

Catalyst Pharmaceutical Partners, Inc.

Form 10-Q

August 10, 2007

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

**FORM 10-Q**

[Mark One]

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

**For the Quarterly Period Ended June 30, 2007**

OR

**TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934**

*Commission File No. 001-33057*

**CATALYST PHARMACEUTICAL PARTNERS, INC.**

(Exact name of registrant as specified in its charter)

Delaware

76-0837053

(State or other jurisdiction of  
incorporation or organization)

(IRS Employer  
Identification No.)

220 Miracle Mile  
Suite 234  
Coral Gables, Florida

33134

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (305) 529-2522

Indicate by checkmark 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 report(s), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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 (Check one):

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 12,527,564 shares of common stock, \$0.001 par value per share, were outstanding as of August 8, 2007.

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**PART I. FINANCIAL INFORMATION**  
**ITEM 1. CONDENSED FINANCIAL STATEMENTS**  
**CATALYST PHARMACEUTICAL PARTNERS, INC.**  
**(a development stage company)**  
**CONDENSED BALANCE SHEETS**

|  | <b>June 30, 2007</b> | <b>December 31,</b> |
|--|----------------------|---------------------|
|  | <b>(unaudited)</b>   | <b>2006</b>         |
| <b>ASSETS</b>  |                      |                     |
| Current Assets:  |                      |                     |
| Cash and cash equivalents  | \$ 17,600,170        | \$ 20,434,702       |
| Interest receivable  | 78,517               | 85,787              |
| Prepaid expenses   | 498,166              | 67,333              |
| Total current assets   | 18,176,853           | 20,587,822          |
| Property and equipment, net  | 49,555               | 20,157              |
| Other assets   | 20,388               | 11,500              |
| Total assets   | \$ 18,246,796        | \$ 20,619,479       |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |                      |                     |
| Current Liabilities:   |                      |                     |
| Accounts payable   | \$ 146,383           | \$ 448,072          |
| Accrued expenses   | 272,113              | 324,774             |
| Total current liabilities  | 418,496              | 772,846             |
| Stockholders equity  |                      |                     |
| Preferred Stock, \$0.001 par value, 5,000,000 shares authorized, no shares issued and outstanding  |                      |                     |
| Common Stock, par value \$0.001 per share, 100,000,000 shares authorized, 12,527,564 and 12,516,620 shares issued and outstanding at June 30, 2007 and December 31, 2006, respectively | 12,528               | 12,517              |
| Additional paid-in capital   | 26,035,194           | 25,593,330          |
| Accumulated deficit  | (8,219,422)          | (5,759,214)         |
| Total stockholders equity  | 17,828,300           | 19,846,633          |
| Total liabilities and stockholders equity  | \$ 18,246,796        | \$ 20,619,479       |

**The accompanying notes are an integral part of these financial statements.**

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**CATALYST PHARMACEUTICAL PARTNERS, INC.**  
**(a development stage company)**  
**CONDENSED STATEMENTS OF OPERATIONS (unaudited)**

|   | <b>For the Three Months<br/>Ended June 30,</b> |              | <b>For the Six Months Ended<br/>June 30,</b> |              | <b>Cumulative<br/>Period from<br/>January 4,<br/>2002<br/>(date of<br/>inception)<br/>to June 30,<br/>2007</b> |
|---|--|--------------|--|--------------|--|
|   | <b>2007</b>                                    | <b>2006</b>  | <b>2007</b>                                  | <b>2006</b>  |  |
| Revenues  | \$   | \$           | \$   | \$           | \$   |
| Operating costs and expenses:                         |  |              |  |              |  |
| Research and development                              | 1,002,780                                      | 270,149      | 1,765,300                                    | 432,764      | 4,869,722  |
| General and administrative                            | 434,208  | 86,812       | 1,168,834                                    | 242,194      | 4,022,122  |
| Total operating costs and expenses                    | 1,436,988                                      | 356,961      | 2,934,134                                    | 674,958      | 8,891,844  |
| Loss from operations                                  | (1,436,988)                                    | (356,961)    | (2,934,134)                                  | (674,958)    | (8,891,844)  |
| Interest income                                       | 228,858  | 2,965        | 473,926                                      | 8,133        | 672,422  |
| Loss before income taxes                              | (1,208,130)                                    | (353,996)    | (2,460,208)                                  | (666,825)    | (8,219,422)  |
| Provision for income taxes                            |  |              |  |              |  |
| Net loss  | \$ (1,208,130)                                 | \$ (353,996) | \$ (2,460,208)                               | \$ (666,825) | \$ (8,219,422)   |
| Loss per share basic and diluted                      | \$ (0.10)                                      | \$ (0.05)    | \$ (0.20)                                    | \$ (0.10)    |  |
| Weighted average shares outstanding basic and diluted | 12,527,564                                     | 6,887,513    | 12,523,210                                   | 6,887,513    |  |

**The accompanying notes are an integral part of these financial statements.**

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**CATALYST PHARMACEUTICAL PARTNERS, INC.**  
**(a development stage company)**  
**CONDENSED STATEMENT OF STOCKHOLDERS EQUITY (unaudited)**  
**For the six months ended June 30, 2007**

|  | <b>Preferred</b> | <b>Common</b> | <b>Additional</b> | <b>Deficit</b>     |               |
|--|------------------|---------------|-------------------|--------------------|---------------|
|  | <b>Stock</b>     | <b>Stock</b>  | <b>Paid-in</b>    | <b>Accumulated</b> | <b>Total</b>  |
|  | <b>Stock</b>     | <b>Stock</b>  | <b>Capital</b>    | <b>During the</b>  |               |
|  |                  |               |                   | <b>Development</b> |               |
|  |                  |               |                   | <b>Stage</b>       |               |
| <b>Balance at December 31, 2006</b>            | \$               | \$ 12,517     | \$ 25,593,330     | \$ (5,759,214)     | \$ 19,846,633 |
| Issuance of stock options for services         |                  |               | 372,525           |                    | 372,525       |
| Amortization of restricted shares for services |                  |               | 10,076            |                    | 10,076        |
| Issuance of common stock for services          |                  | 11            | 59,263            |                    | 59,274        |
| Net loss                                       |                  |               |                   | (2,460,208)        | (2,460,208)   |
| <b>Balance at June 30, 2007</b>                | \$               | \$ 12,528     | \$ 26,035,194     | \$ (8,219,422)     | \$ 17,828,300 |

**The accompanying notes are an integral part of this financial statement.**

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**CATALYST PHARMACEUTICAL PARTNERS, INC.**  
**(a development stage company)**  
**CONDENSED STATEMENTS OF CASH FLOWS (unaudited)**

|   | <b>For the Six Months Ended<br/>June 30,</b> |              | <b>Cumulative<br/>Period<br/>from January 4,<br/>2002 (date of<br/>inception)<br/>through<br/>June 30,<br/>2007</b> |
|---|--|--------------|---|
|   | <b>2007</b>                                  | <b>2006</b>  |   |
| <b>Operating Activities:</b>  |  |              |   |
| Net loss  | \$ (2,460,208)                               | \$ (666,825) | \$ (8,219,422)  |
| Adjustments to reconcile net loss to net cash used in operating activities: |  |              |   |
| Depreciation  | 4,670  | 2,051        | 11,337  |
| Stock-based compensation  | 382,601                                      | 241,125      | 3,262,589   |
| Change in assets and liabilities:   |  |              |   |
| Decrease (increase) in interest receivable                                  | 7,270  |              | (78,517)  |
| (Increase) in other prepaid expenses and deposits                           | (439,721)                                    | (12,241)     | (518,554)   |
| (Decrease) increase in accounts payable                                     | (301,689)                                    | (42,806)     | 146,382   |
| Increase in accrued expenses  | 6,613  | 44,169       | 272,114   |
| Net cash used in operating activities                                       | (2,800,464)                                  | (434,527)    | (5,124,071)   |
| <b>Investing Activities:</b>  |  |              |   |
| Capital expenditures  | (34,068)                                     | (12,446)     | (60,892)  |
| Net cash used in investing activities                                       | (34,068)                                     | (12,446)     | (60,892)  |
| <b>Financing Activities:</b>  |  |              |   |
| Proceeds from issuance of common stock                                      |  |              | 18,789,536  |
| Proceeds from issuance of preferred stock                                   |  |              | 3,895,597   |
| Net cash provided by financing activities                                   |  |              | 22,685,133  |
| Net increase (decrease) in cash   | (2,834,532)                                  | (446,973)    | 17,500,170  |
| Cash and cash equivalents at beginning of period                            | 20,434,702                                   | 771,127      | 100,000   |
| Cash and cash equivalents at end of period                                  | \$ 17,600,170                                | \$ 324,154   | \$ 17,600,170   |

**The accompanying notes are an integral part of these financial statements.**

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**CATALYST PHARMACEUTICAL PARTNERS, INC.**  
**(a development stage company)**  
**NOTES TO CONDENSED FINANCIAL STATEMENTS**

**1. Organization and Description of Business.**

Catalyst Pharmaceutical Partners, Inc. (the Company) is a development-stage specialty pharmaceutical company focused on the acquisition, development and commercialization of prescription drugs for the treatment of drug addiction. The Company was incorporated in Delaware in July 2006. It is the successor by merger to Catalyst Pharmaceutical Partners, Inc., a Florida corporation, which commenced operations in January 2002.

The Company has incurred operating losses in each period from inception through June 30, 2007. The Company has been able to fund its cash needs to date through an initial funding from its founders, four subsequent private placements and an initial public offering (IPO) of its common stock.

***Merger***

On September 7, 2006, the Company completed a merger with Catalyst Pharmaceutical Partners, Inc., a Florida corporation (CPP-Florida) in which CPP-Florida was merged with and into the Company and all of CPP-Florida's assets, liabilities and attributes were transferred to the Company by operation of law. Prior to the merger, the Company was a wholly-owned subsidiary of CPP-Florida. The merger was effected to reincorporate the Company in Delaware.

**2. Basis of Presentation and Significant Accounting Policies.**

- a. **DEVELOPMENT STAGE COMPANY.** Since inception, the Company has devoted substantially all of its efforts to business planning, research and development, recruiting management and technical staff, acquiring operating assets and raising capital. Accordingly, the Company is considered to be in the development stage and the Company's financial statements are presented in accordance with Statement of Financial Accounting Standard No. 7, *Accounting and Reporting by Development Stage Enterprises*. The Company's primary focus is on the development and commercialization of CPP-109, its product candidate based on the chemical compound gamma-vinyl-GABA, commonly referred to as vigabatrin, as a potential treatment for drug addiction, including cocaine addiction, methamphetamine addiction, and certain obsessive compulsive disorders.
- b. **INTERIM FINANCIAL STATEMENTS.** The accompanying unaudited interim condensed financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission for reporting of interim financial information. Pursuant to such rules and regulations, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted.



**Table of Contents****2. Basis of Presentation and Significant Accounting Policies. (continued)**

In the opinion of management, the accompanying unaudited interim condensed financial statements of the Company contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position of the Company as of the dates and for the periods presented. Accordingly, these statements should be read in conjunction with the financial statements and notes thereto for the year ended December 31, 2006 included in the Annual Report on Form 10-K filed by the Company with the Securities and Exchange Commission. The consolidated results of operations for the six months ended June 30, 2007 are not necessarily indicative of the results to be expected for any future period or for the full fiscal year.

- c. **USE OF ESTIMATES.** The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.
- d. **EARNINGS (LOSS) PER SHARE.** Basic earnings (loss) per share is computed by dividing net earnings (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is computed by dividing net earnings (loss) for the period by the weighted average number of common shares outstanding during the period, plus the dilutive effect of common stock equivalents, such as restricted common stock and stock options. For all periods presented, all common stock equivalents were excluded because their inclusion would have been anti-dilutive.

Potentially dilutive common stock equivalents as of June 30, 2007 include (i) stock options to purchase up to 2,568,149 shares of common stock at exercise prices ranging from \$0.69 to \$6.00 per share and (ii) 15,000 shares of restricted common stock that will vest over the next three years.

Potentially dilutive common stock equivalents as of June 30, 2006 include stock options to purchase up to 2,188,828 shares of common stock at exercise prices ranging from \$0.69 to \$2.98 per share.

- e. **STOCK COMPENSATION PLANS.** Through July 2006, the Company did not have a formal stock option plan, although stock options were granted pursuant to written agreements. In July 2006, the Company adopted the 2006 Stock Incentive Plan (the "Plan"). See Note 7.

As of June 30, 2007, there were outstanding stock options to purchase 2,568,149 shares of common stock (including options to purchase 215,888 shares granted under the Plan), of which stock options to purchase 2,277,005 shares of common stock were exercisable as of June 30, 2007. Additionally, as of June 30, 2007 there were 15,000 shares of restricted common stock granted under the Plan, none of which were vested.

For the three and six month periods ended June 30, 2007 and 2006, the Company recorded stock compensation expense as follows:

|                                | <b>For the three months<br/>ended<br/>June 30,</b> |            | <b>For the six months<br/>ended<br/>June 30,</b> |            |
|--------------------------------|--|------------|--|------------|
|                                | 2007   | 2006       | 2007   | 2006       |
| Research and development       | \$ 161,320   | \$ 82,067  | \$ 239,713                                       | \$ 164,135 |
| General and administrative     | 20,913   | 38,495     | 142,888  | 76,990     |
| Total stock based compensation | \$ 182,233   | \$ 120,562 | \$ 382,601                                       | \$ 241,125 |



**Table of Contents****2. Basis of Presentation and Significant Accounting Policies. (continued)****f. Recent Accounting Pronouncements**

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ( SFAS No. 157 ). This statement provides a single definition of fair value, a framework for measuring fair value, and expanded disclosures concerning fair value. Previously, different definitions of fair value were contained in various accounting pronouncements creating inconsistencies in measurement and disclosures. SFAS No. 157 applies under those previously issued pronouncements that prescribe fair value as the relevant measure of value, except SFAS No. 123(R) and related interpretations and pronouncements that require or permit measurement similar to fair value but are not intended to measure fair value. This pronouncement is effective for fiscal years beginning after November 15, 2007. The Company is evaluating the impact of SFAS No. 157, but does not expect the adoption of SFAS No. 157 to have a material impact on its financial position, results of operations, or cash flows.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 ( SFAS No. 159 ) *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The provisions of SFAS No. 159 will be effective for the Company beginning January 1, 2008. The Company is in the process of determining the effect, if any, the adoption of SFAS No. 159 will have on its financial statements.

**3. Property and Equipment.**

Property and equipment, net consists of the following:

|                                       | <b>June 30,<br/>2007</b> | <b>December 31,<br/>2006</b> |
|---------------------------------------|--------------------------|------------------------------|
| Computer equipment                    | \$ 25,867                | \$ 18,368                    |
| Furniture and equipment               | 10,376                   | 8,457                        |
| Leasehold improvements                | 24,650                   |                              |
| Accumulated depreciation              | (11,338)                 | (6,668)                      |
| <br>Total property and equipment, net | <br>\$ 49,555            | <br>\$ 20,157                |

Depreciation expense was \$2,580 and \$1,478 and \$4,670 and \$2,051 for the three months and six months periods ended June 30, 2007 and 2006 respectively.

**4. Accrued Liabilities.**

Accrued expenses consist of the following:

|                                 | <b>June 30,<br/>2007</b> | <b>December 31,<br/>2006</b> |
|---------------------------------|--------------------------|------------------------------|
| Common stock issuable           | \$                       | \$ 59,274                    |
| Accrued license fee             | 165,869                  | 165,869                      |
| Accrued professional fees       | 59,200                   | 72,571                       |
| Accrued compensation & benefits | 42,719                   | 21,198                       |
| Other                           | 4,325                    | 5,862                        |
| <br>Total accrued expenses      | <br>\$ 272,113           | <br>\$ 324,774               |

**Table of Contents****5. Lease Obligations.**

The Company has executed noncancellable operating lease agreements for its corporate offices. As of June 30, 2007, future minimum lease payments under the noncancellable operating lease agreements are as follows:

|            |            |
|------------|------------|
| 2007       | \$ 20,582  |
| 2008       | 63,281     |
| 2009       | 58,402     |
| 2010       | 60,155     |
| 2011       | 61,959     |
| Thereafter | 58,354     |
|            | \$ 322,733 |

During the quarter ended March 31, 2007 the Company entered into a new lease agreement for its corporate offices in Coral Gables, Florida. Rent expense was \$8,635 and \$6,297 and \$16,345 and \$9,399 for the three months and six months periods ended June 30, 2007 and 2006, respectively. The Company's office leases expire on various dates from December 2007 to November 2012.

**6. Income Taxes.**

The Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, (FIN No. 48), on January 1, 2007. Previously, the Company had accounted for tax contingencies in accordance with Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies*. As required by FIN 48, which clarifies FASB Statement No. 109, *Accounting for Income Taxes*, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. At the adoption date, the Company applied FIN 48 to all tax positions for which the statute of limitation remained open. No resulting unrecognized tax benefits were identified in connection with the implementation of FIN 48.

The Company is subject to income taxes in the U.S. federal jurisdiction, and various states jurisdictions. Tax regulations within each jurisdiction are subject to the interpretation of the related tax laws and regulations and require significant judgment to apply. The Company is not subject to U.S. federal, state and local tax examinations by tax authorities for the years before 2002. If the Company were to subsequently record an unrecognized tax benefit, associated penalties and tax related interest expense would be reported as a component of income tax expense.

**7. Stock Compensation.***Stock Options*

The Company has granted stock options to employees, officers, directors and scientific advisors of the Company generally, at exercise prices equal to the market value of the stock at the date of grant. The options generally vest ratably over four years, based on continued employment, with a maximum term between five and 10 years.

**Table of Contents****7. Stock Compensation (continued).**

The tables below summarize options outstanding and exercisable at June 30, 2007:

|  | <b>Options</b> | <b>Weighted-Average Exercise Price</b> | <b>Weighted-Average Remaining Contractual Term (in years)</b> | <b>Aggregate Intrinsic Value</b> |
|--|----------------|--|---|----------------------------------|
| Options outstanding at December 31, 2006 | 2,374,149      | \$ 1.19                                | 5.45  |                                  |
| Granted                                  | 194,000        | 4.20                                   | 5.69  |                                  |
| Exercised                                |                |  |   |                                  |
| Forfeited                                |                |  |   |                                  |
| Options outstanding at June 30, 2007     | 2,568,149      | 1.42                                   | 5.15  | \$ 6,837,163                     |
| Options exercisable at June 30, 2007     | 2,277,005      | \$ 1.11                                | 4.99  | \$ 6,762,225                     |

|                                 | <b>Options Outstanding</b> |  |  | <b>Options Exercisable</b> |  |
|---------------------------------|----------------------------|--|--|----------------------------|--|
|                                 | <b>Number Outstanding</b>  | <b>Weighted Average Remaining Contractual Life (Years)</b> | <b>Weighted Average Exercise Price</b> | <b>Number Exercisable</b>  | <b>Weighted Average Exercise Price</b> |
| <b>Range of Exercise Prices</b> |                            |  |  |                            |  |
| \$0.69 - \$1.37                 | 2,060,417                  | 5.23   | \$ 0.89                                | 2,060,417                  | \$ 0.89                                |
| \$2.98                          | 291,844                    | 4.30   | \$ 2.98                                | 145,922                    | \$ 2.98                                |
| \$3.60 - \$4.00                 | 154,000                    | 5.47   | \$ 3.74                                | 70,666                     | \$ 3.81                                |
| \$6.00                          | 61,888                     | 5.70   | \$ 6.00                                |                            |  |
|                                 | 2,568,149                  | 5.15   | \$ 1.42                                | 2,277,005                  | \$ 1.11                                |

The Company adopted the provisions of Statement of Financial Accounting Standards 123(R) *Share-Based Payment* (SFAS No.123R) beginning January 1, 2006, using the modified prospective transition method. The Company utilizes the Black-Scholes option-pricing model to determine the fair value of stock options on the date of grant. This model derives the fair value of stock options based on certain assumptions related to expected stock price volatility, expected option life, risk-free interest rate and dividend yield. The Company's expected volatility is based on the historical volatility of other publicly traded development stage companies in the same industry. The estimated expected option life is based upon estimated employee exercise patterns and considers whether and the extent to which the options are in-the-money. The risk-free interest rate assumption is based upon the U.S. Treasury yield curve appropriate for the estimated expected life of the Company's stock options awards. For the three month period ended June 30, 2007 and the six month periods ended June 30, 2007 and 2006, the assumptions used were an estimated annual volatility of 100%, average expected holding periods of four to five years, and risk-free interest rates of 4.57%, 4.57% and 5.50%, respectively. The expected dividend rate is zero and no forfeiture rate was applied. No options were granted during the three months ended June 30, 2006.

The weighted average grant-date fair value of stock options granted during the three months ended June 30, 2007 and the six months ended June 30, 2007 and June 30, 2006 were \$2.59, \$2.65 and \$5.42, respectively. The total fair value of vested stock options for the three months ended June 30, 2007 and six months ended June 30, 2007 and 2006 were \$85,322, \$215,075 and \$23,729, respectively. No stock options were granted during the three months ended June 30, 2006.

**Table of Contents****7. Stock Compensation (continued).**

As of June 30, 2007, there was approximately \$896,000 of unrecognized compensation expense related to non-vested stock compensation awards granted under the Plan. The cost is expected to be recognized over a weighted average period of approximately 1.93 years.

*Restricted Stock Units*

Under the Plan, participants may be granted restricted stock units, each of which represents a conditional right to receive shares of common stock in the future. The restricted stock units granted under this plan generally vest ratably over a three to four-year period. Upon vesting, the restricted stock units will convert into an equivalent number of shares of common stock. The amount of expense relating to the restricted stock units is based on the closing market price of the Company's common stock on the date of grant and is amortized on a straight-line basis over the requisite service period. Restricted stock unit activity for the six months ended June 30, 2007 was as follows:

|  | <b>Number of<br/>Restricted<br/>Stock<br/>Units</b> | <b>Weighted-Average<br/>Grant Date<br/>Fair<br/>Value</b> |
|--|---|---|
| Nonvested balance at December 31, 2006 |   | \$  |
| Granted                                | 15,000  | 4.03  |
| Vested                                 |   |   |
| Forfeited                              |   |   |
| Nonvested balance at June 30, 2007     | 15,000  | \$ 4.03   |

The Company recorded stock-based compensation related to restricted stock units totaling \$5,038 and \$0 and \$10,076 and \$0 during the three month and six month periods ended June 30, 2007 and 2006, respectively. As of June 30, 2007, there was \$50,374 of total restricted stock unit compensation expense related to non-vested awards not yet recognized, which is expected to be recognized over a weighted average period of 2.50 years.

**8. Related Party Transactions.**

Since its inception in 2002, the Company has entered into various consulting agreements with non-employee officers and with members of the Company's Scientific Advisory Board. Several of these agreements are with related parties under common ownership and control. During the three month and six month periods ended June 30, 2007 and 2006, the Company paid approximately \$14,000 and \$10,000 and \$27,000 and \$65,000, respectively, in consulting fees to related parties. A fair value of \$2.98 per share was used to determine the related expense for the six months ended June 30, 2006.

In January 2005, the Company entered into an agreement with Patrick J. McEnany, to act as the Company's Chief Executive Officer. The agreement called for an annual salary of \$100,000 per year commencing on March 1, 2005. The agreement stipulated that half of Mr. McEnany's salary was to be deferred until the Company raised equity in the amount of not less than \$2,000,000. Mr. McEnany also deferred the other half of his compensation until the equity minimum was met. The condition requiring full payment of this obligation was satisfied in July 2006 when the Company closed a private placement, at which time all deferred compensation was paid to Mr. McEnany.

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This report and the information incorporated by reference into it include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We intend the forward-looking statements to be covered by the safe harbor provisions for forward-looking statements in these sections. All statements regarding our expected financial position and operating results, our business strategy, our financing plans and forecasted demographic and economic trends relating to our business and industry are forward-looking statements. These statements can sometimes be identified by our use of forward-looking words such as may, will, anticipate, estimate, expect, or intend and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from the results, performance or achievements expressed or implied by the forward-looking statements. We cannot promise that our expectations described in such forward-looking statements will turn out to be correct. Factors that may impact such forward-looking statements include, among others, our ability to successfully complete clinical trials required to file a new drug application for CPP-109, our product candidate based on vigabatrin, our ability to complete such trials on a timely basis and within the budgets we establish for such trials, our ability to protect our intellectual property, whether others develop and commercialize products competitive to our products, changes in the regulations affecting our business, our ability to attract and retain skilled employees, and changes in general economic conditions and interest rates. The risk factors section of our Annual Report on Form 10-K for the year ended December 31, 2006 describes the significant risks associated with our business. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

**Overview**

We are a development-stage specialty pharmaceutical company focused on the acquisition, development and commercialization of prescription drugs for the treatment of drug addiction. Our initial product candidate is CPP-109, which is based on the chemical compound *gamma-vinyl-GABA*, commonly referred to as vigabatrin.

During July 2007 we initiated our randomized, double-blind, placebo-controlled US Phase II clinical trial in patients with cocaine addiction (see Recent Developments section). We intend to commence a U.S. Phase II clinical trial evaluating CPP-109 as a treatment for methamphetamine addiction later this year.

In November 2006, we completed an initial public offering in which we raised net proceeds of approximately \$17.6 million. We are using these proceeds to fund a portion of the clinical and non-clinical studies that we believe, based on currently available information, will be required for us to file a new drug application, or NDA, for the use of CPP-109 to treat cocaine addiction. We also hope to develop CPP-109 for the treatment of other addictions. Our development and commercialization of CPP-109 to treat cocaine addiction and methamphetamine addiction and our development of CPP-109 to treat other addictions may require additional funds. There can be no assurance that such funds will be available when required, or on terms acceptable to us, or that we will ever receive approval of an NDA for CPP-109.

The successful development of CPP-109 or any other product we may develop, acquire, or license is highly uncertain. We cannot reasonably estimate or know the nature, timing, or estimated expenses of the efforts necessary to complete the development of, or the period in which material net cash inflows are expected to commence due to the numerous risks and uncertainties associated with developing, such products, including the uncertainty of:

the scope, rate of progress and expense of our clinical trials and our other product development activities;

the results of future clinical trials, number of clinical trials (and the scope of such trials) that will be required to seek and obtain approval of an NDA for CPP-109; and

the expense of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights.



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Research and development expenses, in the aggregate, represented approximately 70% and 76% and 60% and 64% of our total operating expenses for the three months and six months ended June 30, 2007 and 2006, respectively. Research and development expenses consist primarily of costs incurred for clinical trials and development costs related to CPP-109, personnel and related costs related to our product development activities, and outside professional fees related to clinical development and regulatory matters.

We expect that our research and development expenses will substantially increase due to the estimated expense of our U.S. Phase II clinical trials and any required Phase I studies and non-clinical studies that we may undertake.

The above costs include assumptions about facts and events that are outside of our control. For example, a significant portion of the expenses for completing the development of CPP-109 to treat cocaine addiction will be in the form of fees and expenses we will be required to pay a contract research organization ( CRO ) to conduct this work for us. In addition, the FDA could require us to alter or delay our clinical trials at any stage, which may significantly increase the costs of that trial, as well as delay our commercialization of CPP-109 and our future revenue.

## **Recent Developments**

### **Status of U.S. Phase II clinical trial for cocaine addiction**

During July 2007 we initiated our randomized, double-blind, placebo-controlled U.S. Phase II clinical trial in patients with cocaine dependence. We have retained Health Decisions, Inc. as the CRO to conduct this trial to evaluate CPP-109 as a treatment for cocaine addiction. Based on currently available information, we now estimate that the cost of this trial will be approximately \$4,700,000.

The Phase II trial is designed as a randomized, double-blind, placebo-controlled, intent-to-treat, multicenter study to evaluate the safety and efficacy of CPP-109 as a treatment for cocaine addiction. The trial is expected to enroll 180 cocaine dependent patients at 10 leading addiction treatment clinical centers in the United States. Patients will be treated for a period of 12 weeks, with an additional 12 weeks of follow-up. The primary endpoint of the trial is to demonstrate that a larger proportion of CPP-109-treated subjects than placebo-treated subjects will be cocaine-free during their last two weeks of treatment (weeks 11 and 12). Additionally, we will be measuring several secondary endpoints based on reductions of cocaine use. We have begun enrolling patients in our Phase II clinical trial as we receive Institutional Review Board (IRB) approvals from the institutions where our clinical trial will be conducted.

To be eligible to participate in the trial, participants must meet specific clinical standards for cocaine dependence, as specified in DSM-IV, a set of diagnosis guidelines established for clinical professionals. Additionally, trial participants cannot meet the DSM-IV criteria for dependence on other addictive substances. Further, eye safety studies will be conducted on all trial participants to determine the extent of visual field defects among such participants, if any.

### **Results of bioequivalence study**

During the first quarter of 2007, we completed a bioequivalence study demonstrating that CPP-109 (our product-candidate based on vigabatrin) is bioavailable and bioequivalent to Sabril®, the version of vigabatrin marketed in Europe by Sanofi Aventis. This data potentially provides a basis for linking CPP-109 to the extensive body of published pre-clinical and clinical literature on Sabril®.

In the bioequivalence study, investigators randomized 30 healthy male and female subjects to either of two treatments a 500 mg. tablet of Sabril® or 500 mg. tablet of CPP-109. The researchers dispensed the assigned medication tablet to the participants after an overnight fast and collected blood plasma samples before dosing. An additional 21 blood plasma samples were collected after dosing over a period of 36 hours. After a washout period of eight days, each participant was crossed over to receive the alternate tablet, and plasma samples were collected

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according to the same schedule. A total of 28 subjects completed both arms of the study. This study was conducted as recommended by the Food and Drug Administration's Guidance for Industry, Bioavailability and Bioequivalence Studies for Orally Administered Drug Products - General Considerations.

Bioequivalence of the two tablet formulations is supported by the pharmacokinetic data collected for CPP-109 and Sabril®. Specifically, the maximum plasma concentration and area under the curve for vigabatrin were similar for CPP-109 and Sabril® Tablets. The 90% geometric confidence intervals attained for these pharmacokinetic parameters were well within the 80% to 125% range recommended by the Food and Drug Administration's Guidance for Industry, Statistical Approaches to Establishing Bioequivalence, and the two products meet the requirements to be considered bioequivalent.

### **Lease for new facilities**

On March 26, 2007, we entered into a lease for approximately 1,616 square feet of office space in a building located at 355 Alhambra Plaza in Coral Gables, Florida. The lease is for a 63 month term and we will pay base rent under the new lease of approximately \$57,000 per annum. We expect to move into our new office space in September 2007.

### **Basis of Presentation**

#### *Revenues*

We are a development stage company and have had no revenues to date. We will not have revenues until such time as we receive approval of CPP-109 and successfully commercialize our product, of which there can be no assurance.

#### *Research and development expenses*

Our research and development expenses consist of costs incurred for company-sponsored research and development activities. These expenses consist primarily of direct and research-related allocated overhead expenses such as facilities costs, material supply costs, and medical costs for visual field defect testing. It also includes both cash and stock-based compensation paid to our scientific advisors, employees and consultants related to our product development efforts. To date, all of our research and development resources have been devoted to the development of CPP-109. We expect this to continue for the foreseeable future. Costs incurred in connection with research and development activities are expensed as incurred.

Clinical trial activities require significant up front expenditures. We anticipate paying significant portions of a trial's cost before it begins, and incurring additional expenditures as the trial progresses and reaches certain milestones.

#### *Selling and marketing expenses*

We do not currently have any selling or marketing expenses, as we have not yet received approval for the commercialization of CPP-109. We expect we will begin to incur such costs upon our filing of an NDA, so that we can have a sales force in place to commence our selling efforts immediately upon receiving approval of such NDA, of which there can be no assurance.

#### *General and administrative expenses*

Our general and administrative expenses consist primarily of salaries, consulting fees for one of our officers and one of our directors and for members of our Scientific Advisory Board, information technology, and corporate administration functions. Other costs include administrative facility costs, regulatory fees, and professional fees for legal and accounting services.

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*Stock-based compensation*

We recognize costs related to the issuance of stock-based awards to employees and consultants by using the estimated fair value of the award at the date of grant, in accordance with Statement of Financial Accounting Standards No. 123R, *Share-Based Payment* ( SFAS 123R ).

*Income taxes*

We have incurred operating losses since inception. Our net deferred tax asset has a 100% valuation allowance as of June 30, 2007 and December 31, 2006, as we believe it is more likely than not that the deferred tax asset will not be realized. If an ownership change, as defined under Internal Revenue Code Section 382, occurs, the use of these carry-forwards may be subject to limitation.

**Critical Accounting Policies and Estimates**

Our discussion and analysis of our financial condition and results of operations are based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires us to make judgments, estimates, and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported revenue and expenses during the reporting periods. We continually evaluate our judgments, estimates and assumptions. We base our estimates on the terms of underlying agreements, our expected course of development, historical experience and other factors we believe are reasonable based on the circumstances, the results of which form our management's basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The list below is not intended to be a comprehensive list of all of our accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by generally accepted accounting principles, or GAAP. There are also areas in which our management's judgment in selecting any available alternative would not produce a materially different result. Our financial statements and the notes thereto included elsewhere in this report contain accounting policies and other disclosures required by GAAP.

*Pre-clinical study and clinical trial expenses*

Research and development expenditures are charged to operations as incurred. Our expenses related to clinical trials are expected to be based on actual and estimated costs of the services received and efforts expended pursuant to contracts with multiple research institutions and the CRO that conducts and manages our clinical trials. The financial terms of these agreements are subject to negotiation and will vary from contract to contract and may result in uneven payment flows. Generally, it is anticipated that these agreements will set forth the scope of the work to be performed at a fixed fee or unit price. Payments under these contracts will depend on factors such as the successful enrollment of patients or the completion of clinical trial milestones. Expenses related to clinical trials generally are expected to be accrued based on contracted amounts applied to the level of patient enrollment and activity according to the protocol. If timelines or contracts are modified based upon changes in the clinical trial protocol or scope of work to be performed, we would be required to modify our estimates accordingly on a prospective basis.

*Stock-based compensation*

Effective January 1, 2006, we adopted the fair value recognition provisions of SFAS 123R, *Share-Based Payment*. We utilize the Black-Scholes option pricing model to determine the fair value of stock options on the date of grant. This model derives the fair value of stock options based on certain assumptions related to expected stock price volatility, expected option life, risk-free interest rate and dividend yield. The Company's expected volatility is based on the historical volatility of other publicly traded development stage companies in the same industry. The estimated expected option life is based upon estimated employee exercise patterns and considers whether and the extent to which the options are in-the-money. The risk-free interest rate assumption is based upon the U.S. Treasury yield curve appropriate for the estimated expected life of the Company's stock options awards.

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For the six month periods ended June 30, 2007 and 2006 the assumptions used were an estimated annual volatility of 100%, average expected holding periods of four to five years, and risk-free interest rates of 4.57% and 5.5%, respectively. The expected dividend rate is zero and no forfeiture rate was applied.

**Results of Operations**

*Revenues.* We had no revenues for the three months and six months periods ended June 30, 2007 and 2006.

*Research and Development Expenses.* Research and development expenses for the three months ended June 30, 2007 and 2006 were \$1,002,780 and \$270,149, respectively, including stock-based compensation expense in each of the three month periods of \$161,320 and \$82,067. Research and development expenses, in the aggregate, represented approximately 70% and 76% of total operating costs and expenses, respectively, for the three months ended June 30, 2007 and 2006. Research and development expenses for the six months ended June 30, 2007 and 2006 were \$1,765,300 and \$432,764, respectively, including stock-based compensation expense of \$239,713 and \$164,135. Research and development expenses, in the aggregate, represented approximately 60% and 64% of total operating costs and expenses, respectively, for the six months ended June 30, 2007 and 2006. The stock-based compensation is non-cash and relates to shares of common stock issued to several of our consultants and scientific advisors for services rendered and the expense of stock options awards and restricted stock awards to our employees, officers, directors and scientific advisors. Our cash expenses for research and development for the three and six months ended June 30, 2007 grew significantly compared to amounts expended in the same period in 2006 as we paid for services related to the initiation of our Phase II clinical trial evaluating CPP-109 for use in the treatment of cocaine addiction, raw materials and finished products for use in our upcoming clinical trials, made an unrestricted grant to the sponsor of a clinical trial that is presently being conducted in Mexico and conducted our bioequivalence study comparing CPP-109 to a version of Sabril® marketed in Europe by Sanofi-Aventis.

We expect that research and development activities will continue to increase substantially now that we have initiated our U.S. Phase II cocaine clinical trial, are in the planning stages for the commencement of our contemplated U.S. Phase II methamphetamine clinical trial, and plan to expand our product development activities generally.

*Selling and Marketing Expenses.* We had no selling and marketing expenses during the three and six months ended June 30, 2007 and 2006. We anticipate that we will begin to incur sales and marketing expenses when we file a NDA for CPP-109, in order to develop a sales organization to market CPP-109 and other products we may develop upon the receipt of required approvals.

*General and Administrative Expenses.* General and administrative expenses were \$434,208 and \$86,812, respectively, for the three months ended June 30, 2007 and 2006. These expenses include \$20,913 and \$38,495, respectively, in stock-based non-cash compensation expense relating to the vesting of stock options and restricted stock grants. General and administrative expenses represented 30% and 24%, respectively, of total operating costs and expenses, for the three months ended June 30, 2007 and 2006. General and administrative expenses were \$1,168,834 and \$242,194, respectively, for the six months ended June 30, 2007 and 2006. These expenses include \$142,888 and \$76,990, respectively, in stock-based non-cash compensation expense relating to the vesting of stock options and restricted stock grants. General and administrative expenses represented 40% and 36%, respectively, of total operating costs and expenses, for the six months ended June 30, 2007 and 2006. These increases of \$347,396 and \$926,640 in general and administrative expenses from the three and six months ended June 30, 2006 to the same periods in 2007 are primarily due to the addition of several executives in late 2006 and early 2007 that were not previously employees and the administrative expenses related to our being a publicly held entity commencing in November 2006. General and administrative expenses include among other expenses, office expenses, legal and accounting fees and travel expenses for our employees, consultants and members of our Scientific Advisory Board. We expect general and administrative efforts to further increase in future periods as we incur general non-research expenses relating to the monitoring and oversight of our clinical trials and otherwise expend funds to continue to develop our business as described herein and in our Annual Report in our Form 10-K for 2006.

*Stock-Based Compensation.* Total stock based compensation for the three months ended June 30, 2007 and 2006 was \$182,233 and \$120,562, respectively. Total stock based compensation for the six months ended June 30, 2007 and 2006 was \$382,601 and \$241,125, respectively. As of June 30, 2007, we had outstanding stock options to



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purchase 2,568,149 shares of our common stock, of which options to purchase 2,277,005 shares were vested and options to purchase 291,144 shares were unvested. We also had 15,000 shares of restricted common stock granted as of June 30, 2007, none of which were vested at that date.

*Interest Income.* We reported interest income in all periods relating to our investment of funds received from our private placements and IPO. Interest income increased substantially in the three and six month periods ended June 30, 2007 when compared to the same periods in 2006 due to the investment of the proceeds from our IPO. All such funds were invested in short term interest bearing obligations, certificates of deposit and direct or guaranteed obligations of the United States government.

*Income taxes.* We have incurred net operating losses since inception. For the three and six month periods ended June 30, 2007 and 2006, we have applied a 100% valuation allowance against our deferred tax asset as we believe that it is more likely than not that the deferred tax asset will not be realized.

**Liquidity and Capital Resources**

Since our inception, we have financed our operations primarily through the net proceeds of private placements of our equity securities and through our IPO. At June 30, 2007, we had cash and cash equivalents of \$17.6 million and working capital of \$17.8 million. At December 31, 2006 we had cash and cash equivalents of \$20.4 million and working capital of \$19.8 million.

*Operating Capital and Capital Expenditure Requirements*

We have to date incurred operating losses, and we expect these losses to increase substantially in the future as we expand our product development programs and prepare for the commercialization of CPP-109. We anticipate using current cash on hand to finance these activities. It may take several years to obtain the necessary regulatory approvals to commercialize CPP-109 in the United States.

We believe that our available resources will be sufficient to meet our projected operating requirements through December 31, 2008.

Our future funding requirements will depend on many factors, including:

the scope, rate of progress and cost of our clinical trials and other product development activities;

future clinical trial results;

the terms and timing of any collaborative, licensing and other arrangements that we may establish;

the cost and timing of regulatory approvals;

the cost and delays in product development as a result of any changes in regulatory oversight applicable to our products;

the cost and timing of establishing sales, marketing and distribution capabilities;

the effect of competition and market developments;

the cost of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights; and

the extent to which we acquire or invest in other products.

If we do not have sufficient resources to fund our currently contemplated operations and product development plans, we will seek to raise additional funds through public or private equity offerings, debt financings, capital lease transactions,

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corporate collaborations or other means. We may also seek to raise additional capital due to favorable market conditions or strategic considerations or to fund additional product development efforts, even if we have sufficient funds for our planned operations. Any sale by us of additional equity or convertible debt securities could result in dilution to our stockholders. There can be no assurance that any such required additional funding will be available to us at all or available on terms acceptable to us.

To the extent that we raise additional funds through collaborative arrangements, it may be necessary to relinquish some rights to our technologies or grant sublicenses on terms that are not favorable to us. We do not know whether additional funding will be available on acceptable terms, or at all. If we are not able to secure additional funding when needed, we may have to delay, reduce the scope of or eliminate one or more research and development programs or sales and marketing initiatives.

*Cash Flows*

Net cash used in operations was \$2,800,464 and \$434,527, respectively, for the six months ended June 30, 2007 and 2006. During the six months ended June 30, 2007, net cash used in operating activities was primarily attributable to our net loss of \$2,460,208, an increase in prepaid expenses and deposits of \$439,721 and a decrease of \$301,689 in accounts payable. This was offset in part by \$387,271 of non-cash expenses, a decrease of \$7,270 in interest receivable and an increase of \$6,613 in accrued expenses. Non-cash expenses included depreciation and non-cash compensation expense. During the six months ended June 30, 2006, net cash used in operating activities was primarily attributable to our net loss of \$666,825 an increase in prepaid expenses and deposits of \$12,241 and a decrease in accounts payable of \$42,806. These effects were partially offset by \$243,176 of non-cash expenses and an increase in accrued expenses of \$44,169.

Net cash used in investing activities was \$34,068 and \$12,446 for the six months ended June 30, 2007 and 2006, respectively. Such funds were used primarily for purchases of computer equipment and leasehold improvements.

No cash was provided by (used in) financing activities for the six months ended June 30, 2007 or 2006.

*Contractual Obligations*

As of June 30, 2007, we had contractual obligations as follows:

|                  | Total      | Payments Due by Period |            |           | After 5 years |
|------------------|------------|------------------------|------------|-----------|---------------|
|                  |            | Less than 1 year       | 1-3 years  | 4-5 years |               |
| Debt             | \$         | \$                     | \$         | \$        | \$            |
| Capital leases   |            |                        |            |           |               |
| Operating leases | 322,733    | 55,442                 | 177,881    | 89,410    |               |
| Total            | \$ 322,733 | \$ 55,442              | \$ 177,881 | \$ 89,410 | \$            |

We are also obligated to make the following payments:

*Payment to Brookhaven under our license agreement.* We have agreed to pay Brookhaven a fee of \$100,000 in the year of NDA approval for CPP-109, \$250,000 in each of the second and third years following approval, and \$500,000 per year thereafter until the license agreement expires.

*Payments to our contract manufacturer.* We are obligated to pay our contract manufacturer approximately \$655,000, with payments to be based on the achievement of milestones relating to the schedule of work that it has agreed to perform for us. At June 30, 2007, we had paid approximately \$511,000 of this amount.

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*Payments to our CRO.* We are obligated to pay the CRO overseeing our U.S. Phase II cocaine clinical trial approximately \$4,100,000, with payments to be based on the achievement of milestones relating to the agreed upon service agreement. At June 30, 2007, we had paid approximately \$662,000 of this amount, \$357,143 of which has been advanced to the CRO for future expenses and as such has been included in prepaid expenses in the accompanying balance sheet at June 30, 2007.

*Payments for laboratories and other trial related tests.* We are obligated to pay approximately \$567,000, in connection with laboratories and other tests related to our US Phase II cocaine clinical trial during the next 13 months. At June 30, 2007, we had paid approximately \$104,000 of this amount.

*Employment agreements.* We have entered into employments agreements with two of our executive officers that require us to make aggregate base salary payments of \$515,000 per annum.

*Off-Balance Sheet Arrangement*

We currently have no debt and no capital leases. We have operating leases for our office facilities. We do not have any off-balance sheet arrangements as such term is defined in rules promulgated by the SEC.

**Recent Accounting Pronouncements**

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ( SFAS No. 157 ). This statement provides a single definition of fair value, a framework for measuring fair value, and expanded disclosures concerning fair value. Previously, different definitions of fair value were contained in various accounting pronouncements creating inconsistencies in measurement and disclosures. SFAS No. 157 applies under those previously issued pronouncements that prescribe fair value as the relevant measure of value, except SFAS No. 123(R) and related interpretations and pronouncements that require or permit measurement similar to fair value but are not intended to measure fair value. This pronouncement is effective for fiscal years beginning after November 15, 2007. We are evaluating the impact of SFAS No. 157, but do not expect the adoption of SFAS No. 157 to have a material impact on our financial position, results of operations, or cash flows.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 ( SFAS No. 159 ) *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The provisions of SFAS No. 159 will be effective for us beginning January 1, 2008. We are in the process of determining the effect, if any, the adoption of SFAS No. 159 will have on our financial statements.



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**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

Market risk represents the risk of changes in the value of market risk-sensitive instruments caused by fluctuations in interest rates, foreign exchange rates and commodity prices. Changes in these factors could cause fluctuations in our results of operations and cash flows.

Our exposure to interest rate risk is currently confined to our cash that is invested in highly liquid money market funds. The primary objective of our investment activities is to preserve our capital to fund operations. We also seek to maximize income from our investments without assuming significant risk. We do not use derivative financial instruments in our investment portfolio. Our cash and investments policy emphasizes liquidity and preservation of principal over other portfolio considerations.

**ITEM 4. CONTROLS AND PROCEDURES**

- a. We have carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on such evaluation, our principal executive officer and principal financial officer have concluded that as of June 30, 2007, our disclosure controls and procedures were effective to ensure that the information required to be disclosed by us in the reports filed or submitted by us under the Securities Exchange Act of 1934, as amended, was recorded, processed, summarized or reported with the time periods specified in the rules and regulations of the SEC, and include controls and procedures designed to ensure that information required to be disclosed by us in such reports was accumulated and communicated to management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.
- b. There have been no changes in our internal controls or in other factors that could have a material effect, or are reasonably likely to have a material effect to the internal controls subsequent to the date of their evaluation in connection with the preparation of this Quarterly Report on Form 10-Q.

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**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

The Company is not a party to any legal proceedings.

**ITEM 1A. RISK FACTORS**

There are many factors that affect our business and the results of our operations. In addition to the information set forth in this quarterly report, you should carefully read and consider Item 1A. Risk Factors in Part I, and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, of our Annual Report on Form 10-K for the year ended December 31, 2006, which contain a description of significant factors that might cause the actual results of operations in future periods to differ materially from those currently expected or desired.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITIES HOLDERS**

At our Annual Meeting of Stockholders held on August 8, 2007, our stockholders elected six directors (P. McEnany, P. Coelho, H. Huckel, C. O'Keeffe, D. Tierney and M. Wallace) to serve a term of one year or until their successors are duly elected and qualified, or until their earlier death, resignation or removal. The security holders elected all nominated Directors with votes cast as follows: Mr. McEnany: 9,337,540 shares for and 1,600 shares withheld; Mr. Coelho: 9,337,640 shares for and 1,500 shares withheld; Mr. Huckel: 9,337,640 shares for and 1,500 shares withheld; Mr. O'Keeffe: 8,852,257 shares for and 486,883 shares withheld; Mr. Tierney: 9,337,140 shares for and 2,000 shares withheld; and Mr. Wallace: 9,337,540 shares for and 1,600 shares withheld. There were no abstentions or broker non-votes applicable to the election of Directors.

**ITEM 5. OTHER INFORMATION**

None

**ITEM 6. EXHIBITS**

- 31.1 Certification of Principal Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Principal Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Principal Executive Officer under Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Principal Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002

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**SIGNATURES**

Pursuant to the Securities Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**Catalyst Pharmaceutical Partners, Inc.**

By: /s/ Jack Weinstein  
Jack Weinstein  
Chief Financial Officer

Date: August 9, 2007

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**Exhibit Index**

| Exhibit<br>Number | Description  |
|-------------------|--|
| 31.1              | Certification of Principal Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2              | Certification of Principal Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1              | Certification of Principal Executive Officer under Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2              | Certification of Principal Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002 |