DOR BIOPHARMA INC
Form 10KSB/A
February 12, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-KSB/A

Amendment No. 1
to

(Mark One)

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

For the fiscal year ended December 31, 2002

OR

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

For the transition period from _________ to _________

Commission File No. 1-14778

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

DELAWARE (State or other jurisdiction of incorporation or organization)	**41-1505029** (IRS Employer Identification No.)
28101 BALLARD DRIVE, SUITE F **LAKE FOREST, IL** **(Address of principal executive offices)**	**60045** **(ZIP Code)**

Issuer's telephone number, including area code: **(847) 573-8990**

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

Title of each class	Name of Each Exchange on Which Registered
Common Stock, par value $.001 per share	American Stock Exchange

Securities registered under Section 12(g) of the Securities Exchange Act:
(Title of class)

None

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

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

Issuer s revenues for its most recent fiscal year: $0 The aggregate market value of the common stock held by non-affiliates (assuming, for this purpose, that executive officers, directors and holders of 10% or more of the common stock are affiliates), computed by reference to the closing price of such stock as of March 1, 2002, was $16,480,829.

At March 1, 2002, 20,825,742 shares of the registrant s common stock (par value $.001 per share) were outstanding. Transitional Small Business Issuer

Format: Yes |_| No |X|

Documents Incorporated by Reference

The issuer s definitive proxy statement in connection with its 2002 annual meeting of stockholders is incorporated by reference into Part III of this Form 10-KSB

PURPOSE OF AMENDMENT

The principal purpose of this amendment on Form 10-KSB/A of DOR BioPharma, Inc. (the Company) is to (a) provide a new audit report of Ernst & Young LLP that remove references to reliance on the report of other auditors with respect to amounts for the period from February 15, 1985 (inception) to December 31, 1999, and (b) remove the audit report of PricewaterhouseCoopers LLP with respect to the Company s financial statements for the period from February 15, 1985 (inception) to December 31, 1999. PricewaterhouseCoopers LLP informed the Company that, given the extended period of time that has passed since it was last retained by the Company, it is no longer prepared to consent to references to its audit report.

The financial statements included herein also reflect a Reclassification of $16,325,712 out of Proceeds from Sale of Preferred Stock and into Investment in Joint Ventures on the Consolidated Statement of Cash Flows in the cumulative period column, as this was not a cash transaction.

PART II

Item 7. Financial Statements.

The financial statements listed in Part III. Item 13., with the report of independent accountants, are included in this Form 10-KSB on pages F-1, et seq.

PART III

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

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

(1) Financial Statements:

(i) Independent Accountants Report.

(ii) Balance Sheets as of December 31, 2001 and December 31, 2000.

(iii) Statements of Operations for the periods ended December 31, 2001 and 2000 and cumulative from February 15, 1985 (date of inception) to December 31, 2001.

(iv) Statements of Cash Flows for the periods ended December 31, 2001 and 2000 and cumulative from February 15, 1985 (date of inception) to December 31, 2001.

(v) Statements of Stockholders Equity (Deficit) for the period from February 15, 1985 (date of inception) to December 31, 2001.

(vi) Notes to Financial Statements.

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(2) Exhibits

2.1	Agreement and Plan of Merger and Reorganization dated as of July 31, 2001 by and among the Company, Roadrunner Acquisition, Inc. (Roadrunner) and Corporate Technology Development, Inc. (CTD) (1)
3.1	Amended and Restated Certificate of Incorporation.(2)
3.2	By-laws.(3)
4.1	Specimen Common Stock Certificate.(3)
4.2	Form of Subscription Agreement by and between the Company and each investor dated as of April 11, 2000.(4)
4.3	Form of Amendment and Supplement to Subscription Agreement entered into by each investor as of April 11, 2000.(4)
4.4	Form of Second Amendment and Supplement to Subscription Agreement entered into by each investor as of April 11, 2000.(4)
4.5	Form of Investor Warrant issued to each investor dated as of April 12, 2000.(4)
4.6	Form of Finder Warrant issued to Paramount Capital, Inc. dated as of April 12, 2000.(4)
4.7	Warrant issued to Aries Fund dated as of May 19, 1997.(4)
4.8	Warrant issued to Aries Domestic Fund, L.P. dated as of May 19, 1997.(4)
4.9	Warrant issued to Paramount Capital, Inc. dated as of October 16, 1997.(5)
4.10	Warrant issued to Paramount Capital, Inc. dated as of October 16, 1997.(5)
4.11	Warrant issued to Elan International Services, Ltd. dated January 21, 1998.(6)
4.12	Form of Warrant issued to CTD warrant holders.(12)
10.1	

	Patent License Agreement dated December 16, 1996 between the Company and Massachusetts Institute of Technology.(7)
10.2	Purchase Agreement among Dominion Resources, Inc., The Aries Fund, a Cayman Island Trust, The Aries Domestic Fund, L.P., and Endorex dated as of June 13, 1996.(4)
10.3	Purchase Agreement dated as of June 26, 1996 between the Company, The Aries Fund and The Aries Domestic Fund, L.P.(7)
10.4	Termination and Release Agreement, dated March 7, 2002, by and between Schein Pharmaceutical (Bermuda) Ltd., and Endorex Newco.
10.5*	Amended and Restated 1995 Omnibus Incentive Plan, as approved by shareholders of the Company on November 29, 2001.
10.6	Lease dated December 19, 1997 between the Company and Howard M. Ruskin.(5)
10.7	Joint Development and Operating Agreement, dated as of January 21, 1998, between the Company, Elan Corporation, plc, Orasomal Technologies, Inc. and Endorex Vaccine Delivery Technologies, Inc.(5)
10.8	Securities Purchase Agreement, dated as of January 21, 1998, between the Company and Elan International Services, Ltd.(6)
10.9	Registration Rights Agreement, dated as of January 21, 1998, between the Company and Elan International Services, Ltd.(6)
10.10+	License Agreement, dated as of January 21, 1998, between Elan Pharmaceuticals, plc, and Endorex Vaccine Delivery Technologies, Inc.(6)
10.11+	License Agreement, dated as of January 22, 1998, between Orasomal Technologies, Inc., Endorex Vaccine Delivery Technologies, Inc. and the Company.(6)
10.12+	Securities Purchase Agreement, dated as of October 21, 1998, between the Company and Elan International Services, Ltd.(9)
10.13+	Registration Rights Agreement, dated as of October 21, 1998, between the Company and Elan International Services, Ltd.(9)
10.14+	License Agreement, dated as of October 21, 1998, between the Company, Elan Corporation, plc, Endorex Newco. Ltd., and Elan Medical Technologies Ltd.(9)
10.15+	Joint Development and Operating Agreement, dated as of October 21, 1998, between the Company, Elan Corporation, plc, Elan International Services, Ltd. and Endorex Newco, Ltd.(9)
10.17+	Development License and Supply Agreement, dated February 2, 2000, between the Company Newco, Ltd. and Schein Pharmaceutical (Bermuda), Ltd.(10)
10.20*	Employment Agreement dated October 21, 2001 between the Company and Michael Rosen.
10.21*	Employment Agreement between the Company and Steve Koulogeorge dated September 19, 2000.(8)
10.22*	

	Employment Agreement between the Company and Panayiotis Constantinides dated January 4, 2001.(8)
10.23*	Employment Agreement between the Company and John McCracken dated February 21, 2001.(8)
10.24	Financial Advisory Agreement between the Company and Paramount Capital, Inc. dated as of October 18, 2001.
10.25	Form of Affiliate Agreement dated as of August 15, 2001 by and between the Company and the affiliates of CTD.(13)
10.26	Escrow Agreement entered into by and among the Company, the stockholders of CTD, Peter O. Kliem, and Wells Fargo Bank Minnesota, National Association.(13)
10.27	Amendment No. 1 to Escrow Agreement dated November 29, 2001 by and among the Company, Paramount Capital Drug Development Holdings LLC, Peter Kliem and Wells Fargo.(13)
10.28*	Employment Agreement between the Company and Colin Bier dated November 29, 2001.
10.29	Consulting Agreement entered into by and among the Company, CTD and Nicholas Stergiopoulos dated as of November 29, 2001.
10.30*	Noncompetition and Nonsolicitation Agreement entered into by and among the Company, CTD and Steve H. Kanzer dated as of November 29, 2001.
10.31	Master Loan and Security Agreement, dated as of December 23, 1998, between FINOVA Technology Finance, Inc. and the Company.(12)
10.32	Second amendment dated as of October 31, 2001, to the Patent License Agreement dated December 16, 1996 between the Company and Massachusetts Institute of Technology.(14)
21.1	Subsidiaries of DOR BioPharma, Inc.(15)
23.1	Consent of Ernst & Young LLP.
24.1	Powers of Attorney(15)
99.1	Certification of Chief Executive Officer pursuant to Section 906 of the Surbanes-Oxley Act of 2002
99.2	Certification of Controller pursuant to Section 906 of the Surbanes-Oxley Act of 2002

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

\+ Endorex was granted Confidential Treatment of portions of this exhibit pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended.

(1) Incorporated by reference from our Quarterly Report on Form 10-QSB for the fiscal quarter ended June 30, 2001.

(2) Incorporated by reference to our Quarterly Report on Form 10-QSB, for the fiscal quarter ended June 30, 2000.

(3) Incorporated by reference to our Registration Statement on Form S-1, as amended (File No. 33-13492).

(4) Incorporated by reference to our Registration Statement on Form S-3 (File No. 333-36950), as amended on December 29, 2000.

(5) Incorporated by reference to our Quarterly Report on Form 10-QSB, as amended, for the fiscal quarter ended September 30, 1997.

(6) Incorporated by reference to our Annual Report on Form 10-KSB, as amended, for the fiscal year ended December 31, 1997.

(7) Incorporated by reference to our Annual Report on Form 10-KSB, as amended, for the transition period ended December 31, 1996.

(8) Incorporated by reference to our Annual Report on Form 10-KSB for the fiscal year ended December 31, 2000, as amended.

(9) Incorporated by reference to our Quarterly Report on Form 10-QSB for the fiscal quarter on Form 10-QSB for the fiscal quarter ended September 30, 1998.

(10) Incorporated by reference to our Annual Report on Form 10-KSB for the fiscal year ended December 31, 1999, as amended.

(11) Incorporated by reference to our current report on Form 8-K filed on November 9, 2000.

(12) Incorporated by reference to our Registration Statement on Form S-4 filed on October 2, 2001.

(13) Incorporated by reference to our current report on Form 8-K filed on December 14, 2001.

(14) Incorporated by reference to our Quarterly Report on Form 10-QSB for the fiscal quarter on Form 10-QSB for the fiscal quarter ended September 30, 2001.

(15) Previously filed as an exhibit to this Annual Report on Form 10-KSB.

(b) Reports on Form 8-K

On December 14, 2001, we filed a current report on Form 8-K dated November 29, 2001 (pursuant to Items 2 and 7 of Form 8-K), relating to the completion of our acquisition of all of the outstanding capital stock CTD pursuant to an Agreement and Plan of Merger and Reorganization dated as of July 31, 2001, as amended on November 29, 2001, by and among the Company, CTD and Roadrunner Acquisition, Inc., a wholly-owned subsidiary of the Company. This current report incorporated the required financial statements of CTD and pro forma financial information from the Joint Proxy Statement/Prospectus that forms a part of the Company s Registration Statement on Form S-4, as filed with the Securities and Exchange Commission and declared effective on October 23, 2001.

DOR BIOPHARMA, INC. (FORMERLY ENDOREX CORPORATION)
(A Development Stage Enterprise)
CONSOLIDATED BALANCE SHEETS

	December 31, 2001	December 31, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 9,942,053	$ 10,831,266
Marketable securities available for sale		2,014,984
Receivable from related party	44,447	126,538
Prepaid expenses	49,941	58,803

	December 31, 2001	December 31, 2000
Total current assets	10,036,441	13,031,591
Leasehold improvements and equipment, net of accumulated amortization of $975,860 and $800,066.	365,219	384,162
Patent issuance costs, net of accumulated amortization of $15,091 and $10,970	284,419	253,705
Intangible assets, net of accumulated amortization of $8,611	355,540	
Total assets	$ 11,041,619	$ 13,669,458
LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable and accrued expenses	$ 856,187	$ 642,440
Accrued compensation	205,969	147,205
Due to joint ventures	2,042,833	2,010,713
Current portion of capital lease obligations	164,748	118,793
Total current liabilities	3,269,737	2,919,151
Long-term portion of capital lease obligations	52,098	204,162
Total liabilities	3,321,835	3,123,313
Series C exchangeable convertible preferred stock, $.05 par value. Authorized 200,000 shares; 104,435 and 97,603 issued and outstanding, at liquidation value	10,348,733	9,665,512
Stockholders equity (deficit):		
Preferred stock, $.001 par value. Authorized 4,600,000 shares; none issued and outstanding		
Series B convertible preferred stock, $.05 par value. Authorized 200,000 shares; 108,443 and 100,410 issued and outstanding, at liquidation value	10,844,280	10,041,000
Common stock, $.001 par value. Authorized 50,000,000 shares; 20,944,384 and 12,860,500 issued, 20,825,742 and 12,741,858 outstanding	20,945	12,861
Additional paid-in capital	48,983,361	40,365,410
Common Stock held in escrow, 1,350,000 shares	1,687,500	
Deferred compensation		(4,853)
Deficit accumulated during the development stage.	(63,721,285)	(49,090,110)
Accumulated other comprehensive income		75
	(2,185,199)	1,324,383
Less: Cost of 118,642 shares of common stock in treasury	(443,750)	(443,750)
Total Stockholders Equity (Deficit)	(2,628,949)	880,633
Total liabilities and stockholders equity (deficit)	$ 11,041,619	$ 13,669,458

The accompanying notes are an integral part of the consolidated financial statements.

DOR BIOPHARMA, INC. (FORMERLY ENDOREX CORPORATION)
(A Development Stage Enterprise)
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31, 2001	Year Ended December 31, 2000	Cumulative Period February 15, 1985 (Inception) to December 31, 2001
SBIR contract revenue	$	$	$ 100,000
Expenses:			
SBIR contract research and development			86,168
Proprietary research and development	2,470,801	956,742	17,303,806
General and administrative	1,973,455	2,101,767	15,045,499
Write-off of acquired in-process research and development	10,181,000		10,181,000
Total expenses	14,625,256	3,058,509	42,616,473
Loss from operations	(14,625,256)	(3,058,509)	(42,516,473)
Equity in losses from joint ventures	(401,699)	(2,682,368)	(23,047,950)
Other income	7,588	250,000	262,890
Interest income	424,032	747,073	3,465,620
Interest expense	(35,840)	(51,889)	(349,150)
Net loss	(14,631,175)	(4,795,693)	(62,185,063)
Preferred stock dividends	(1,486,501)	(1,382,200)	(4,867,301)
Net loss applicable to common stockholders	$ (16,117,676)	$ (6,177,893)	$ (67,052,364)
Basic and diluted net loss per share applicable to common stockholders	$ (1.20)	$ (0.51)	
Basic and diluted weighted average common shares outstanding	13,450,579	12,194,260	

The accompanying notes are an integral part of the consolidated financial statements.

DOR BIOPHARMA, INC. (FORMERLY ENDOREX CORPORATION)
(A Development Stage Enterprise)
CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY (DEFICIT)

	Common Stock		Common Stock Held in Escrow		Preferred Stock					Treasury Stock				
	Shares	Par Value	Shares	Par Value	Shares	Par Value	Additional Paid-In Capital	(Deficit) Accumulated During the Development Stage	Other Comprehensive Income	Shares	Cost	Unearned Compensation	Note Receivable	Total Stockholders Equity (Deficit)
Common stock issued for cash in February 1985 at $1.50 per share	667	$ 1		$		$	$ 999	$	$		$	$	$	$ 1,000
Common Stock issued for cash in October 1986 at $750 per share	666	1					499,999							500,000
Excess of fair market value over option price of nonqualified stock option granted							13,230							13,230
	7						5,000							5,000

	Common Stock	Common Stock Held in Escrow	Preferred Stock	Additional Paid-In Capital	(Deficit) Accumulated During the Development Stage	Other Comprehensive Income	Treasury Stock	Unearned Compensation	Note Receivable	Total Stockholders Equity (Deficit)
Common stock issued in May 1987 at $750 per share for legal services performed for the company										
Net Proceeds from initial public stock offering in June 1987 at $6,000 per share, less issuance costs	333			1,627,833						1,627,833
Nonqualified stock options exercised	48			33,808				(28,188)		5,620
Amortization of unearned compensation								7,425		7,425
Excess of fair market value over option price of nonqualified stock options granted				75,063						75,063

The accompanying notes are an integral part of the consolidated financial statements.

DOR BIOPHARMA, INC. (FORMERLY ENDOREX CORPORATION)
(A Development Stage Enterprise)
CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY (DEFICIT) (Continued)

	Common Stock		Common Stock Held in Escrow		Preferred Stock		Additional Paid-In Capital	(Deficit) Accumulated During the Development Stage	Other Comprehensive Income	Treasury Stock		Unearned Compensation	Note Receivable	Total Stockholders Equity (Deficit)
	Shares	Par Value	Shares	Par Value	Shares	Par Value				Shares	Cost			
Nonqualified stock options exercised	18	$		$		$	$ 256	$	$		$	$	$	$ 256
Stock warrants exercised	1						12,000							12,000
Common stock redeemed and retired	(10)						(150)							(150)
Excess of fair market value over option price of nonqualified stock options granted							36,524							36,524
Amortization of unearned compensation												19,113		19,113
Nonqualified stock options exercised	71						1,060							1,060
Common stock redeemed and retired	(12)						(175)							(175)
Excess of fair market value over option price of nonqualified stock options granted							113,037							113,037
Net proceeds from secondary public stock offering in April 1989 at $525 per share, less issuance cost	2,174	2					980,178							980,180
Amortization of unearned compensation												1,650		1,650
Common stock issued for cash in October 1990 through January 1991 at $9.00 per share	5,694	6					51,244							51,250
Excess of fair market value over option price of nonqualified stock options granted							30,635							30,635

The accompanying notes are an integral part of the consolidated financial statements.

DOR BIOPHARMA, INC. (FORMERLY ENDOREX CORPORATION)
(A Development Stage Enterprise)
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (DEFICIT) (Continued)

	Common Stock		Common Stock Held in Escrow		Preferred Stock			(Deficit) Accumulated During the Development Stage		Treasury Stock				
	Shares	Par Value	Shares	Par Value	Shares	Par Value	Additional Paid-In Capital		Other Comprehensive Income	Shares	Cost	Unearned Compensation	Note Receivable	Total Stockholders' Equity (Deficit)
Common stock issued for cash in February 1991 through April 1991 at $9.00 per share	2,772	$ 3		$		$	$ 24,947	$	$		$	$	$	$ 24,950
Common stock issued for cash and services in November 1991 at $1.50 per share	15,333	15					22,985							23,000
Common stock issued for cash and note in December 1991 at $0.75 per share	296,949	297					200,018						(50,315)	150,000
Excess of fair market value over option price of nonqualified stock options granted							16,570							16,570
Nonqualified stock options exercised	1						1							1
Payment on note receivable													11,300	11,300
Net proceeds from secondary public stock offering in August 1992 at $112.50 per share, less issuance costs	66,666	66					6,230,985							6,231,051
Nonqualified stock options exercised	2,000	2					28							30
Excess of fair market value over option price of nonqualified stock options granted							126,000					(126,000)		
Amortization of unearned compensation												40,750		40,750
Nonqualified stock options exercised	67						57							57
Collection of note receivable													39,015	39,015

The accompanying notes are an integral part of the consolidated financial statements.

DOR BIOPHARMA, INC. (FORMERLY ENDOREX CORPORATION)
(A Development Stage Enterprise)
CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY (DEFICIT) (Continued)

	Common Stock		Common Stock Held in Escrow		Preferred Stock			(Deficit) Accumulated During the Development Stage		Treasury Stock				
	Shares	Par Value	Shares	Par Value	Shares	Par Value	Additional Paid-In Capital		Other Comprehensive Income	Shares	Cost	Unearned Compensation	Note Receivable	Total Stockholders' Equity (Deficit)
Acquisition of treasury stock		$		$		$	$	$	$	41,975	$ (300,000)	$	$	$ (300,000)
Forfeiture of nonqualified stock options granted							(22,402)					22,402		
												49,348		49,348

	Common Stock		Common Stock Held in Escrow	Preferred Stock	Additional Paid-In Capital	(Deficit) Accumulated During the Development Stage	Other Comprehensive Income	Treasury Stock		Unearned Compensation	Note Receivable	Total Stockholders' Equity (Deficit)
Amortization of unearned compensation												
Acquisition of treasury stock								76,667	(143,750			(143,750)
Forfeiture of nonqualified stock options granted					(1,379)					1,379		
Amortization of unearned compensation									)	12,121		12,121
Common stock issued at $0.975 per share	333,333	333			324,667							325,000
Common stock issued at $3.00 per share	333,333	333			999,667							1,000,000
Nonqualified stock options exercised	145,283	146			379,003							379,149
Warrants exercised at $1.20 per share	1,173	1			1,407							1,408
Proceeds on exercise of stock options					5,000							5,000
Warrants issued					5,407,546							5,407,546
Net proceeds from private placement at $2.3125 per share, less issuance cost	8,648,718	8,650			15,122,943							15,131,593

The accompanying notes are an integral part of the consolidated financial statements.

DOR BIOPHARMA, INC. (FORMERLY ENDOREX CORPORATION)
(A Development Stage Enterprise)
CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY (DEFICIT) (Continued)

	Common Stock		Common Stock Held in Escrow		Preferred Stock					Treasury Stock				
	Shares	Par Value	Shares	Par Value	Shares	Par Value	Additional Paid-In Capital	(Deficit) Accumulated During the Development Stage	Other Comprehensive Income	Shares	Cost	Unearned Compensation	Note Receivable	Total Stockholders Equity (Deficit)
Net proceeds from issuance of common stock and warrants	307,692	$ 308		$		$	$ 1,871,537	$	$	$	$	$	$	$ 1,871,845
Proceeds from exercise of stock options	25,000	25					61,725							61,750
Purchase and retirement of common stock	(133,335)	(134)					(129,866)							(130,000)
Net proceeds from issuance of Series B preferred stock at $100 per share					80,100	8,010,000								8,010,000
Accrued preferred stock dividends					5,986	598,666	(713,187)							(114,521)
Proceeds from exercise of stock options	334	4					347							351
Common stock dividends issued	819,319	819					1,535,403	(1,536,222)						
Accrued preferred stock dividends					6,887	688,634	(1,285,412)							(596,778)

	Common Stock		Common Stock Held in Escrow	Preferred Stock		Additional Paid-In Capital	(Deficit) Accumulated During the Development Stage	Other Comprehensive Income	Treasury Stock	Unearned Compensation	Note Receivable	Total Stockholders Equity (Deficit)
Net proceeds from private placement at $4.725 per share, less issuance costs	1,809,520	1,810				7,772,738						7,774,548
Issuance of options issued in exchange for financial advisory services						87,373				(87,373)		
Issuance of options issued in exchange for consulting services						12,787				(12,787)		
Amortization of unearned compensation										95,307		95,307
Proceeds from exercise of stock options	71,722	69				215,685						215,754
Noncash exercise of warrants	104,963	104				(104)						
Accrued preferred stock dividends				7,437	743,700	(1,382,200)						(638,500)
Unrealized gain on marketable securities								75				75

The accompanying notes are an integral part of the consolidated financial statements.

DOR BIOPHARMA, INC. (FORMERLY ENDOREX CORPORATION)
(A Development Stage Enterprise)
CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY (DEFICIT) (Continued)

	Common Stock		Common Stock Held in Escrow		Preferred Stock		Additional Paid-In Capital	(Deficit) Accumulated During the Development Stage	Other Comprehensive Income	Treasury Stock		Unearned Compensation	Note Receivable	To Stockh Equ (Def
	Shares	Par Value	Shares	Par Value	Shares	Par Value				Shares	Cost			
Issuance of common stock for the acquisition of CTD in 2001	8,083,884	8,084	1,350,000	1,687,500			10,100,771							11,7
Additional costs related to 2000 private placement in 2001							(21,871)							(
Issuance of options issued in exchange for advisory services and consulting fees in 2001							25,552					(25,552)		
Amortization of unearned compensation in 2001												30,405		

	Common Stock		Common Stock Held in Escrow		Preferred Stock		Additional Paid-In Capital	(Deficit) Accumulated During the Development Stage	Other Comprehensive Income	Treasury Stock		Unearned Compensation	Note Receivable	To Stockh Equ (Def
Accrued preferred stock dividends in 2001					8,033	803,280	(1,486,501)							(6
Net loss from inception, February 15, 1985, to December 31, 2001								(63,721,285)						(63,7
Unrealized loss on marketable securities									(75)					
Comprehensive loss														(63,7
Balance at December 31, 2001	20,944,384	$ 20,945	1,350,000	$ 1,687,500	108,443	$ 10,844,280	$ 48,983,361	$ (63,721,285)	$	118,642	$ (443,750)	$		$ (2,6

The accompanying notes are an integral part of the consolidated financial statements.

DOR BIOPHARMA, INC. (FORMERLY ENDOREX CORPORATION)
(A Development Stage Enterprise)
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2001	Year Ended December 31, 2000	Cumulative Period February 15, 1985 (Inception) to December 31, 2001
Operating Activities:			
Net Loss	$ (14,631,175)	$ (4,795,693)	$ (62,185,063)
Adjustments to reconcile net loss to cash used in operating activities:			
Depreciation and amortization	188,526	156,856	1,563,106
Gain on sale of marketable securities			(110,244)
Noncash stock compensation	30,405	95,307	786,178
Equity in losses of joint ventures	401,699	2,682,368	23,047,950
Amortization of fair value of warrants			3,307,546
Gain on sale of assets			(4,530)
Write off patent issuance cost			439,725
Write-off of acquired research and development	10,181,000		10,181,000

	Year Ended December 31, 2001	**Year Ended December 31, 2000**	**Cumulative Period February 15, 1985 (Inception) to December 31, 2001**
Changes in operating assets and liabilities:			
Receivable from related party	82,091	(92,199)	(44,447)
Prepaid expenses	12,884	9,404	(45,919)
Accounts payable and accrued expenses	68,821	145,551	801,231
Accrued compensation	58,764	(37,303)	205,969
Due to joint ventures	(369,579)	(1,613,988)	(1,041,234)
Total adjustments	10,654,611	1,345,996	39,086,331
Net cash used in operating activities	(3,976,564)	(3,449,697)	(23,098,732)
Investing Activities:			
Cash received in acquisition of CTD, net	1,392,108		1,392,108
Patent issuance cost	(34,835)	(82,712)	(794,060)
Investment in joint ventures			(3,638,171)
Organizational costs incurred			(135)
Purchases of leasehold improvements and equipment	(139,656)	(40,564)	(1,787,109)
Proceeds from assets sold			4,790
Purchases of marketable securities		(5,390,981)	(11,004,080)
Proceeds from sale of marketable securities	2,014,909	6,923,919	11,114,324
Net cash provided by (used in) investing activities	3,232,526	1,409,662	(4,712,333)
Financing Activities:			
Net proceeds from issuance (costs incurred related to issuance) of common stock	(21,871)	7,774,548	37,777,399
Proceeds from exercise of options		215,754	417,092
Proceeds from borrowings under line of credit			1,150,913
Repayment of amounts due under line of credit and capital lease obligations	(123,304)	(114,907)	(996,883)
Repayment of long-term receivable			50,315
Repayment of note payable issued in exchange for legal service			(71,968)
Purchase and retirement of common stock			(130,000)
Purchase of common stock for treasury			(443,750)
Net cash provided by (used in) financing activities	(145,175)	7,875,395	37,753,118
Net increase (decrease) in cash and cash equivalents	(889,213)	5,835,360	9,942,053
Cash and cash equivalents at beginning of period	10,831,266	4,995,906	
	$ 9,942,053	$ 10,831,266	$ 9,942,053

	Year Ended December 31, 2001	Year Ended December 31, 2000	Cumulative Period February 15, 1985 (Inception) to December 31, 2001
Cash and cash equivalents at end of year			
Supplemental disclosure of cash flow:			
Cash paid for interest	$ 35,840	$ 51,889	
Non-cash transactions			
Issuance of preferred stock dividends in kind	$ 1,486,501	$ 1,382,200	
Issuance of common stock, options and warrants in acquisition	12,214,207		
Capital lease acquisitions	17,195	45,621	

The accompanying notes are an integral part of the consolidated financial statements.

DOR BIOPHARMA, INC. (FORMERLY ENDOREX CORPORATION)

(A Development Stage Enterprise)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Nature of Operations

Basis of Presentation

DOR BioPharma, Inc. (DOR, or the Company) and Subsidiaries was incorporated in January 1987 as ImmunoTherapeutics, Inc., a wholly owned subsidiary of BiologicalTherapeutics, Inc. (BTI). BTI was incorporated on December 19, 1984 and commenced operations on February 15, 1985 (inception date). On March 30, 1987 BTI was merged into DOR. The Company s financial statements include the accounts of the predecessor, BTI, for all periods presented. In October 1996, DOR formed its first subsidiary, Orasomal Technologies, Inc. (Orasomal), and in July 1997, formed a second subsidiary, Wisconsin Genetics, Inc. (WGI). On November 29, 2001, the Company merged with Corporate Technology Development (CTD), and changed its name from Endorex to DOR BioPharma Inc., as discussed further in Note 5.

Nature of Business

DOR is a development stage, drug delivery company. The Company s core drug delivery technology focuses on oral/mucosal delivery of drugs and vaccines previously delivered only by injection. The Company s Orasome(TM) system utilizes technology licensed from MIT to develop the oral/mucosal delivery of vaccines, proteins and peptides.

In 1998 the Company formed two joint ventures with Elan Corporation, plc (Elan), one of the world s leading drug delivery companies. The purpose of the first joint venture, InnoVaccines Corporation (InnoVaccines), is to research, develop, and commercialize novel delivery systems for the human and veterinary vaccine markets. The second joint venture, Endorex Newco, LTD. (Newco), focuses on the utilization of the MEDIPAD® microinfusion pump, developed by Elan, to deliver iron chelators for the treatment of a series of genetic blood disorders known as iron overload disorders. During 2001, DOR and Elan have begun discussing the possible termination of both joint venture agreements.

2. Development Stage Enterprise

The Company s activities to date principally have been conducting research and development in conjunction with developing new products. Consequently, as shown in the accompanying financial statements, the Company has not realized substantial revenue and has a deficit accumulated during the development stage for the period from inception, February 15, 1985 through December 31, 2001 of $63,721,285. The Company will continue to be a development stage company, as defined in Statement of Financial Accounting Standards No. 7, Accounting and Reporting by Development Stage Enterprises , until it begins sales of its anticipated products.

3. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include DOR and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Segment and Geographic Information

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

Accounting for Investments in Non-Controlled Entities

The Company accounts for investments in common stock of non-controlled entities (i.e., InnoVaccines and Newco joint ventures) using the equity method. The Company discontinues application of the equity method when the carrying value of the investment is reduced to zero and does not provide for additional losses provided that the Company has not guaranteed the obligations of the investee and is not otherwise committed to provide further financial support for the investee. See Note 4 for a description of the Company s investment in joint ventures.

Cash and Cash Equivalents

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

Marketable Securities

Marketable securities were comprised of high-grade commercial paper and short-term government agency notes that had maturities ranging from three to twelve months from the purchase date. The fair value of marketable securities classified as available for sale approximated the carrying value of these assets at December 31, 2000 due to the short maturity of the instruments.

Research and Development Costs

Expenditures for research and development activities are charged to operations as incurred.

Patent Costs

Patent costs, principally legal fees, are capitalized and, upon issuance of the patent, are amortized on a straight-line basis over the shorter of the estimated useful life of the patent or the regulatory life.

Impairment of Long-Lived Assets

Equipment, leasehold improvements and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected undiscounted cash flows is less than the carrying value of the related asset or group of assets, a loss is recognized for the difference between the fair value and the carrying value of the related asset or group of assets. Such analyses necessarily involve significant judgment.

Net Loss Per Share

In accordance with accounting principles generally accepted in the United States, basic and diluted net loss per share has been computed using the weighted-average number of shares of common stock outstanding during the respective periods (excluding shares that are held in escrow). The effect of stock options, warrants and convertible preferred stock is antidilutive for all periods presented.

Income Taxes

Deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year-end, based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the current tax payable for the period plus or minus the change during the period in deferred tax assets and liabilities. No current or deferred income taxes have been provided through December 31, 2001 because of the net operating losses incurred by the Company since its inception.

Stock Based Compensation

The Company accounts for stock-based compensation for awards to employees using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and has adopted the disclosure only alternative of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (FAS 123). Stock compensation expense for options granted to nonemployees has been determined in accordance with FAS 123 and EITF 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services, and represents the fair value of the consideration received, or the fair value of the equity instruments issued, whichever may be more reliably measured. For options that vest over future periods, the fair value of options granted to non-employees is periodically remeasured as the underlying value of the securities changes.

Fair Value of Financial Instruments

Accounting principles generally accepted in the United States require that fair values be disclosed for the Company s financial instruments. The carrying amounts of the Company s financial instruments, which include cash and cash equivalents, marketable securities, receivables from related party, current liabilities and capital lease obligations are considered to be representative of their respective fair values.

Use of Estimates

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

Risk and Uncertainties

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

Reclassifications

Certain reclassifications have been made to the 2000 financial statements to conform to the 2001 presentation.

4. Investment in Joint Ventures and Preferred Stock

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

InnoVaccines Corporation

InnoVaccines was established in January 1998 pursuant to agreements between DOR and Elan. At closing, the Company issued to Elan 307,692 shares of DOR common stock and a six-year warrant to purchase an additional 230,770 shares of DOR common stock at an exercise price of $10.00 per share for an aggregate recorded value of $2.0 million. In addition, Elan purchased $8.0 million of DOR Series B convertible preferred stock, which is convertible into DOR common stock at a price of $7.38 per share, subject to adjustment. The Series B convertible preferred stock pays an 8% annual in-kind dividend, which was $803,280 and $743,700 in 2001 and 2000, respectively.

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

At closing, InnoVaccines paid Elan an initial $10.0 million license payment. Elan may receive future milestone payments and royalties based on the joint venture s performance. As the technology did not yet represent a commercial product, the joint venture recorded an expense in 1998 for the initial license fee. The Company recorded its $8.0 million share of the license fee expense in accordance with the equity method.

Orasomal sub-licensed to InnoVaccines oral vaccine rights to its proprietary Orasome polymerized liposome technology exclusively licensed from MIT. In consideration of the license, Orasomal may receive milestone payments and royalties.

InnoVaccines contracts with both DOR and Elan which perform research and development on behalf of the joint venture. Elan and DOR each funded research and development related to InnoVaccines technology equally from the inception of the joint venture through March 31, 1999, in accordance with the joint development and operating agreement. Such payments were not funded through the joint venture and DOR expensed its payments. Subsequent to April 1, 1999, DOR and Elan are responsible for funding joint venture expenditures in proportion to their respective ownership levels through the joint venture entity (as a loan). During the years ended December 31, 2001 and 2000, DOR incurred research and development and general and administrative expenditures aggregating $.4 and $1.7 million, respectively, which were billed to InnoVaccines.

DOR has a payable due to InnoVaccines of approximately $1.8 million as of December 31, 2001, which consists of DOR s share of the joint venture s net losses to date in excess of DOR s initial investment less amounts billed by the Company to the joint venture. The InnoVaccines joint venture has a payable due to Elan of $1.8 million, representing the amount Elan has contributed to InnoVaccines in excess of its funding obligation.

DOR and Elan also incurred $246,000 and $677,000 of expenditures during the years ended December 31, 2001 and 2000, respectively, related to certain licenses that DOR and Elan acquired for further development on behalf of InnoVaccines. Elan and DOR each agreed to pay 50% of the license costs outside of the joint venture entity. The receivable from related party of $44,447 and $126,538 at December 31, 2001 and 2000, respectively, on the accompanying consolidated balance sheets represents reimbursements not yet received from Elan. The Company s portion of the license costs have been included in equity in losses from joint ventures in the accompanying statements of operations. These amounts were not capitalized, because the technology does not yet represent a commercial product.

Endorex Newco, LTD.

Newco was established in October 1998 pursuant to agreements between DOR and Elan. At closing, DOR and Elan paid $8.4 million and $2.1 million to purchase Newco s common stock, respectively. In addition, Elan purchased $8,410,500 of DOR Series C Convertible Preferred Stock. The Series C Preferred Stock is exchangeable at Elan s option for an additional 30.1% ownership interest of Newco s common stock, or it may be converted into DOR s common stock at a price of $8.86 per share, which causes the classification of the Series C Preferred Stock to be outside of equity. If not exchanged, the Series C Preferred Stock automatically converts to common stock at the conversion price upon the earlier of October 21, 2002 or a public offering of Newco s common stock with gross proceeds of not less than $10 million. Conversion of Series C Preferred Stock will cause total stockholders equity to increase by the liquidation value of the Series C Preferred Stock. As of December 31, 2001, the liquidation value of the Series C Preferred Stock was $10,348,733. The Series C Preferred Stock pays a 7% annual in-kind dividend, which was $683,221 and $638,500 in 2001 and 2000, respectively.

Newco is owned 80.1% by DOR and 19.9% by ELAN. Although DOR BioPharma is the majority shareholder, the joint development agreement of Newco gives management participation to both DOR and Elan equally. Therefore, because the minority shareholder, Elan, has substantive participating veto rights, DOR accounts for its investment in the joint venture using the equity method of accounting in accordance with EITF-96-16. At closing, Newco paid Elan an initial $10.0 million license payment. Because the technology did not represent a commercial product, Newco recorded an expense in 1998 for the initial license fee expense. The Company recorded its $8.0 million share of the license fee in accordance with the equity method. Elan may also receive future milestone payments and royalties based on Newco s performance.

In consideration of the license fee, Newco has obtained an exclusive worldwide license to the MEDIPAD drug delivery system developed by Elan with two drugs. Newco is focusing on development of the first of those drugs, Norditropin, an iron chelator for the treatment of a series of genetic blood disorders known as iron overload disorders. MEDIPAD is a lightweight, microinfusion pump, which combines the simplicity of a patch with the extensive delivery capabilities of an infusion pump.

The Newco joint venture entity contracts with both DOR and Elan, which perform research and development on behalf of the joint venture. During 2001 and 2000, Elan and DOR were required to fund Newco expenditures according to their respective ownership interests. DOR may choose to borrow from a multi-draw convertible note with Elan to fund its portion of Newco s research and development expenses. Through December 31, 2001, no amounts have been borrowed under this note.

During the years ended December 31, 2001 and 2000, DOR incurred research and development and general and administrative expenditures aggregating $45,000 and $42,000, respectively, related to the joint venture and billed to Newco. DOR has a payable due to Newco of $254,000 at December 31, 2001, which consists of DOR s share of the joint venture s net losses to date in excess of DOR s initial investment less amounts billed by the Company to the joint venture.

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

Condensed Financial Statements for Joint Ventures

Condensed financial statement information of the joint ventures is stated below. The joint ventures had no revenues in any period.

	December 31 2001	2000
InnoVaccines net loss	$ (586,828)	$ (3,466,101)
Newco net income (loss)	44,421	(168,945)
Total net loss	$ (542,407)	$ (3,635,046)
Reconciliation of joint venture net losses to equity in losses from joint ventures recorded by DOR:		
Total joint venture net losses	$ (542,407)	$ (3,635,046)
DOR mark-up (a)	155,872	617,925
Elan minority interest	107,939	723,374
InnoVaccines costs incurred by DOR, outside of joint venture	(123,103)	(388,621)
Equity in losses from joint venture DOR	$ (401,699)	$ (2,682,368)

(a) The Company invoices the joint venture at cost, plus mark-up that is agreed to by Elan, which is intended to approximate overhead costs.

5. Acquisition

On November 29, 2001, the Company acquired all of the capital stock of CTD, a development stage company. A director of DOR was also President, Chief Executive Officer and a director of CTD. Additionally, shareholders of DOR were also shareholders of CTD. Pursuant to the Merger Agreement, an aggregate of 9,433,884 shares of DOR common stock valued at $1.25 per share were issued in exchange for all of the issued and outstanding capital stock of CTD; however 1,350,000 of the shares are held in escrow to cover any damages for breach of contract by CTD or other specific matters and will be issued incrementally through March 31, 2002. In addition, 566,121 options and warrants to purchase DOR common stock were issued to replace existing vested CTD options and warrants and were valued at $421,852. As part of the acquisition, the Company incurred $1,500,000 and $417,852 in direct acquisition costs and equity issuance costs, respectively.

The total purchase price of $14,132,059 was allocated based on the fair market value of the assets acquired and liabilities assumed as follows:

Cash	$ 3,309,960
Prepaid expenses	4,022
Intangible assets	364,151
Accounts payable	(144,926)
Acquired IPR&D	10,181,000
Equity issuance costs	417,852
Total	$ 14,132,059

The acquisition was accounted for as a purchase of assets and, accordingly, the results of operations have been included in the consolidated financial statements from November 29, 2001, the effective date of the acquisition. The purchase price has been allocated to the acquired assets and assumed liabilities on the basis of their estimated fair values at the acquisition date, with intangible assets determined in an independent appraisal. Intangible assets acquired consisted of contractual rights of $364,151 and in-process research and development (IPR&D) of $10,181,000. Contractual rights relate to a potential future milestone payment and was calculated based upon the estimated, probability-of-success-adjusted after-tax cash flows expected to be generated, using a 25% discount rate. The contractual rights are being amortized over a period of three years. IPR&D consists of the present value of the estimated after-tax cash flows expected to be generated by the purchased technology, which, at the acquisition dates, had not yet completed clinical trials with the FDA for their intended purpose and had no alternative future use at the purchase date. In valuing the purchased in-process technologies, the Company used probability-of-success-adjusted cash flows and a 25% discount rate. Cash inflows from the in-process products were assumed to commence between 2003 and 2005. Based on current information, the Company believes that the revenue projections underlying the purchase price allocation are substantially accurate. As with all pharmaceutical products, the probability of commercial success for any one research and development project is highly uncertain.

6. Leasehold Improvements and Equipment

Office and lab equipment is stated at cost. Depreciation is computed on a straight-line basis over five years. Leasehold improvements are amortized utilizing the straight-line method over the term of

the lease. Depreciation expense was $175,794 and $151,024 for the periods ended December 31, 2001 and 2000, respectively. Leasehold improvements and equipment consisted of the following at December 31:

	December 31 2001	2000
Leasehold improvements	$ 262,985	$ 255,888
Laboratory equipment	857,560	786,902
Office equipment	220,534	141,438
	1,341,079	1,184,228
Accumulated depreciation	(975,860)	(800,066
	$ 365,219	$ 384,162

7. Stockholders Equity (Deficit)

Private Placements

In April 2000, the Company sold an aggregate of 1,809,520 shares of common stock in a private placement. Gross proceeds were $8.6 million with net proceeds, after deducting commissions and expenses, of $7.8 million.

In connection with the April 2000 private placement, the Company issued warrants to the investors for the purchase of 452,383 shares of its common stock. The warrants issued to these investors are immediately exercisable at $5.91 per share and expire in April 2005. Also, as part of the compensation received for its assistance in the private placement, the placement agent received warrants to purchase 226,190 shares of DOR common stock. These warrants are immediately exercisable at $5.25 per share, expire in October 2007 and may be called if the closing bid price of DOR s common stock equals or exceeds $13.125 per share for at least 20 consecutive trading days.

During 1997, the Company sold an aggregate of 8,648,718 shares of common stock to certain accredited investors. The gross proceeds of these issuances were $20 million with net proceeds, after deducting commissions and expenses, of $15.1 million.

In connection with the 1997 private placement, the Company issued warrants for the purchase of 864,865 shares of DOR common stock at a current exercise price of $1.8209 per share to the placement agent, and certain of its affiliates and employees. The Company also issued warrants to purchase 1,297,297 shares of DOR common stock at a current exercise price of $1.8209 per share to certain employees of the placement agent. The estimated fair value of the warrants at the grant date was $3.16 million, which was recorded as a deferred cost and amortized to expense over two years, the term of the agreement. The warrants are exercisable and expire on April 16, 2003. Through December 31, 2001, 148,161 warrants have been exercised.

Common Stock Dividend

The terms of the 1997 private placement also included 5% semi-annual dividends payable in additional shares of common stock based on the number of shares held as of the record date, including previous dividend distributions. The first and second semi-annual common stock dividends were payable to holders of stock with dividend rights as of the record date of April 16, 1999 and October 16, 1999, respectively. The Company distributed the first and second dividends on June 1, 1999 and November 16, 1999, respectively. No dividends were paid during 2000; dividend rights were terminated effective March 20, 2000.

Warrants

In connection with a prior financing, the Company granted warrants to purchase an aggregate of 66,668 shares of common stock at a current exercise price equal to $1.6914 per share. The warrant exercise price and the number of shares that can be purchased are subject to adjustment in certain circumstances. The warrants are exercisable until May 19, 2002.

8. Stock Option Plans

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

The Board of Directors Compensation Committee determines the terms of the options, including vesting periods. No one person participating in the Plan may receive options and separately exercisable stock appreciation rights for more than 750,000 shares of common stock per calendar year.

Had the Company accounted for its stock option plans based on the fair value at the grant date for options granted under the plan, based on provisions of SFAS 123, the Company s pro forma net loss and pro forma net loss per share would have increased by approximately $0.9 million, or $.07 per share, and $0.1 million, or $0.01 per share, for 2001 and 2000, respectively. Net loss and net loss per share would have increased as follows:

	December 31	
	2001	**2000**
Net loss applicable to common stockholders:		
As reported	$ (16,117,676)	$ (6,177,893)
Pro forma	(17,023,173)	(6,325,952)
Basic and diluted net loss per share applicable to common stockholders:		

	December 31	
As reported	$ (1.20)	$ (0.51)
Pro forma	(1.27)	(0.52)

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The weighted average fair value of options granted with an exercise price equal to the fair market value of the stock was $0.83 and $0.75 for 2001 and 2000, respectively.

The fair value of options in accordance with SFAS 123 was estimated using the Black-Scholes option-pricing model and the following weighted-average assumptions: dividend yield 0%, expected life of four years, volatility of 105% and 102% in 2001 and 2000, respectively and average risk-free interest rates in 2001 and 2000 of 4.5% and 5.5%, respectively.

The rollforward of shares available for grant through December 31, 2001 is as follows:

Shares available for grant at December 31, 2000	708,697
Increase in shares available based upon the annual Evergreen provision	127,419
Amendment to increase shares available in plan	2,165,664
Options granted	(1,629,500)
Options forfeited	88,000
Options assumed in CTD acquisition	(359,042)
Shares available for grant at December 31, 2001	1,101,238

Option activity for the periods ended December 31, 2001 and 2000 was as follows:

	Options	Weighted-Average Options Exercise Price
Balance at December 31, 1999	1,571,502	$ 2.82
Granted	168,500	3.78
Exercised	(71,722)	3.01
Forfeited	(157,155)	4.76
Balance at December 31, 2000	1,511,125	2.73
Granted	1,629,500	1.04
Assumed in CTD merger	359,042	0.74
Forfeited	(88,000)	3.51
Balance at December 31, 2001	3,411,667	$ 1.69

The weighted-average exercise price, by price range, for outstanding options as of December 31, 2001 is:

	Weighted-Average Remaining Contractual Life	Outstanding Options	Options Exercisable
Price Range $ .74 - $1.50	9.2	2,039,542	1,265,917

	Weighted-Average Remaining Contractual Life	Outstanding Options	Options Exercisable
Price Range $1.88 - $2.54	6.0	1,200,125	1,181,719
Price Range $3.25 - $4.88	8.2	87,000	42,100
Price Range $5.50 - $6.75	6.0	85,000	85,000

9. Income Taxes

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

	December 31	
	2001	2000
Deferred tax assets:		
Net operating loss carryforwards	$ 14,220,000	$ 11,181,000
Research and development credit carryforwards	1,748,000	360,000
Work opportunity credit carryforwards	260,000	260,000
Orphan drug credit carryforwards	936,000	278,000
Licensing fees	3,906,000	3,721,000
Other	65,000	98,000
	21,136,000	15,898,000
Valuation allowance	(21,136,000)	(15,898,000)
Net deferred tax assets	$	$

At December 31, 2001, the Company had net operating loss carryforwards of approximately $36 million for U.S. Federal and state tax purposes, which expire beginning in 2007. In the event of a change in ownership greater than 50% in a three-year period, utilization of the net operating losses may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986 and similar state provisions.

10. Lease Commitments

The Company leases executive offices and research facilities under operating leases, which provide for annual minimum rent and additional rent based on increases in operating costs and real estate taxes. Rental expense was $63,967 during 2001 and $59,318 during 2000.

The Company has three capitalized leases. The aggregate interest rates incurred to date range from 10.09% to 13.82%. The leases are payable in monthly installments over a period of 48 months, with a final payment in December 2004.

Future minimum lease payments under capital leases and non-cancelable operating leases with initial terms of one year or more consisted of the following at December 31, 2001:

	Capital Leases	Operating Leases
2002	$ 186,927	$ 57,300
2003	42,876	59,018
2004	17,660	
Total minimum lease payments	247,463	$ 116,318
Amounts representing interest	(30,617)	
Present value of net minimum lease payments, including current portion	$ 216,846	

At December 31, 2001, the gross amount of equipment and leasehold improvements recorded under capital leases and related accumulated amortization was approximately $520,283 and $312,550, respectively.

11. License Agreements

As part of the acquisition of CTD, the Company and its subsidiaries acquired the license to certain patents and know-how as defined in the respective license agreements with various individuals and corporations. Under the agreements, the Company is required to pay royalties ranging from 2% to 33% of the selling prices for products or processes that are covered by the licensed patents.

In February 2001, a subsidiary of CTD received a notice of termination of one of the license agreements from the licensor alleging nonpayment of a $200,000 penalty payment. The Company maintains that it is not required to make such payment.

In connection with the sale of substantially all assets of a CTD subsidiary in 1999, the Company may receive a maximum of $3,000,000 upon the approval by the Food and Drug Administration of various treatments.

Report of Ernst & Young LLP, Independent Auditors

To the Board of Directors and Shareholders of
DOR BioPharma, Inc. (formerly Endorex Corporation)
(A Development Stage Enterprise)

We have audited the accompanying balance sheet of DOR BioPharma, Inc. (the Company, a development stage enterprise) as of December 31, 2001 and 2000, and the related statements of operations, stockholders equity, and cash flows for the years then ended, and for the period February 15, 1985 (inception) through December 31, 2001. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the financial position of the Company at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended and for the period February 15, 1985 (inception) through December 31, 2001, in conformity with accounting principles generally accepted in the United States.

/s/ Ernst and Young LLP

Milwaukee, Wisconsin
January 31, 2002

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant caused this Amendment to the Report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 10, 2003.

DOR BIOPHARMA, INC.

By: /s/ William D Milling

William D Milling
Controller, Treasurer and Corporate Secretary

CERTIFICATIONS

I, David M. Kent, certify that:

1. I have reviewed this amendment on Form 10-KSB/A to the annual report on Form 10-KSB of DOR BioPharma, Inc.;

2. Based on my knowledge, this annual report, as amended, does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, as amended, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

Date: February 10, 2003

By: /s/ David M. Kent

David M. Kent
Chief Executive Officer and President
(principal executive officer)

I, William D Milling, certify that:

1. I have reviewed this amendment on Form 10-KSB/A to the annual report on Form 10-KSB of DOR BioPharma, Inc.;

2. Based on my knowledge, this annual report, as amended, does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, as amended, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

Date: February 10, 2003

By: /s/ William D Milling

William D Milling
Controller, Treasurer and Corporate Secretary
(principal financial officer)