



Ore Pharmaceutical Holdings Inc.

Consolidated Financial Statements
Years Ended December 31, 2010 and 2009

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Management Discussion and Analysis

OVERVIEW

We are focusing on developing and monetizing our current portfolio of pharmaceutical assets, which includes four clinical-stage compounds in-licensed from major pharmaceutical companies. Each of these compounds has been observed to be well-tolerated in human clinical trials to date. We are evaluating our lead compound, ORE1001, as a potential treatment for Inflammatory Bowel Disease (“IBD”). IBD is a severe gastrointestinal condition that is estimated to affect as many as one million people in the United States alone. We initiated a Phase Ib/IIa clinical trial in patients with ulcerative colitis – one of the two main disorders comprising IBD – of ORE1001 in the fourth quarter of 2009.

In September 2009, we received notice from The NASDAQ Stock Market (“Nasdaq”) that our stock would be subject to delisting if we did not regain compliance by having a closing bid price equal or above \$1.00 per share for a minimum of 10 consecutive trading days prior to March 15, 2010. On March 16, 2010, we were further notified by NASDAQ that we had not regained compliance and that trading in our stock would be suspended on March 25, 2010 in the event we did not submit an appeal to NASDAQ. We determined not to submit an appeal and, as a result, trading in our stock on The NASDAQ Capital Market was suspended on March 25, 2010, and was delisted thereafter. Our stock is currently publicly traded in the OTC Marketplace under the symbol OREX.

On October 20, 2009, we completed a reorganization that was undertaken primarily in order to better protect the value of our approximately \$330 million in gross net operating and capital loss carryforwards that can be used to reduce the amount of income tax we could be required to pay on future earnings from our business. As a result of this reorganization, Ore Pharmaceuticals Inc. became a wholly-owned subsidiary of a new company, Ore Pharmaceutical Holdings Inc. (“Ore Holdings”). All the outstanding shares of Ore Pharmaceuticals Inc. were converted into shares of Ore Holdings and Ore Holdings then became the publicly traded company that we now refer to as “Ore.”

On September 24, 2010, we filed a Form 15 with the Securities and Exchange Commission (the “SEC”) in order to effect a termination of the registration of our common stock under the Securities Exchange Act of 1934. Upon the filing of the Form 15, our obligation to file periodic and current reports with the SEC, including Forms 10-K, 10-Q and 8-K, was immediately suspended. Despite the termination of registration, we expect that shareholders will be able to continue to trade the outstanding common shares of Ore, and we intend to maintain a public listing on the OTC Pink Sheets market or other exchange as we determine appropriate. Suspending and terminating our SEC reporting obligations will allow us to reduce the substantial legal, accounting and other expenses associated with reporting compliance and make those savings available for continued operation of the business.

We have incurred net losses in each year since our inception, including losses of \$4.6 million in 2010 and \$8.4 million in 2009. At December 31, 2010, we had an accumulated deficit of \$385.9 million. Our losses have resulted principally from costs incurred by both our ongoing business as well as businesses we have sold. We expect to incur additional losses in the future.

RESULTS OF OPERATIONS

Years Ended December 31, 2010 and 2009

Revenue. There was no revenue in 2010 compared to \$0.2 million in 2009. The 2009 revenue was primarily attributed to licensing agreements for certain technology unrelated to our pharmaceutical asset management business. During 2009, one customer accounted for 86% of our revenue.

Research and Development Expense. Research and development expenses, which in 2010 consisted almost entirely of costs associated with the ongoing clinical development of ORE1001, decreased to \$1.1 million in 2010 from \$2.5 million in 2009. The decrease was primarily attributed to lower clinical costs with clinical research organizations and supply manufacturers, plus lower employee and facility-related costs due to our workforce reductions during the first half of 2010 and cost savings from the consolidation of our facilities during the second half of 2009 and into 2010.

Selling, General and Administrative Expense. Selling, general and administrative expenses, which consist primarily of administration, legal, accounting, and other general corporate expenses, decreased to \$3.7 million in 2010 from \$7.2 million in 2009. The primary reasons for the decrease in expenses were lower employee costs due to our significant workforce reductions, reduced professional fees and lower facility-related costs associated to the consolidation of facilities. Selling, general and administrative expenses in 2009 were impacted by severance costs related to workforce reductions, the planning and execution of the corporate reorganization that was approved by shareholders in October of 2009, the impairment charges related to the facility consolidations in both Gaithersburg, Maryland and Cambridge Massachusetts recognized and the accrual for the Gaithersburg lease litigations.

Net Interest (Expense)/Income. Net interest expense of \$0.1 million in 2010 compared with net interest income of \$0.5 million in 2009. Net interest expense in 2010 was primarily attributed to accrued interest on a promissory note executed in October with Steel Partners Ltd. and to the decline in interest income associated with the lower balance of cash and cash equivalents for a majority of 2010. Net interest income in 2009 was primarily attributed to the higher balance of cash and cash equivalents as well as interest income associated with the superseded promissory note entered into with Ocimum during the second quarter of 2009. All the promissory notes from Ocimum directly related to the sale of our genomics business in late 2007.

Income/(Loss) on Equity Investments. We recorded income of \$0.6 million in 2009 related to the sale of our investment in Neuralstem, Inc.

Other Income. We received a net award of \$0.2 million under the U.S. government's Qualified Therapeutics Discovery Program in 2010.

LIQUIDITY AND CAPITAL RESOURCES

Historically, we have financed our operations through the issuance and sale of equity securities, payments from customers and sales of parts of our business and assets from time to time. As of December 31, 2010, we had approximately \$4.5 million in cash and cash equivalents compared to \$5.8 million as of December 31, 2009. The reduction in cash and cash equivalents from 2009 to 2010 primarily related to our cash burn from operations, partly offset by the combined debt and equity investment by Steel Partners Ltd. of \$5.3 million in October 2010.

Net cash used in operating activities decreased to \$6.5 million in 2010 from \$8.8 million in 2009, and was primarily attributed to the reduction in the net losses during those periods and to the settlement payments made to two landlords associated with lease litigations.

In 2010, our investing activities included the collection of \$0.4 million on the remaining balance of a note receivable from Nerveda, partly offset by expenditures for patent costs. The Nerveda note receivable was in connection the 2008 sale of our DioGenix operation to Nerveda. In 2009, our investing activities consisted primarily of the collection of a \$3.0 million interest bearing promissory note in connection with the 2007 sale of our genomics business to Ocimum, the first note receivable payment of \$0.4 million from Nerveda, and the collection of \$0.6 million from the sale of an equity investment in Neuralstem, Inc.

Our financing activities in 2010 included the combined debt and equity investment of \$5.3 million by Steel Partners Ltd., partly offset by the loan portion of the settlement payment to the State of Maryland of \$0.2 million. In 2009, we received a notice requiring repayment of all amounts potentially due under a loan and a grant agreement with the State of Maryland that totaled \$0.7 million. In January 2010, we reached a settlement agreement with the lender concerning repayment of the loan of \$0.4 million that was currently due upon demand, as well as repayment of a training program grant of \$0.1 million and accrued interest of \$0.2 million that has been recorded in Other Accrued Expenses. Under the settlement agreement, we repaid \$0.4 million, of which \$0.2 million was paid in February 2010 and the remaining \$0.2 million paid in September 2010. As a result of the payment for the remaining settlement balance, we recognized a gain on extinguishment of debt of \$0.3 million in September 2010. Financing activities in 2009 were considered insignificant.

Ore Pharmaceutical Holdings Inc.
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Independent Auditors' Report

Board of Directors and Stockholders
Ore Pharmaceutical Holdings Inc.
Cambridge, MA

We have audited the accompanying consolidated balance sheet of Ore Pharmaceutical Holdings Inc. as of December 31, 2010 and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Ore Pharmaceutical Holdings Inc. as of December 31, 2009 were audited by other auditors whose report on those statements dated March 31, 2010 expressed substantial doubt regarding the Company's ability to continue as a going concern.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2010 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ore Pharmaceutical Holdings Inc and subsidiary at December 31, 2010, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

BDO USA, LLP

March 17, 2011

ORE PHARMACEUTICAL HOLDINGS INC.

**Consolidated Balance Sheets
as of December 31, 2010 and 2009
(in thousands, except share data)**

	<u>2010</u>	<u>2009</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,543	\$ 5,756
Accounts receivable	1	150
Prepaid expenses	76	207
Notes receivable, net	-	432
Total current assets	4,620	6,545
Property and equipment, net	19	33
Intangibles, net	694	726
Other assets	25	25
Total assets	<u>\$ 5,358</u>	<u>\$ 7,329</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 100	\$ 287
Accrued compensation and employee benefits	65	140
Other accrued expenses	382	2,510
Current portion of long-term debt	-	450
Total current liabilities	547	3,387
Long-term debt	4,187	-
Deferred rent	17	23
Total liabilities	4,751	3,410
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock, \$.01 par value; 2,000,000 shares authorized, no shares issued or outstanding as of December 31, 2010 and 2009	-	-
Common stock, \$.01 par value; 15,000,000 shares authorized; 8,598,519 and 5,473,519 shares issued and outstanding as of December 31, 2010 and 2009, respectively	86	55
Additional paid-in-capital	386,381	385,076
Accumulated deficit	(385,860)	(381,212)
Total stockholders' equity	607	3,919
Total liabilities and stockholders' equity	<u>\$ 5,358</u>	<u>\$ 7,329</u>

See accompanying notes.

ORE PHARMACEUTICAL HOLDINGS INC.

Consolidated Statements of Operations
For the Years Ended December 31, 2010 and 2009
(in thousands, except per share data)

	<u>2010</u>	<u>2009</u>
Revenue	\$ -	\$ 175
Expenses:		
Research and development	1,055	2,469
Selling, general and administrative	3,726	7,221
Total expenses	<u>4,781</u>	<u>9,690</u>
Loss from operations	(4,781)	(9,515)
Interest (expense) income, net	(75)	512
Gain on sale of marketable securities	-	620
Other income	208	-
Net loss	<u>\$ (4,648)</u>	<u>\$ (8,383)</u>
Basic and diluted net loss per share	<u>\$ (0.76)</u>	<u>\$ (1.53)</u>
Shares used in computing basic and diluted net loss per share	<u>6,081</u>	<u>5,474</u>

See accompanying notes.

ORE PHARMACEUTICAL HOLDINGS INC.

**Consolidated Statements of Stockholders' Equity
For the Years Ended December 31, 2010 and 2009
(in thousands, except number of shares)**

	Stockholders' Equity				Comprehensive Loss
	Common Stock		Additional Paid-In Capital	Accumulated Deficit	
	Number of Shares	Par Value			
Balance at December 31, 2008	5,483,519	\$ 55	\$ 384,922	\$ (372,829)	
Cancellation of common stock in connection with forfeiture of restricted stock awards	(10,000)	-	-	-	\$ -
Non-cash stock-based compensation	-	-	154	-	-
Net loss	-	-	-	(8,383)	(8,383)
Comprehensive loss	-	-	-	-	\$ (8,383)
Balance at December 31, 2009	5,473,519	\$ 55	\$ 385,076	\$ (381,212)	
Issuance of common stock in connection with Steel Partners Stock Purchase	3,125,000	31	1,062	-	\$ -
Non-cash stock-based compensation	-	-	243	-	-
Net loss	-	-	-	(4,648)	(4,648)
Comprehensive loss	-	-	-	-	\$ (4,648)
Balance at December 31, 2010	8,598,519	\$ 86	\$ 386,381	\$ (385,860)	

See accompanying notes.

ORE PHARMACEUTICAL HOLDINGS INC.

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2010 and 2009
(in thousands)

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Net loss	\$ (4,648)	\$ (8,383)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Depreciation and amortization	36	109
Non-cash stock-based compensation expense	216	180
Gain on sale of equity investment	-	(620)
Gain on extinguishment of debt	(336)	-
Loss on sale of property and equipment	-	300
Loss on abandonment of patents	156	42
Other non-cash items	(8)	(216)
Changes in operating assets and liabilities:		
Accounts receivable	149	(142)
Prepays and other assets	131	30
Accounts payable	(187)	(336)
Accrued expenses and deferred rent	(2,056)	194
Net cash flows from operating activities	<u>(6,547)</u>	<u>(8,842)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(2)	(23)
Proceeds from sale of property and equipment	-	71
Purchases of patent costs and licenses	(146)	(202)
Proceeds from sale of marketable securities available-for-sale	-	620
Proceeds received from notes receivable	442	3,375
Net cash flows from investing activities	<u>294</u>	<u>3,841</u>
Cash flows from financing activities:		
Payments for purchase of common stock	1,093	-
Proceeds from long-term debt	4,187	-
Repayments of long-term debt	(240)	(27)
Net cash flows from financing activities	<u>5,040</u>	<u>(27)</u>
Net decrease in cash and cash equivalents	(1,213)	(5,028)
Cash and cash equivalents, beginning of year	5,756	10,784
Cash and cash equivalents, end of year	<u>\$ 4,543</u>	<u>\$ 5,756</u>
Supplemental disclosure:		
Interest paid	<u>\$ 85</u>	<u>\$ 2</u>

See accompanying notes.

ORE PHARMACEUTICAL HOLDINGS INC.

**Notes to Consolidated Financial Statements
December 31, 2009 and 2008
(in thousands, except share and per share data)**

Note 1 – Organization and summary of significant accounting policies

Description of Business

Ore Pharmaceutical Holdings Inc. is a pharmaceutical asset management company focused on developing and monetizing our current portfolio of pharmaceutical assets, which includes four compounds in-licensed from major pharmaceutical companies.

On October 20, 2009, Ore Pharmaceuticals Inc. completed a reorganization that was undertaken primarily in order to better protect the value of its approximately \$330 million in gross net operating and capital loss carryforwards that can be used to reduce the amount of income tax it could be required to pay on future earnings from its business. As a result of this reorganization, Ore Pharmaceuticals Inc. became a wholly owned subsidiary of a new company, Ore Pharmaceutical Holdings Inc. All the outstanding shares of Ore Pharmaceuticals Inc. were converted into shares of Ore Holdings and Ore Holdings then became the company that is now referred to as "Ore." There were no changes in stockholders at the date of reorganization.

In September 2009, the Company received notice from The NASDAQ Stock Market ("Nasdaq") that its stock would be subject to delisting if it did not regain compliance by having a closing bid price equal or above \$1.00 per share for a minimum of 10 consecutive trading days prior to March 15, 2010. On March 16, 2010, the Company was further notified by NASDAQ that it had not regained compliance and that trading in its stock would be suspended on March 25, 2010 in the event it did not submit an appeal to NASDAQ. The Company determined not to submit an appeal and, as a result, trading in its stock on The NASDAQ Capital Market was suspended on March 25, 2010, and was delisted thereafter. The Company's stock is currently publicly traded in the OTC Marketplace under the symbol OREX.

On September 24, 2010, the Company filed a Form 15 with the Securities and Exchange Commission (the "SEC") in order to effect a termination of the registration of its common stock under the Securities Exchange Act of 1934. Upon the filing of the Form 15, the Company's obligation to file periodic and current reports with the SEC, including Forms 10-K, 10-Q and 8-K, was immediately suspended.

Principles of Consolidation

The consolidated financial statements include the accounts of Ore Pharmaceutical Holdings Inc. and its wholly owned subsidiary, Ore Pharmaceuticals Inc. Prior to October 20, 2009, the Company was composed of only Ore Pharmaceuticals Inc. All material inter-company accounts, transactions and profits have been eliminated in consolidation.

Subsequent Events

All material events occurring subsequent to the date of the financial statements have been evaluated for disclosure.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk

Cash and cash equivalents are financial instruments that potentially subject the Company to concentrations of investment risk. The Company primarily invests its excess available funds in money market funds. It is the Company's policy to place its cash and cash equivalents in high quality financial institutions. The Company does not believe significant credit risk exists with respect to these institutions.

Cash and Cash Equivalents

Cash and cash equivalents are defined as liquid investments with maturities of 90 days or less when purchased. Cash and cash equivalents as of December 31 are composed of:

	2010	2009
Cash	\$ 37	\$ 358
Money market funds	4,506	5,398
Total	\$ 4,543	\$ 5,756

Allowance for Doubtful Accounts

The Company uses estimates to determine the amount of the allowance for doubtful accounts necessary to reduce accounts receivable to their expected net realizable value. There was no allowance for doubtful accounts at December 31, 2010 or 2009.

Property and Equipment

Property and equipment is carried at cost, less accumulated depreciation and amortization. Depreciation and amortization is recorded using the straight-line method over the estimated useful lives of the assets as follows:

Furniture	10 years
Computer and office equipment	1-5 years
Laboratory equipment	5 years
Leasehold improvements	Lesser of the lease term or the useful life

Intangible Assets

Patent costs include issued patents and patent applications and are stated at cost. Amortization of costs for issued patents is recorded using the straight-line method over the shorter of their expected useful lives or the legal lives of the patents, generally for periods ranging up to 20 years.

Impairment of Long-Lived Assets

Long-lived assets, consisting principally of property and equipment and intangible assets, are evaluated for possible impairment. If an impairment loss is indicated, the Company will measure the amount of the impairment by comparing the carrying value of the asset to the present value of the expected future cash flows associated with the use of the asset (or asset group).

Fair Value Measurements

The Company adopted Accounting Standard Codification (“ASC”) Topic 820 (“ASC 820”) previously referred to as Statement of Financial Accounting Standards (“SFAS”) No. 157 “Fair Value Measurements” for financial assets and liabilities on January 1, 2008. The adoption had no impact on the Company’s financial position or results of operations.

ASC 820 discusses valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flow) and the cost approach (cost to replace the service capacity of an asset or replacement cost). The statement utilizes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The following is a brief description of those three levels:

- Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs that reflect the reporting entity’s own assumptions.

The Company's financial assets subject to fair value measurements and the necessary disclosures are as follows:

	Fair Value as of December 31, 2010	Fair Value Measurements at December 31, 2010 Using Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 4,543	\$ 4,543	\$ -	\$ -
Total	<u>\$ 4,543</u>	<u>\$ 4,543</u>	<u>\$ -</u>	<u>\$ -</u>

	Fair Value as of December 31, 2009	Fair Value Measurements at December 31, 2009 Using Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 5,756	\$ 5,756	\$ -	\$ -
Total	<u>\$ 5,756</u>	<u>\$ 5,756</u>	<u>\$ -</u>	<u>\$ -</u>

Research and Development

Research and development costs are charged to operations when incurred or acquired.

Revenue Recognition

Revenue associated with non-refundable license fees for which the Company is not obligated to provide continuing research and development activities is generally recognized when the license becomes effective. Revenue associated with non-refundable license fees under arrangements where the license fees and research and development activities cannot be accounted for as separate units of accounting are deferred and recognized as revenue over the expected term of the Company's continued performance of such research and development activities.

Revenue recognized for any multiple-element contract is allocated to each element of the arrangement based on the relative fair value of the element. The determination of fair value of each element is based on the Company's analysis of objective and reliable evidence from comparable internal or third-parties' sales of the individual element. If the Company is unable to determine evidence of fair value for an undelivered element of the arrangement, revenue for the arrangement is deferred and recognized using the revenue recognition method appropriate to the predominant undelivered element.

Deferred revenue is recorded for cash received from customers for whom services have not yet been performed or revenue recognition criteria has not been met as of the balance sheet date.

Income Taxes

The Company accounts for income taxes under the provisions of ASC 740, previously referred to as SFAS No. 109, "Accounting for Income Taxes". Under the asset and liability method of ASC 740, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and net operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under ASC 740, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the enactment date.

Effective January 1, 2009, the Company adopted ASC No. 740-10-25 which clarifies the accounting for uncertainty in income taxes by prescribing the minimum recognition threshold and measurement requirements a tax position must meet before being recognized as a benefit in the financial statements. ASC 740-10-25 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting for interim periods and disclosures for uncertain tax positions. The adoption of ASC No. 740-10-25 did not have an impact on the Company's financial statements.

The Company's policy is to recognize interest and penalties accrued on any uncertain tax positions as a component of income tax expense, if any, in its statements of income. For the year ended December 31, 2010, no estimated interest or penalties were recognized for uncertain tax positions.

Basic and Diluted Net Loss Per Share

Net loss per share is computed using the weighted average number of shares of common stock outstanding. Common equivalent shares from all outstanding stock options are excluded from the computation as their effect is anti-dilutive.

Stock-Based Compensation

Effective January 1, 2006, the Company adopted ASC 718, previously referred to as SFAS No. 123 (revised 2004), “Share-Based Payment,” which requires all share-based payments to employees, including grants of employee stock options and restricted stock awards, to be recognized in the financial statements based upon their respective grant-date fair values. The Company recognizes compensation expense on a straight-line basis over the requisite service period of the award, which typically occurs ratably over periods ranging from one to four years. See Note 9 for a further discussion on stock-based compensation.

Segment Information

The Company has managed its business as one operating segment. For 2009, one customer accounted for 86% of the Company’s revenue from continuing operations.

New Accounting Pronouncements

In April 2010, the Financial Accounting Standards Board (the “FASB”) issued ASU 2010-17, *Revenue Recognition – Milestone Method (Topic 605): Milestone Method of Revenue Recognition* (“ASU 2010-17”). ASU 2010-17 provides guidance on defining a milestone and determining when it may be appropriate to apply the milestone method of revenue recognition for research or development transactions. Consideration that is contingent on achievement of a milestone in its entirety may be recognized as revenue in the period in which the milestone is achieved only if the milestone is judged to meet certain criteria to be considered substantive. ASU 2010-17 is effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010, with early adoption permitted. The Company does not expect the adoption of this guidance will have a material impact on its consolidated condensed financial statements.

In January 2010, the FASB issued updated standards related to additional requirements and guidance regarding disclosures of fair value measurements. The guidance requires the gross presentation of activity within the Level 3 fair value measurement roll-forward and details of transfers in and out of Level 1 and 2 fair value measurements. In addition, companies will be required to disclose quantitative information about the inputs used in determining fair values. The Company adopted these standards in the first quarter of 2010. The adoption of these standards had no impact on the Company’s financial position or results of operations as it only amends required disclosures.

In September 2009, the FASB issued ASU 2009-13, “Multiple Element Arrangements”. ASU 2009-13 addresses the determination of when the individual deliverables included in a multiple element arrangement may be treated as separate units of accounting. ASU 2009-13 also modifies the manner in which the transaction consideration is allocated across separately identified deliverables and establishes definitions for determining fair value of elements in an arrangement. This standard must be adopted by no later than January 1, 2011, with earlier adoption permitted. The Company does not expect the adoption of this standard will not have an impact on its consolidated condensed financial statements.

Note 2 - Related Party Activities

During 2010, the Company entered into a management service agreement with p-Value Capital Management, LLC (“p-Value”), a related party. This agreement was amended in October 2010 as a condition of the closing of the transaction with Steel Partners, Ltd. Pursuant to the terms of the management services agreement and the amended agreement with p-Value, the Company paid management fees of \$2.2 million during 2010. Additionally, the amended agreement includes fees for consulting services totaling \$725 that are contingent upon certain conditions. These conditions have not been met as of December 31, 2010.

Note 3 – Equity investment in the Company

In October, 2010, Steel Partners, Ltd. completed a \$5.3 million combined debt and equity investment in the Company. The investment was composed of an equity investment of \$1.1 million (3,125,000 newly issued common shares priced at \$0.35 per share) and a note with a five year maturity for \$4.2 million (see Note 5). As part of the transaction, Steel was provided with the right to nominate two new directors to the Company to replace two current directors, who resigned in conjunction with the transaction.

Note 4 – Property and equipment

Property and equipment includes the following as of December 31:

	2010	2009
Furniture	\$ 3	\$ 3
Computer and office equipment	187	345
Laboratory equipment	-	-
Leasehold improvements	10	10
	200	358
Accumulated depreciation and amortization	(181)	(325)
Property and equipment, net	<u>\$ 19</u>	<u>\$ 33</u>

Depreciation expense was \$14 and \$102 for the years ended December 31, 2010 and 2009, respectively.

Note 5 – Intangible assets

Information regarding the Company's intangible assets at December 31, composed fully of patent costs, is as follows:

	2010	2009
Carrying amount	\$ 725	\$ 735
Accumulated amortization	(31)	(9)
Net carrying value	<u>\$ 694</u>	<u>\$ 726</u>

Amortization expense for the years ended December 31, 2010 and 2009 was \$22 and \$7, respectively.

Estimated future amortization expense for existing intangible assets is not significant since most patent costs are not related to issued patents as of December 31, 2010 and 2009 and therefore are not currently subject to amortization.

Note 6 – Debt

Debt as of December 31 consists of the following:

	2010	2009
Secured promissory note bearing interest at 12%, with the entire principal and accrued interest due on October 21, 2015	\$ 4,187	\$ -
Loan bearing interest at 4.5% and due upon demand	-	450
Current debt	<u>\$ 4,187</u>	<u>\$ 450</u>

A portion of Steel Partners, Ltd's investment in the Company included a secured promissory note in the amount of \$4,187. The note carries an interest rate of 12% per annum. All of the accrued interest and the entire principal balance is due and payable on October 21, 2015. The borrower can elect to prepay the entire note, or portion thereof, provided that it gives notice to the lender. The note is secured by all of the Company's goods, including inventories, supplies, equipment and all accounts, but excludes intellectual property. The secured promissory note does not require the Company to maintain any financial or non-financial covenants.

In January 2010, the Company reached a settlement agreement with the State of Maryland concerning repayment of the entire amounts due to the lender by the Company as of December 31, 2009 of \$719, which consisted of a loan of \$450 that was currently due upon demand, as well as repayment of a training program grant of \$111 and accrued interest of \$158, both of which are included in Other Accrued Expenses as of December 31, 2009. Under the settlement agreement, the Company repaid a total of \$383 in 2010. As a result of the settlement, the Company recognized a gain on extinguishment of debt of \$336 in 2010.

Interest expense was \$96 and \$20 for the years ended December 31, 2010 and 2009, respectively.

Note 7 – Income taxes

The actual income tax expense for the years ended December 31, 2010 and 2009 is different from the amount computed by applying the statutory federal income tax rates to loss before income tax expense. The reconciliation of these differences for the years ended December 31 is as follows:

	<u>2010</u>	<u>2009</u>
Tax benefit at federal statutory rate	\$ (1,581)	\$ (2,850)
State income taxes, net of federal income tax effect	871	(503)
Change in state tax rate	-	1,578
True up	2,023	-
Other	(80)	120
(Increase) decrease in valuation allowance	(1,233)	1,655
Income tax expense	<u>\$ -</u>	<u>\$ -</u>

The tax effect of cumulative temporary differences at December 31 is as follows:

	<u>2010</u>	<u>2009</u>
Deferred tax assets:		
NOL and tax credit carryforwards	\$ 117,435	\$ 118,149
Capital loss carryforwards	2,894	2,894
Research and development credit carryforwards	5,671	5,454
Purchased research and development	2,194	2,249
Stock based compensation	746	681
Depreciation	-	185
Other	1,394	1,955
	<u>130,334</u>	<u>131,567</u>
Valuation allowance	(130,334)	(131,567)
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>
Deferred tax liabilities:		
Other	\$ -	\$ -
Deferred tax liabilities	<u>\$ -</u>	<u>\$ -</u>

At December 31, 2010, net operating loss carryforwards (“NOLs”) for income tax purposes were \$329,511. The Company also has research and development tax credit carryforwards of \$5,671 as of December 31, 2010. The carryforwards, if not utilized, will expire in increments from 2011 through 2030. Utilization of the net operating losses and credits may be subject to an annual limitation as provided by the Internal Revenue Code of 1986, and there can be no guarantee that such NOLs and tax credits will ever be fully utilized. As a result of cumulative losses, the Company has recorded a full valuation allowance against its net deferred tax assets as management believes it is more likely than not that the assets will not be realizable.

On October 20, 2009, the Company entered into a Corporate Reorganization Transaction. This Reorganization was tax free under the Internal Revenue Code and resulted in the formation of a Holding Company with restrictions on ownership changes. The purpose of these restrictions is to hinder the possibility of an ownership change under Section 382 by limiting 5% ownership changes over a three year period.

The Company has considered its income tax positions, including any positions that may be considered uncertain by the relevant authorities in the jurisdictions in which the Company operates. As of December 31, 2010 and 2009, the Company had no uncertain tax positions and no unrecognized tax benefits. Potential interest and penalties associated with uncertain tax positions are recorded as a component of income tax expense. The Company has not incurred any penalties relating to income taxes recognized in the consolidated financial statements as of and for the years ended December 31, 2010 and 2009.

Note 8 – Commitments and contingencies

Operating Leases

The Company currently conducts its operations from a leased facility in Cambridge, Massachusetts. The term for the Cambridge, Massachusetts facility expires in June 2012. The lease obligates the Company to pay rent and building operating costs.

Future minimum lease payments under lease agreement for the years ending December 31 are as follows:

2011	\$	168
2012		85
	\$	<u>253</u>

Rent expense for the years ended December 31, 2010 and 2009 was \$151 and \$220, respectively.

Litigation

The Company previously conducted its operations in two Maryland based facilities, which it subsequently sublet. On January 28 and February 1, 2010, the Company received demand letters from the landlords of the properties located at 620 and 610 Professional Drive in Gaithersburg, Maryland, respectively (the “620 Landlord” and the “610 Landlord,” respectively, and collectively, the “Landlords”), stating that Bridge Global Pharmaceutical Services, Inc. (“Bridge”), which was the lessee under the leases for both properties, had vacated the premises and had stopped paying rent on those properties and demanding that the Company pay the amounts due pursuant to the Company’s guaranties of Bridge’s obligations under the leases. On February 9, 2010, the Company received notice of service of process informing the Company that the 620 Landlord had filed a complaint with the Circuit Court for Montgomery County, Maryland. The complaint alleged that the Company breached its guaranty of Bridge’s obligations to pay rent due under the leases and alleges current damages of \$116, plus interest and further costs and expenses. On March 1, 2010, the Company received notice of a service of process informing the Company that the 610 Landlord had filed a complaint with the Circuit Court for Montgomery County, Maryland, alleging breach of contract by the Company and asserting current damages in an amount to be determined.

In September 2010, the Company reached a settlement with both landlords and paid out a total amount of \$850. The Company adjusted its accrual at the time of payment to reflect the agreed upon settlement payments.

Note 9 – 401(k) retirement plan

The Company has an Ore Pharmaceuticals Inc. 401(k) Retirement Plan (the “401(k) Plan”) for its employees under Section 401(k) of the Internal Revenue Code, as amended. Under the 401(k) Plan, all employees 18 years of age or older are eligible, starting on the calendar quarter, to contribute up to 100% of their eligible compensation and, in the case of employees age 50 or older, make certain catch-up contributions, subject to maximum deferrals allowed under IRS regulations. Employee contributions are 100% vested. Beginning in 2008, the Company matching contributions increased to 100% of up to 3% of an employee’s eligible compensation and 50% of up to the next 2%. Employees hired after January 1, 2008 are fully vested in the Company’s matching contributions. The matching contributions, which are expensed, amounted to \$22 and \$56 in 2010 and 2009, respectively.

Note 10 – Stock-based compensation

At the Company’s annual meeting of stockholders held on October 20, 2009, the stockholders approved the 2009 Omnibus Equity Incentive Plan (“2009 Plan”). The 2009 Plan replaces both the Company’s prior stock plans: 1997 Equity Incentive Plan and 1997 Non-Employee Directors’ Stock Option Plan (the “Prior Plans”).

2009 Plan

The 2009 Plan is administered by the Compensation Committee (the “Committee”) of the Company’s Board of Directors. The Committee has full and final authority to grant stock options to employees, officers, directors, consultants and advisors providing service to the Company or an affiliate of the Company. The 2009 Plan authorizes the following types of discretionary awards: annual incentive awards, incentive stock options, non-qualified stock options, performance awards (shares or units), restricted stock and stock appreciation rights. The 2009 Plan currently authorizes grants for up to 700,000 shares of Common Stock, in addition to the number of shares remaining available under the Prior Plans or the number of shares that may become available due to expiration, cancellation or forfeiture under the Prior Plans. The stock options granted under the 2009 Plan generally expire at the earlier of a specified period after termination of service or the date specified by the Committee at the date of grant, but not more than ten years from the date of grant. At December 31, 2010, there were 380,315 shares available for issuance under the 2009 Plan and a total of 310,712 shares available for issuance under the Prior Plans.

Stock Option Awards

The following is a summary of option activity for the year ended December 31, 2010:

	Shares Subject to Outstanding Options			
	Shares	Per Share Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Balance at January 1, 2010	1,699,320	\$ 5.80		
Options granted	10,050	\$ 0.57		
Options exercised	-	\$ -		
Options cancelled	(176,305)	\$ 29.49		
Balance at December 31, 2010	<u>1,533,065</u>	<u>\$ 3.04</u>	<u>1.9</u>	<u>\$ -</u>
Vested at December 31, 2010	<u>1,533,065</u>	<u>\$ 3.04</u>	<u>1.9</u>	<u>\$ -</u>

Options to purchase a total of 1,533,065 and 459,730 shares at December 31, 2010 and 2009, respectively, were exercisable. The weighted-average grant-date fair value of options granted during the years ended December 31, 2010 and 2009 was \$0.38 and \$0.28, respectively.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model for the years ended December 31, 2010 and 2009 with the following assumptions:

	2010	2009
Expected volatility	82.5%	68%-85%
Risk-free interest rate	2.43%	0.44%-2.75%
Expected lives	5 years	5 years
Dividend rate	0%	0%

The aggregate intrinsic value in the table above, which is zero, represents the total intrinsic value (the excess of the Company's closing stock price on the last trading day of 2010 over the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2010. This amount is subject to change based on changes to the fair market value of the Company's common stock.

There were no stock option exercises in 2010 or 2009. In concert with the p-Value master services agreement signed in April 2010, the Board of Directors agreed to extend all the existing stock option awards to the four former employees under the same terms and conditions as the original awards. The total value of this modification was not material. Additionally, as a prerequisite to completing the transaction with Steel Partners, Ltd. in October 2010, the Board of Directors approved a modification to accelerate vesting of outstanding stock options for members of the Board of Directors, p-Value Capital Management, LLC and one senior level employee. The total value of this modification, which included an acceleration of the then unvested options and a change in the term of the options, was not material.

The following table summarizes information about stock options outstanding at December 31, 2010:

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding at December 31, 2010	Weighted Average Remaining Contractual Life	Per Share Weighted Average Exercise Price	Number Exercisable at December 31, 2010	Per Share Weighted Average Exercise Price
\$ 0.35--\$0.40	550,000	0.6 Years	\$ 0.40	550,000	\$ 0.40
\$ 0.51--\$0.57	482,245	0.6 Years	\$ 0.54	482,245	\$ 0.54
\$ 0.66--\$0.73	310,000	6.0 Years	\$ 0.71	310,000	\$ 0.71
\$ 1.70--\$129.70	190,820	2.4 Years	\$ 20.78	190,820	\$ 20.78
\$ 0.35--\$129.70	<u>1,533,065</u>	<u>1.9 Years</u>	<u>\$ 3.04</u>	<u>1,533,065</u>	<u>\$ 3.04</u>

As of December 31, 2010, there was no unrecognized compensation cost related to stock option awards. This estimate does not include the impact of other possible stock-based awards that may be made during future periods.