45
Balance at June 30, 2007	545,244	$2.50-30.00	$ 15.42
Available for grant at June 30, 2007	341,485		

The Company issued no options during the three months ended and the six months ended June 30, 2007. All outstanding options are currently exercisable.

8. Net Loss per Share

Basic and diluted net loss attributable to common stockholders per share is calculated by dividing the net loss applicable to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted net loss per common share is the same as basic net loss per common share for all periods presented. The effects of potentially dilutive securities are antidilutive in the loss periods.

	Three Months Ended June 30,		Six months Ended June 30,	
	2007	2006	2007	2006
Net loss attributed to common stockholders	$ (1,920,523)	$ (4,225,022)	$ (4,751,838)	$ (7,719,855)

Basic and diluted weighted average shares outstanding	2,606,019	2,600,275	2,605,968	2,592,836
Net loss per share:				
Basic and diluted	$ (0.74)	$ (1.62)	$ (1.82)	$ (2.98)

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The following potential common shares have been excluded from the computation of diluted net loss per share since their effect would be antidilutive in each of the loss periods presented:

	At June 30,	
	2007	2006
Convertible preferred stock	4,401,129	4,401,129
Stock options	545,244	579,404
Warrants	352,324	352,324

9. Reverse Stock Split

The Company s Board of Directors and stockholders approved in September 2006 a reverse stock split. On September 12, 2006, a six-for-ten reverse stock split of the Company s common stock became effective. The Company s Board of Directors and stockholders approved in May 2007 a reverse stock split. On May 4, 2007, a one-for-three reverse stock split of the Company s common stock became effective. All common shares, per share and stock option data information in the accompanying financial statements and notes thereto has been retroactively restated for all periods to reflect the reverse stock splits.

10. Asset Acquisition

In April 2006, the Company acquired from Abbott Laboratories the assets related to Abbokinase, including the remaining inventory of finished product, all regulatory and clinical documentation, validated cell lines, and intellectual property rights, including trade secrets and know-how relating the manufacture of urokinase using the tissue culture method, for a total purchase price of $20,000,000. The purchase price is comprised of $5,000,000 in cash and a $15,000,000 secured promissory note. The note is due December 31, 2007, accrues interest at 6% annually and is secured by the Company s right, title and interest in the purchased assets. The purchase of these assets did not constitute the purchase of a business as defined in EITF No. 98-3, *Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business*, since no employees, equipment, manufacturing facilities or arrangements, or sales and marketing organization were included in the transaction. Since the purchase was not a business, the purchase price has been allocated based upon fair value assessments as follows: inventory $16,700,000, Abbokinase trade name $500,000 and other identifiable intangibles $2,800,000. The Company commenced selling Abbokinase in October 2006. Of the total number of vials of Abbokinase inventory that the Company acquired from Abbott, it is estimated that 28% of such vials will not be sold and, consequently, these vials are carried with no book value assigned. Under the purchase agreement, after the Company has received cash proceeds of $5,000,000 from the sale of Abbokinase, the Company is required to deposit 50% of the cash received from sales of Abbokinase into an escrow account securing the repayment of the $15,000,000 promissory note (See Note 4). If the promissory note is not repaid by its maturity date, Abbott has the right to the amount held in the escrow account and to reclaim any remaining inventory of Abbokinase and related rights.

11. Segment Information

The Company is engaged in the discovery, developing and commercializing therapies for vascular disorders. The Company has only one reportable segment and, therefore, all segment-related financial information required by Statement of Financial Accounting Standards No. 131, Disclosures About Segments of an Enterprise and Related Information, is included in the condensed consolidated financial statement. The reportable segment reflects the Company s structure, reporting responsibilities to the chief executive officer and the nature of the products under development.

12. Subsequent Events

Initial Public Offering

On July 25, 2007, 3,000,000 shares of common stock were sold on the Company s behalf at an initial public offering price of $5.00 per share, resulting in aggregate proceeds of approximately $12.3 million, net of underwriting discounts and commissions and offering expenses. Upon the completion of the Company s initial public offering in July 2007, all of the Company s previously outstanding preferred shares converted into an aggregate of 4,401,129 shares of the Company s common stock and all accrued dividends have been extinguished. These shares combined with 2,607,054 shares of common stock outstanding immediately before the initial public offering result in the

Company having 10,008,183 shares of common stock outstanding upon completion of the initial public offering in July 2007.

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The per share conversion rate of Series F preferred stock (Series F) is variable and is determined by dividing $5.00 by the lesser of (a) $25.00 (as adjusted for any stock dividends, combinations, splits, recapitalizations and the like with respect to such shares) or (b) 85% of the price per share paid in an initial public offering. The price per share of the initial public offering was $5.00, therefore, the holders of the Series F have converted to shares of common stock at a rate of 1.176 per share of Series F. The beneficial conversion is contemplated by EITF Issue No. 00-27, *Application of Issue No. 98-5 to Certain Convertible Instruments*. In the third quarter of 2007, a deemed dividend will be recorded at approximately $13.8 million, payable in the form of 2,768,294 shares of common stock.

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

Cautionary Statement Regarding Forward-Looking Statements

The following discussion should be read in conjunction with the accompanying unaudited Consolidated Financial Statements and related notes appearing elsewhere in this report. This Quarterly Report on Form 10-Q contains forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. We cannot guarantee the accuracy of the forward-looking statements, and you should be aware that results and events could differ materially and adversely from those contained in the forward-looking statements. You should also consider carefully the statements set forth in Item 1A of Part II of this Quarterly Report entitled Risk Factors which address these and additional factors that could cause results or events to differ materially from those set forth in the forward-looking statements.

Our Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and amendments to all such reports are available, free of charge, on our Internet website under Investors Financial Information, as soon as reasonably practicable after we file electronically such reports with, or furnish such reports to, the SEC. Our Internet website address is http://www.imarx.com. Information on our website does not constitute a part of this Quarterly Report on Form 10-Q. As used in this quarterly report on Form 10-Q, unless the context otherwise requires, the terms we, us, our, the Company, and ImaRx refer to ImaRx Therapeutics, Inc., a Delaware corporation, and its subsidiaries.

Overview

We are a biopharmaceutical company developing and commercializing therapies for vascular disorders. Our development efforts are focused on therapies for stroke and other vascular disorders, using our proprietary microbubble technology to treat vascular occlusions, or blood vessel blockages, as well as the resulting ischemia, which is tissue damage caused by a reduced supply of oxygen. Our commercialization efforts are currently focused on our product approved to treat acute massive pulmonary embolism, or blood clots in the lungs.

We were organized as an Arizona limited liability company on October 7, 1999, which was our date of inception for accounting purposes. We were subsequently converted to an Arizona corporation on January 12, 2000, and then reincorporated as a Delaware corporation on June 23, 2000. As of June 30, 2007, we had received aggregate net proceeds of approximately $13.8 million from sales of our commercial product Abbokinase to our wholesalers and customers, and we had deposited approximately $4.2 million in escrow as security for the payment of our $15.0 million non-recourse promissory note due in December 2007. From our inception through June 30, 2007, we accumulated a deficit from operations of approximately $67.4 million. We have funded our operations to date primarily through private placements of our preferred and common stock as well as the sale of convertible notes, sales of Abbokinase and the receipt of government grants. Through June 30, 2007, we had received net proceeds of approximately $46.8 million from the issuance of shares of our preferred and common stock and convertible notes.

Since our inception, we have devoted substantially all of our efforts toward planning, conducting and funding the various stages of development for our product candidates, researching potential new product opportunities based upon our proprietary technologies, acquiring technology and potential products, and commercializing our marketed product. We expect our operating losses to increase for at least the next several years due to increasing expenses associated with proposed clinical trials, product development, selling, general and administrative costs and regulatory activities.

In September 2005, we acquired the technology and development assets of Abbott Laboratories relating to two recombinant thrombolytic drug candidates. Since they had not yet received FDA approval and presented no alternative future use, we determined these technologies did not meet established guidelines for technological feasibility sufficiently to be recorded as assets. As a result, the full purchase price consideration of $24.0 million was recorded as acquired in-process research and development expense for the year ended December 31, 2005. In December 2006, we chose not to pursue further development and commercialization of these technologies because we were unable to obtain adequate financing to repay the $15.0 million non-recourse note due December 31, 2006, that we had issued to Abbott Laboratories as partial consideration for the acquisition of these technologies or to pay the costs of such further development and commercialization. Following that decision, Abbott Laboratories indicated its intent to repossess the assets in accordance with its security interest and forgive the debt. As a result, we realized a gain of $16.1 million in December 2006 relating to extinguishment of the non-recourse note and accrued interest. We incurred approximately

$0.5 million in research and development costs on these products before deciding not to pursue them further.

In April 2006, we acquired from Abbott Laboratories the assets related to Abbokinase, including the remaining inventory of finished product, all regulatory and clinical documentation, validated cell lines, and intellectual property rights,

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including trade secrets and know-how relating to the manufacture of urokinase using the tissue culture method. We commenced selling Abbokinase in October 2006.

Subsequent to June 30, 2007, we completed an initial public offering. On July 25, 2007, 3,000,000 shares of common stock were sold on our behalf at a price of $5.00 per share, resulting in aggregate proceeds of approximately $12.3 million, net of underwriting discounts and commissions and offering expenses.

Product Sales, Research and Development Revenue

We have generated only a limited amount of revenue to date, primarily by providing research services for projects funded under various government grants and from Abbokinase sales. We commenced sales of Abbokinase in October 2006 and anticipate that we will generate additional revenue from sales of Abbokinase. However, any such revenue is difficult to predict as to both timing and amount, may not be achieved in any consistent or predictable pattern, and in any case will not be sufficient to prevent us from incurring continued and increasing losses from our development and other activities. Additionally, wholesalers and hospitals may return outdated, short dated or damaged Abbokinase product that is in its original, unopened cartons and received by us prior to 12 months past the expiration date. We have a limited product returns history, therefore we recognize revenue only after inventory has shipped from a wholesaler to a hospital. In April 2007, we sold a total of approximately $9.0 million of Abbokinase, net of discounts and fees, to two of our primary wholesalers. As of June 30, 2007, we had received aggregate net proceeds of approximately $13.8 million from sales of Abbokinase to our wholesalers and customers, and we had deposited approximately $4.2 million into an escrow account as security for repayment of our $15.0 million promissory note due in December 2007. If the escrowed amount were to be applied to the outstanding balance of principal and interest on that note, the remaining amount due under the note would be approximately $11.9 million as of June 30, 2007. The vials of Abbokinase that we sold have expiration dates ranging from December 2008 to August 2009. We did not request a lot release for or sell any vials of Abbokinase that expire between August and October 2007 because we do not believe the vials would have been sold by the wholesalers and used by hospitals prior to such expiration dates.

All product sales recorded relate to sales of Abbokinase in the United States, which we commenced in October 2006. Due to the lack of returns history, we currently account for these product shipments using a deferred revenue recognition model. We do not recognize revenue upon product shipment to a wholesaler but rather, we defer the recognition of revenue until the right of return no longer exists or when the product is sold to the end user hospital as is stipulated by SFAS No. 48, *Revenue Recognition When the Right of Return Exists.* We record product sales net of chargebacks, distributor fees, discounts paid to wholesalers, and administrative fees paid to Group Purchasing Organizations (GPOs). The allowances are based on historical information and other pertinent data. As of June 30, 2007, we had deferred revenue of approximately $8.2 million.

Cost of product sales is determined using a weighted-average method and includes the acquisition cost of the inventory as well as additional labeling costs we incur to bring the product to market. Our product pricing is fixed, but could include a variable sales or cash discount depending on the nature of the sale. Our gross margins will be affected by chargebacks, discounts and administrative fees paid to the wholesalers and GPOs.

Research and Development Expenses

We classify our research and development expenses into four categories of activity, namely, research, development, clinical and regulatory. To date, our research and development efforts have been focused primarily on product candidates from our microbubble technology program. We expect our research and development expenses to increase with the planned continuation of clinical trials for our SonoLysis product candidates. Clinical development timelines, likelihood of commercialization and associated costs are uncertain and therefore vary widely. We anticipate determining which research and development projects to pursue as well as the level of funding available for each project based on the scientific and clinical results of each product candidate. We currently estimate we will complete the current or imminent stage of development for each primary product candidate as follows:

For our SonoLysis program, we intend to conduct the ongoing Phase I/II clinical trial for ischemic stroke evaluating SonoLysis+tPA therapy, and to conduct additional preclinical studies and prepare to initiate Phase II clinical trials for both SonoLysis+tPA therapy and SonoLysis therapy. We estimate that these efforts will cost approximately $10.0 million through September 2008.

We intend to maintain the regulatory status of Abbokinase as an FDA-approved product, to continue our ongoing product stability studies and related regulatory matters, product storage and labeling to enable us to seek the extension of the expiration dates of the inventory, to continue our ongoing 200-patient immunogenicity

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