

SHEFFIELD PHARMACEUTICALS INC  
Form 10KSB  
January 25, 2006

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

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**FORM 10-KSB**

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

For the fiscal year ended December 31, 2005

or

**&#168**

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

For the transition period from      to

Commission file number 01-12584

**SHEFFIELD PHARMACEUTICALS, INC.**

(Exact Name Of Registrant As Specified In Its Charter)

Delaware

(State of Incorporation)

13-3808303

(I.R.S. Employer Identification No.)

1220 Glenmore Drive, Apopka, FL

(Address of Principal Executive Offices)

32712

(ZIP Code)

Registrant's Telephone Number, Including Area Code: (407) 880-2213

Securities Registered Pursuant to Section 12(g) of The Act: Common Stock, \$0.001

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes &#120 No &#168

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in the definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

At December 31, 2005, the aggregate market value of the 397,217 voting common stock held by non-affiliates of the registrant was approximately \$3,972. At December 31, 2005, the registrant had 1,792,217 shares of common stock outstanding. Issuer's revenues for its most recent fiscal year: \$0.

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

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

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**PART I**

**ITEM 1. DESCRIPTION OF BUSINESS** [Back to Table of Contents](#)

General Background of the Registrant

Sheffield Pharmaceutical, Inc., a Delaware corporation, was incorporated under Canadian law in October 1986. In May 1992, the Registrant was domesticated to Wyoming pursuant to a continuance procedure under Wyoming law. In January 1995, the Registrant's shareholders approved the proposal to reincorporate the Registrant in Delaware, which reincorporation was effected on June 13, 1995.

Prior to filing for bankruptcy in June 2003, the Registrant was a development stage company and, as such, had been principally engaged in research, development and licensing efforts. The Company generated minimal operating revenue, sustained significant net operating losses, and required additional capital that the Company obtained through out-licensing of rights to its technology, as well as through equity and debt offerings. The Registrant provided pharmaceutical therapies by combining pulmonary drug delivery technologies with existing and emerging therapeutic agents and had developed a range of products to treat respiratory and systemic diseases. Sheffield believed these pulmonary delivery technologies would allow it to capitalize on the growing drug delivery market by providing both advanced respiratory treatments and patient-friendly alternatives for therapies that could have been administered only by injection or other inconvenient means.

By mid 2003, the Registrant had failed to reach profitability and was undercapitalized to implement its business plan. The Company's inability to meet its obligations as they became due and to continue to operate its business as a going concern resulted in the Company's decision to seek relief under Chapter 7 of the Bankruptcy Code.

On June 6, 2003, the Registrant filed a voluntary Chapter 7 bankruptcy petition under the U.S. Bankruptcy Code in the U.S. Bankruptcy Court Western District of New York (case no. 03-22303). As a result of the Chapter 7 bankruptcy petition, the Registrant's assets were transferred to a United States Trustee and the Registrant terminated its business operations. During 2003 and 2004, the Bankruptcy Trustee had disposed of substantially all of the assets of the Registrant and its subsidiaries. On June 7, 2005, the Trustee in proceedings under Chapter 7, filed a notice of motion for the sale of the Company's corporate entity and 70,000,000 restricted shares (280,000 adjusted for a 1 for 250 reverse split) of the Registrant's unissued common stock. On July 6, 2005, the Bankruptcy Court approved an order authorizing a change in control and confirming that Glenin Bay Equity, LLC is a good faith purchaser pursuant to 11 USC Section 363(m). The Court order further provided that the Company, subsequent to the bankruptcy proceeding, is free and clear of all liens, claims and interests of others and that the sale was free and clear of any and all other real or personal property interests, including any interests in the former subsidiaries of Sheffield.

Change in Control following Bankruptcy

The material terms of the transaction confirmed by the Bankruptcy Court authorized Glenin Bay Equity, LLC. to receive 70,000,000 restricted shares of common stock (280,000 adjusted for a 1 for 250 reverse split) and to appoint new members to the Registrant's board of directors. On July 8, 2005, Glenin Bay Equity, LLC. appointed Michael F. Manion to the board of directors of the Registrant, which board subsequently appointed Mr. Manion to be chief executive officer and chief financial officer of the Registrant (the "Management").

New Business Objectives of the Registrant

As a result of the Chapter 7 bankruptcy proceeding, the Registrant has no present operations. Management determined to direct its efforts and limited resources to pursue potential new business opportunities. The Registrant does not intend to limit itself to a particular industry and has not established any particular criteria upon which it shall consider and proceed with a business opportunity.

Our common stock previously traded on the American Stock Exchange and subsequently on the NASDAQ OTCBB. In 2003, due to the Registrant's failure to file periodic and annual reports, the Registrant's shares were deleted from the NASDAQ OTCBB market, following which the Registrant's common stock has been subject to quotation on the pink sheets. There is currently only a limited trading market in the Registrant's shares. There can be no assurance that there will be an active trading market for our common stock. In the event that an active trading market commences, there can be no assurance as to the market price of our shares of common stock, whether any trading market will provide liquidity to investors, or whether any trading market will be sustained.

Management intends to devote such time as it deems necessary to carry out the Registrant's affairs. The exact length of time required for the pursuit of any new potential business opportunities is uncertain. No assurance can be made that we will be successful in our efforts. We cannot project the amount of time that our Management will actually devote to the Registrant's plan of operation.

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### Plan of Operation

We have no present operations or revenues and our current activities are related to seeking new business opportunities, including seeking an acquisition or merger with an operating company. If our board of directors seeks to acquire another business or pursue a new business opportunity, Management would have substantial flexibility in identifying and selecting a prospective business. Registrant would not be obligated nor does Management intend to seek pre-approval from our shareholders. Under the laws of the State of Delaware, the consent of holders of a majority of the issued and outstanding shares, acting without a shareholders meeting, can approve an acquisition.

The Registrant is entirely dependent on the judgment of Management in connection with pursuing a new business opportunity or a selection process for a target operating company. In evaluating a prospective new business opportunity or an operating company, we would consider, among other factors, the following: (i) costs associated with effecting a transaction; (ii) equity interest in and opportunity to control the prospective candidate; (iii) growth potential of the target business; (iv) experience and skill of management and availability of additional personnel; (v) necessary capital requirements; (vi) the prospective candidate's competitive position; (vii) stage of development of the business opportunity; (viii) the market acceptance of the business, its products or services; (ix) the availability of audited financial statements of the potential business opportunity; and (x) the regulatory environment that may be applicable to any prospective business opportunity.

The foregoing criteria are not intended to be exhaustive and there may be other criteria that Management may deem relevant. In connection with an evaluation of a prospective or potential business opportunity, Management may be expected to conduct a due diligence review.

### Liquidity and Capital Resources

We will use our limited personnel and financial resources in connection with seeking new business opportunities, including seeking an acquisition or merger with an operating company. It may be expected that entering into a new business opportunity or business combination will involve the issuance of a substantial number of restricted shares of common stock. If such additional restricted shares of common stock are issued, our shareholders will experience a dilution in their ownership interest in the Registrant. If a substantial number of restricted shares are issued in connection with a business combination, a change in control may be expected to occur.

In connection with our plan to seek new business opportunities and/or effecting a business combination, we may determine to seek to raise funds from the sale of restricted stock or debt securities. We have no agreements to issue any debt or equity securities and cannot predict whether equity or debt financing will become available at terms acceptable to us, if at all.

There are no limitations in our articles of incorporation on our ability to borrow funds or raise funds through the issuance of restricted common stock to effect a business combination. Our limited resources and lack of operating history may make it difficult to do borrow funds or raise capital. Our inability to borrow funds or raise funds through the issuance of restricted common stock required to effect or facilitate a business combination may have a material adverse effect on our financial condition and future prospects, including the ability to complete a business combination. To the extent that debt financing ultimately proves to be available, any borrowing will subject us to various risks traditionally associated with indebtedness, including the risks of interest rate fluctuations and insufficiency of cash flow to pay principal and interest, including debt of an acquired business.

### Selection and Structuring of a New Business Opportunity

New Management owns 77.8% of the total issued and outstanding voting shares. As a result, Management may have substantial flexibility in identifying and selecting a prospective new business opportunity. The Registrant will be dependent on the judgment of its Management in connection with the selection of a new business opportunity. In evaluating a prospective business opportunity, we would consider, among other factors, the following: (i) costs associated with pursuing a new business opportunity; (ii) growth potential of the potential new business opportunity; (iii) experiences, skills and availability of additional personnel necessary to pursue a potential new business opportunity; (iv) necessary capital requirements; (v) the competitive position of the new business opportunity; (vi) stage of business development; (vii) the market acceptance of the potential products and services; (viii) proprietary features and degree of intellectual property; and (ix) the regulatory environment that may be applicable to any prospective business opportunity.

The foregoing criteria are not intended to be exhaustive and there may be other criteria that Management may deem relevant. In connection with an evaluation of a potential business opportunity, Management may be expected to conduct a due diligence review and may seek assistance of independent third parties.

The time and costs required to select and evaluate a potential new business opportunity, including conducting a due diligence review, and to structure a plan to pursue a potential new business opportunity cannot presently be ascertained. Management will devote such time as it deems reasonably necessary to carry out plans for potential new business opportunities. As a result, the time devoted to the Registrant's business may vary depending upon whether we have identified a new potential business opportunity and decided to pursue it.

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### Conflicts of Interest

Our Management is not required to commit its full time to our affairs. As a result, pursuing new business opportunities may require a greater period of time than if Management would devote their full time to our affairs. Management is not precluded from serving as officers or directors of any other entity that is engaged in business activities similar to those of the Registrant. Management has not identified and is not currently negotiating a new business opportunity for us. In the future, Management may become associated or affiliated with entities engaged in business activities similar to those we intend to conduct. In such event, Management may have conflicts of interest in determining to which entity a particular business opportunity should be presented. In the event that our Management has multiple business affiliations, it may have legal obligations to present certain business opportunities to multiple entities. In the event that a conflict of interest shall arise, Management will consider factors such as reporting status, availability of audited financial statements, current capitalization and the laws of applicable jurisdictions. If several business opportunities or operating entities approach Management with respect to a business combination, Management will consider the foregoing factors as well as the preferences of the Management of the operating company. However, Management will act in what it believes will be in the best interests of the shareholders of the Registrant. The Registrant shall not enter into a transaction with a target business that is affiliated with Management.

### Business Experience of Management

Michael F. Manion, our sole officer and director, had experience in negotiating transactions involving several different private operating companies. In connection with or upon completion of such transactions, Mr. Manion resigned his Management position. The following table sets forth business transactions Management was involved during the last five years.

| Company                   | Type and Date of Transaction   | Subsequent Involvement   |
|---------------------------|--|--|
| Sun City Industries, Inc. | Merger in June 2004 between Sun City Industries, Inc., a reporting non-operating public company and Yangling Daiying Biological Engineering Co., an operating company. Sun City subsequently changed its name to Worldwide Biotech & Pharmaceutical Co. and became the successor reporting company and is subject to quotation on the OTCBB. | Mr. Manion resigned as president and director following the merger with Worldwide Biotech & Pharmaceutical Co. |
| eChex Worldwide           | Merger in June 2004 between eChex Worldwide, a reporting non-operating public company and BBMF Corp. of Honk Kong, an operating company. eChex Worldwide subsequently changed its name to BBMF Corp. and became the successor reporting company and is subject to quotation on the OTCBB.  | Mr. Manion resigned as a director following the merger with BBMF Corp.   |

### **RISK FACTORS**

#### FORWARD-LOOKING STATEMENTS

This annual report on Form 10-KSB contains forward-looking statements that are based on current expectations, estimates, forecasts and projections about us, our future performance, our beliefs and our Management's assumptions. In addition, other written or oral statements that constitute forward-looking statements may be made by us or on our behalf. Words such as "expects," "anticipates," "targets," "goals," "projects," "intends," "plans," "believes," "seeks," "estimates," variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict or assess. Therefore, actual outcomes and results may differ materially from what is expressed or forecast in such forward-looking statements. Except as required under the federal securities laws and the rules and regulations of the SEC, we do not have any intention or obligation to update publicly any forward-looking statements after the filing of this Form 10-KSB, whether as a result of new information, future events, changes in assumptions or otherwise.

#### DEPENDENCE ON KEY PERSONNEL

The Registrant is dependent upon the continued services of its Management. To the extent that their services become unavailable, the Registrant will be required to obtain other qualified personnel and there can be no assurance, given its limited resources, that it will be able to recruit and hire qualified persons upon acceptable terms.

#### LIMITED RESOURCES; NO PRESENT SOURCE OF REVENUES

At present, we have no business operations and our business activities are limited to seeking potential business opportunities. Due to our limited financial and personnel resources, there is only a limited basis upon which to evaluate our prospects for achieving our intended business objectives. We have only limited resources and have no operating income, revenues or cash flow from operations. Our Management is providing us with limited funding, on an as needed basis, necessary for us to continue our corporate existence and our business objective to seek new business opportunities, as well as funding the costs of remaining a reporting company under the Exchange Act. We have no written agreement with our Management to provide any interim financing for any period. In addition, we will not generate any revenues unless and until we enter into a new business or acquire an entity that generates revenues, of which there can be no assurance. There can be no assurance that any business that we may acquire will generate any material revenues or operate on a profitable basis.

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### BROAD DISCRETION OF MANAGEMENT

Any person who invests in our securities will do so without an opportunity to evaluate the specific merits or risks of any potential new prospective business in which we may engage. As a result, investors will be entirely dependent on the broad discretion and judgment of Management in connection with the selection of a prospective business. There can be no assurance that determinations made by our Management will permit us to achieve our business objectives.

### ABSENCE OF SUBSTANTIVE DISCLOSURE RELATING TO PROSPECTIVE BUSINESS

As of the date of filing of this annual report, we have not yet identified any prospective business or industry in which we may seek to become involved and at present we have no substantive information concerning any prospective business. There can be no assurance that any prospective business combination will benefit shareholders or prove to be more favorable to shareholders than any other investment that may be made by shareholders and investors.

### THERE IS NO ACTIVE MARKET FOR OUR COMMON STOCK AND NONE MAY DEVELOP OR BE SUSTAINED

In 2003, the Registrant did not remain current in its reporting obligations under the Exchange Act and its shares subsequently ceased trading on the NASDAQ OTCBB market. Following deletion from the OTCBB, the Registrant's common stock has been subject to quotation on the pink sheets. There is currently only a limited trading market in our common stock. There can be no assurance that there will be an active trading market for our common stock following a business combination or commencement of a new business. In the event that an active trading market commences, there can be no assurance as to the market price of our shares of common stock, whether any trading market will provide liquidity to investors, or whether any trading market will be sustained.

### UNSPECIFIED INDUSTRY FOR NEW PROSPECTIVE BUSINESS OPPORTUNITIES; UNASCERTAINABLE RISKS

There is no basis for shareholders to evaluate the possible merits or risks of potential new business opportunities or the particular industry in which we may ultimately operate. To the extent that we effect a business combination with an entity that is financially unstable or is in its early stage of development or growth, including entities without established records of revenues or income, we will become subject to numerous risks inherent in the business and operations of that company. In addition, to the extent that we effect a business combination with an entity in an industry characterized by a high degree of risk, we will become subject to the currently unascertainable risks of that industry. An extremely high level of risk frequently characterizes certain industries that experience rapid growth. Although Management will endeavor to evaluate the risks inherent in a particular new prospective business or industry, there can be no assurance that we will properly ascertain or assess all such risks or that subsequent events may not alter the risks that we perceive at the time of the consummation of any new business opportunity.

### CONFLICTS OF INTEREST

Our Management is not required to commit its full time to our affairs. There may be a conflict of interest in allocating their time in the event that Management engages in similar business efforts for other entities. Our Management will devote such time, in its sole discretion, to conduct our business, including the evaluation of potential new business opportunities and the negotiation and consummation of a business combination. As a result, the amount of time devoted to our business and affairs may vary significantly depending upon whether we have identified a new prospective business opportunity or are engaged in active negotiations related to the consummation of a business combination.

### COMPETITION

We expect to encounter intense competition from other entities seeking to pursue new business opportunities or business combinations. Many of these entities are well-established and have extensive experience in connection with identifying new prospective business opportunities or in effecting business combinations. Many of these competitors possess greater financial, technical, human and other resources than we do and there can be no assurance that we will have the ability to compete successfully. Based upon our limited financial and personnel resources, we may lack the resources as compared to those of many of our potential competitors.

### REPORTING REQUIREMENTS MAY DELAY OR PRECLUDE ACQUISITION.

Pursuant to the requirements of Section 13 of the Exchange Act, we are required to provide certain information about significant acquisitions and other material events. We will continue to be required to file quarterly reports on Form 10-QSB and annual reports on Form 10-KSB, which annual report must contain our audited financial statements. As a reporting company under the Exchange Act, following any business combination, we will be required to file a report on Form 8-K or other form appropriate under the Exchange Act, which contains audited financial statements of the acquired entity. These audited financial statements must be filed with the SEC within 4 days following the filing of Form 8-K disclosing the transaction. While obtaining audited financial statements is typically the economic responsibility of the acquired company, it is possible that a potential target company may be a non-reporting company with unaudited financial statements. The additional time and costs that may be incurred by some potential target companies to prepare such audited financial statements may significantly delay or may even preclude consummation of an otherwise desirable transaction. Acquisition prospects that do not have or are unable to obtain the required audited statements may not be appropriate for acquisition because we are subject to the reporting requirements of the Exchange Act.

### ADDITIONAL FINANCING REQUIREMENTS

We have no revenues and are dependent upon the willingness of our Management to fund the costs associated with our reporting obligations under the Exchange Act, and other administrative costs associated with our corporate existence. As of the date of this filing, the Registrant has paid a total of \$35,500 for general and administrative expenses, including accounting fees and reinstatement fees. We may not generate any

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revenues until the consummation of a business combination or our commencement of new business operations. We anticipate that we will have available to us sufficient resources to continue to pay accounting and other professional fees and other miscellaneous expenses that may be required until we commence business operations or enter into a business combination. In the event that available resources from our Management prove to be insufficient for the purpose of commencing operations through a business combination or otherwise, we will be required to seek additional financing. Our failure to secure additional financing could have a material adverse affect on our ability to commence a new business or pursue a business combination. We do not have any arrangements with any bank or financial institution to secure additional financing and there can be no assurance that any such arrangement would be available on terms acceptable and in our best interests. We do not have any written agreement with Management to provide funds for our operating expenses.

### STATE BLUE SKY REGISTRATION; POTENTIAL LIMITATIONS ON RESALE OF THE SECURITIES

The holders of our shares of common stock registered under the Exchange Act and those persons who desire to purchase them in any trading market should be aware that there may be state blue-sky law restrictions upon the ability of investors to resell our securities. Accordingly, investors should consider the secondary market for the Registrant's securities to be a limited one.

It is the intention of the Registrant's management following the consummation of a business or business combination to seek coverage and publication of information regarding the Registrant in an accepted publication manual which permits a manual exemption. The manual exemption permits a security to be distributed in a particular state without being registered if the Registrant issuing the security has a listing for that security in a securities manual recognized by the state. However, it is not enough for the security to be listed in a recognized manual. The listing entry must contain (1) the names of Registrant's, officers, and directors, (2) Registrant's balance sheet, and (3) a profit and loss statement for either the fiscal year preceding the balance sheet or for the most recent fiscal year of operations. Furthermore, the manual exemption is a nonissuer exemption restricted to secondary trading transactions, making it unavailable for issuers selling newly issued securities.

Most of the accepted manuals are those published in Standard and Poor's, Moody's Investor Service, Fitch's Investment Service, and Best's Insurance Reports, and many states expressly recognize these manuals. A smaller number of states declare that they "recognize securities manuals" but do not specify the recognized manuals. The following states do not have any provisions and therefore do not expressly recognize the manual exemption: Alabama, Georgia, Illinois, Kentucky, Louisiana, Montana, South Dakota, Tennessee, Vermont and Wisconsin.

### DIVIDENDS UNLIKELY

We do not expect to pay dividends for the foreseeable future because we have no revenues or any potential business operations. The payment of dividends will be contingent upon our future revenues and earnings, if any, capital requirements and overall financial conditions. The payment of any future dividends will be within the discretion of our board of directors as then constituted. It is our expectation that future management, following a business combination, will determine to retain any earnings for use in business operations and accordingly, we do not anticipate declaring any dividends in the foreseeable future.

### POSSIBLE ISSUANCE OF ADDITIONAL SECURITIES

Our Articles of Incorporation, as amended, authorize the issuance of 100,000,000 shares of common stock, par value \$0.001. As of December 31, 2005, we had 1,792,217 shares of common stock issued and outstanding. We may issue additional shares of common stock or preferred stock in connection with our intention to pursue new business opportunities or enter into a business combination. To the extent that additional shares of common stock are issued, our shareholders would experience dilution of their respective ownership interests in the Registrant. If we issue shares of common stock in connection with our intent to pursue new business opportunities, a change in control of the Registrant may occur. The issuance of additional shares of common stock and convertible preferred stock may adversely affect the market price of our common stock, in the event that an active trading market commences, of which there can be no assurance.

### COMPLIANCE WITH PENNY STOCK RULES

Our common stock will be considered a "penny stock" as defined in the Exchange Act and the rules thereunder, unless the price of our shares of common stock is at least \$5.00. We expect that our share price will be less than \$5.00. Unless our common stock is otherwise excluded from the definition of "penny stock," the penny stock rules apply. The penny stock rules require a broker-dealer prior to a transaction in penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document prepared by the SEC that provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its sales person in the transaction, and monthly account statements showing the market value of each penny stock held in the customer's account. In addition, the penny stock rules require that the broker-dealer, not otherwise exempt from such rules, must make a special written determination that the penny stock is suitable for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure rules have the effect of reducing the level of trading activity in the secondary market for a stock that becomes subject to the penny stock rules. So long as the common stock is subject to the penny stock rules, it may become more difficult to sell such securities. Such requirements could result in reduction in the level of trading activity for our common stock and could make it more difficult for investors to sell our common stock.

### GENERAL ECONOMIC RISKS

The Registrant's current and future business plans are dependent, in large part, on the state of the general economy. Adverse changes in economic conditions may adversely affect our plan of operation. These conditions and other factors beyond the Registrant's control include, but are not limited to regulatory changes.



**ITEM 2. DESCRIPTION OF PROPERTIES** [Back to Table of Contents](#)

The Registrant's corporate office is located at 1220 Glenmore Drive, Apopka, FL 32712, which space is provided to us on a rent-free basis by management. These facilities consist of approximately 300 square feet of office space. The Registrant believes that the office facilities are sufficient for the foreseeable future and this arrangement will remain in effect until we find a new business opportunity or consummate a business combination.

**ITEM 3. LEGAL PROCEEDING** [Back to Table of Contents](#)

The Registrant's officers and directors are not aware of any threatened or pending litigation to which the Registrant is a party or which any of its property is the subject and which would have any material, adverse effect on the Registrant. The Registrant, prior to its bankruptcy proceeding, was subject to several claims. As a result of the confirmed order of the U.S. Bankruptcy Court dated July 6, 2005 pursuant to Section 363(f) of the Bankruptcy Code, the Registrant is free of all liens, claims and interests of others.

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

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During the year ended December 31, 2005, no matters were submitted to a vote of our security holders.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTER [Back to Table of Contents](#)

#### (a) Market Price Information

In connection with the Registrant filing a Chapter 7 bankruptcy petition on June 6, 2003 and subsequent delinquency in its reporting requirements, its common stock became subject to quotation on the pink sheets. The Registrant's common stock is traded from time to time on the Pinksheets under the symbol SFPH. To the best knowledge of the Registrant, there has been only a limited trading market for our common stock for approximately the past two years. The following table shows the high and low bid prices for the Registrant's common stock during the fiscal years 2005 and 2004 as reported by the National Quotation Bureau Incorporated and adjusted for a 1 for 250 reverse split effective September 30, 2005. These prices reflect inter-dealer quotations without adjustments for retail markup, markdown or commission, and do not necessarily represent actual transactions.

|                                     | High   | Low    |
|-------------------------------------|--------|--------|
| <b>Year Ended December 31, 2005</b> |        |        |
| Quarter ended December 31, 2005     | \$3.00 | \$0.00 |
| Quarter ended September 30, 2005    | 2.50   | 0.03   |
| Quarter ended June 30, 2005         | 0.03   | 0.02   |
| Quarter ended March 31, 2005        | 0.01   | 0.00   |
| <b>Year Ended December 31, 2004</b> |        |        |
| Quarter ended December 31, 2004     | \$2.50 | \$0.02 |
| Quarter ended September 30, 2004    | 2.50   | 0.02   |
| Quarter ended June 30, 2004         | 1.25   | 0.02   |
| Quarter ended March 31, 2004        | 1.25   | 0.02   |

#### (b) Approximate Number of Holders of Common Stock

On December 31, 2005, there were approximately 312 shareholders of record of our common stock.

#### (c) Dividends

We currently do not pay cash dividends on our common stock and have no plans to reinstate a dividend on our common stock.

#### (d) Sale of Unregistered Securities

During the three-month period ended December 31, 2005, the Registrant issued no restricted shares.

#### (e) Equity Compensation Plans

We have no equity compensation plans.

### ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS AND PLAN OF OPERATION [Back to Table of Contents](#)

The following discussion contains forward-looking statements. Forward-looking statements give our current expectations or forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historical or current facts. They use of words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," and other words and terms of similar meaning in connection with any discussion of future operating or financial performance. From time to time, we also may provide forward-looking statements in other materials that we release to the public.

#### Overview

Our current activities are related to seeking a new business opportunity or business combination. We will use our limited personnel and financial resources in connection with such activities. It may be expected that entering into a new business opportunity or business combination will involve the issuance of restricted shares of our common stock.

During the third quarter of 2003, we discontinued our former business operations in connection with our filing a Chapter 7 bankruptcy petition. As of the date of this filing and subsequently to emerging from bankruptcy, the Registrant has paid a total of \$35,500 for general and administrative expenses, including accounting fees and reinstatement fees. While we are dependent upon interim funding provided by Management to pay professional fees and expenses, we have no written finance agreement with Management to provide any continued funding.

#### Liquidity and Capital Resources

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At December 31, 2005, we had no assets and had \$9,350 in liabilities. As part of our intent to seek new business opportunities and/or in effecting a business combination, we may determine to seek to raise funds from the sale of equity or debt securities. We have no agreements to issue any debt or equity securities and cannot predict whether equity or debt financing will become available at terms acceptable to us, if at all.

We anticipate that in connection with the commencement of a new business opportunity or consummation of a business combination, we will issue a substantial number of additional restricted shares or other securities. If such additional securities are issued, our shareholders will experience a dilution in their ownership interest in the Company. If a substantial number of shares are issued in connection with a business combination, a change in control may be expected to occur.

There are no limitations in our articles of incorporation on our ability to borrow funds or raise funds through the issuance of restricted common stock to effect a business combination. Our limited resources and lack of operating history may make it difficult to do borrow funds or raise capital. Our inability to borrow funds or raise funds through the issuance of restricted common stock that may be required to effect or facilitate a business combination may have a material adverse effect on our financial condition and future prospects, including the ability to complete a business combination. To the extent that debt financing ultimately proves to be available, any borrowing will subject us to various risks traditionally associated with indebtedness, including the risks of interest rate fluctuations and insufficiency of cash flow to pay principal and interest, including debt of an acquired business.

### **ITEM 7. FINANCIAL STATEMENTS** [Back to Table of Contents](#)

The Registrant's financial statements for the fiscal years ended December 31, 2005 and 2004 are attached to this annual report.

[Financial Statements for the Fiscal Year ended December 31, 2005 and 2004](#)

### **ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

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None.

### **ITEM 8A. CONTROLS AND PROCEDURES** [Back to Table of Contents](#)

#### Evaluation of disclosure controls and procedures

. As of December 31, 2005, the Company's president and chief financial officer conducted an evaluation regarding the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Exchange Act. Based upon the evaluation of these controls and procedures, our president and chief financial officer concluded that our disclosure controls and procedures were effective as of the date of filing this annual report applicable for the period covered by this report.

*Changes in internal controls.* Management was appointed during the third quarter of fiscal 2005. No changes occurred in our internal control over financial reporting that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### PART III

#### ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT, COMPLIANCE WITH SECTION 16(A) [Back to Table of Contents](#)

| Name              | Age | Title                 | Date Became Executive Officer |
|-------------------|-----|-----------------------|-------------------------------|
| Michael F. Manion | 55  | CEO, CFO and Chairman | 07/2005                       |

Our chief executive officer and chief financial officer has held his position and directorship with us since July 2005. Officers are not elected for a fixed term of office but hold office until their successors have been elected.

Michael F. Manion, 55, has been CFO and a director of the Registrant since July 2005. Since 2000, Mr. Manion has been engaged in the business of reorganizing distressed public companies. From June 2003 until June 2004, Mr. Manion was president and a director of Sun City Industries Inc., a publicly traded reporting company. Sun City Industries, Inc. completed its reorganization by entering into a reorganization agreement with Yangling Daiying Biological Engineering Co. and subsequently changed its name to Worldwide Biotech & Pharmaceutical Co. From March 2004 until June 2004, Mr. Manion was a director of eChex Worldwide Corp., a publicly traded reporting company. Mr. Manion resigned as director in connection with eChex Worldwide entering into a merger agreement with BBMF Corp. of Honk Kong. Michael F. Manion is a cum laude graduate of the Wharton School of Business at the University of Pennsylvania.

#### ITEM 10. EXECUTIVE COMPENSATION [Back to Table of Contents](#)

| Summary Compensation Table         |      |                     |               |   |   |   |                                   |
|------------------------------------|------|---------------------|---------------|---|---|---|-----------------------------------|
| Name and Principal Position        | Year | Annual Compensation |               |   | Long Term Compensation Awards           |   |                                   |
|                                    |      | Salary<br>(\$)      | Bonus<br>(\$) | Other<br>Annual<br>Compensation<br>(\$) | Restricted<br>Stock<br>Award(s)<br>(\$) | Securities<br>Underlying<br>Options<br>(\$) | All Other<br>Compensation<br>(\$) |
| Michael F. Manion, CEO and CFO (1) | 2005 | ---                 | ---           | ---                                     | ---                                     | ---   | ---                               |

(1) Mr. Manion became CEO, CFO and Chairman of the Registrant in July 2005. The Company has no employment agreement with its new CEO.

**ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT** [Back to Table of Contents](#)

The table below discloses any person (including any "group") who is known to the Registrant to be the beneficial owner of more than five (5%) percent of the Registrant's voting securities. As of December 31, 2005, the Registrant had 1,792,217 shares issued.

| Title of Class | Name and Address of Beneficial Owner                              | Amount of Beneficial Owner | Percent of Common Stock(1) |
|----------------|---|----------------------------|----------------------------|
| Common Stock   | Michael F. Manion<br>1220 Glenmore Drive<br>Apopka, Florida 32712 | 1,395,000 shares           | 77.80%                     |
| Common Stock   | Officer and director as a group (1 person)                        | 1,395,000 shares           | 77.80%                     |

(1) The percentage of common stock is based on 1,792,217 common stock outstanding as of December 31, 2005.

To the knowledge of the Registrant, there are no arrangements which may result in a change in control of the Registrant. However, in the event that the Registrant enters into a business combination with an operating entity, it may be expected that it will experience a change in control.

**ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS** [Back to Table of Contents](#)

During the last two fiscal years, to the knowledge of the Registrant, there was no person who had or has a direct or indirect material interest in any transaction or proposed transaction to which the Registrant was or is a party.

**ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K** [Back to Table of Contents](#)

(a) The following documents are filed as exhibits to this report on Form 10-KSB or incorporated by reference herein. Any document incorporated by reference is identified by a parenthetical reference to the SEC filing that included such document.

| Exhibit No. | Description   |
|-------------|---|
| 31.1        | Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Exchange Act pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1        | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.               |

(b) Reports on Form 8-K During the Last Quarter of the Fiscal Year Covered by this Report:

The Registrant did not file a Form 8-K during the last quarter of the fiscal year covered by this annual report.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES** [Back to Table of Contents](#)**Independent Public Accountants**

The Registrant's Board of Directors has appointed Michael F. Cronin, CPA as independent public accountant for the fiscal year ending December 31, 2005.

**Principal Accounting Fees**

The following table presents the fees for professional audit services rendered by Michael F. Cronin, CPA for the audit of the Registrant's annual financial statements for the years ended December 31, 2005, and fees billed for other services rendered by Michael F. Cronin, CPA during those periods.

|                        | Year Ended<br>December 31, 2005 |
|------------------------|---------------------------------|
| Audit fees (1)         | \$ 7,500                        |
| Audit-related fees (2) | ---                             |
| Tax fees (3)           | ---                             |
| All other fees         | ---                             |

(1) Audit fees consist of audit and review services, consents and review of documents filed with the SEC.

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- (2) Audit-related fees consist of assistance and discussion concerning financial accounting and reporting standards and other accounting issues.
- (3) Tax fees consist of preparation of federal and state tax returns, review of quarterly estimated tax payments, and consultation concerning tax compliance issues.

### Code of Ethics

In July 2005, the Registrant adopted a Code of Ethics that is designed to deter wrongdoing and to promote honest and ethical conduct, full, fair, accurate, timely and understandable disclosure in the Registrant's SEC reports and other public communications. The Code of Ethics promotes compliance with applicable governmental laws, rules and regulations.

### Section 16(a) Compliance

Section 16(a) of the Securities and Exchange Act of 1934 requires the Registrant's directors and executive officers, and persons who own beneficially more than ten percent (10%) of the Registrant's Common Stock, to file reports of ownership and changes of ownership with the Securities and Exchange Commission. Copies of all filed reports are required to be furnished to the Registrant pursuant to Section 16(a). Based solely on the reports received by the Registrant and on written representations from reporting persons, the Registrant was informed that its officer and director has filed reports required under Section 16(a).

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

/s/ MICHAEL F.  
MANION

Michael F. Manion  
*CEO, CFO and*  
*Director*

*Dated: January 25,*  
*2006*

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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To the Board of Directors and Stockholders  
Sheffield Pharmaceuticals, Inc.

I have audited the accompanying balance sheet of Sheffield Pharmaceuticals, Inc. as of December 31, 2005 and 2004 and the related statements of operations, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards established by the Public Company Accounting Oversight Board. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor was I engaged to perform, an audit of its internal control over financial reporting. My audit included 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, I express no such opinion. 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sheffield Pharmaceuticals, Inc. as of December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America..

The Company adopted "fresh-start" accounting as of June 7, 2003. The impact of this is more fully described in note 1 of the financial statements.

January 23, 2006

/s/ Michael F. Cronin, CPA  
Michael F. Cronin  
Certified Public Accountant  
Rochester, New York

Financial Statements for the Years ended December 31, 2005 and 2004 [Back to Table of Contents](#)**Sheffield Pharmaceuticals, Inc.**Balance Sheets [Back to Table of Contents](#)

| ASSETS  | Successor Company<br>December 31, 2005 | Successor Company<br>December 31, 2004 |
|---|--|--|
| Current Assets:   |  |  |
| Cash  | \$ 0                                   | \$ 0                                   |
| Prepaid expenses  | 0                                      | 0                                      |
| <b>Total current assets</b>   | <b>0</b>                               | <b>0</b>                               |
| <b>Total Assets</b>   | <b>\$ 0</b>                            | <b>\$ 0</b>                            |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |  |  |
| Current Liabilities:  |  |  |
| Accounts payable-trade  | \$ 0                                   | \$ 0                                   |
| Accrued expenses  | 0                                      | 0                                      |
| Expenses paid by related parties  | 9,350                                  | 0                                      |
| <b>Total current liabilities</b>  | <b>9,350</b>                           | <b>0</b>                               |
| Stockholders' Deficiency:   |  |  |
| Preferred Stock, 10,000,000 authorized, \$0.001 par value; none issued                              | 0                                      | 0                                      |
| Common stock, \$0.001 par value; 100,000,000 shares authorized;<br>1,792,217 issued and outstanding | 1,792                                  | 295,637                                |
| Additional paid-in capital  | 9,358                                  | (295,637)                              |
| Accumulated deficit   | (20,500)                               | 0                                      |
| Total shareholders' deficiency  | (9,350)                                | 0                                      |
| <b>Total Liabilities and Stockholders' Equity</b>   | <b>\$ 0</b>                            | <b>\$ 0</b>                            |

See Summary of Significant Accounting Policies and Notes to Financial Statements.

**Sheffield Pharmaceuticals, Inc.**Statement of Operations [Back to Table of Contents](#)

|  | Fiscal Years Ended December 31, |             |
|--|---------------------------------|-------------|
|  | 2005                            | 2004        |
| <b>Revenue</b>   | <b>\$ 0</b>                     | <b>\$ 0</b> |
| Costs and Expenses:  |                                 |             |
| General and Administrative                                     | 20,500                          | 0           |
| Other  | 0                               | 0           |
| Interest   | 0                               | 0           |
| Total costs and expenses                                       | 20,500                          | 0           |
| Loss from continuing operations before discontinued operations | (20,500)                        | 0           |
| Discontinued operations:                                       |                                 |             |
| Loss from discontinued operations (net of taxes)               | 0                               | 0           |
| Gain on disposal of assets used in discontinued operations     | 0                               | 0           |
| Income from discontinued operations                            | 0                               | 0           |
| <b>Net Income (loss)</b>                                       | <b>\$ (20,500)</b>              | <b>\$ 0</b> |
| Preferred stock dividends                                      | 0                               | 0           |
| Net loss available to common shareholders                      | \$ (20,500)                     | \$ 0        |
| Basic and diluted per shares amounts:                          |                                 |             |
| Continued operations   | \$ (0.02)                       | \$ 0.00     |
| Discontinued operations  | \$ 0.00                         | \$ 0.00     |
| Basic and diluted net loss                                     | \$ (0.02)                       | \$ 0.00     |
| Weighted average shares outstanding (basic and diluted)        | 906,253                         | 395,500     |

See Summary of Significant Accounting Policies and Notes to Financial Statements.

**Sheffield Pharmaceuticals, Inc.**Statements of Cash Flows [Back to Table of Contents](#)

|   | Fiscal Year<br>Ended<br>December 31, 2005 | Fiscal Year<br>Ended<br>December 31, 2004 |
|---|---|---|
| Cash flows used by operating activities   | 0   | 0   |
| Cash flow from investing activities:      |   |   |
| Purchase of equipment                     | 0   | 0   |
| Cash used in investing activities         | 0   | 0   |
| Cash flows from financing activities:     |   |   |
| Proceeds from debt borrowings             | 0   | 0   |
| Payments on long-term debt                | 0   | 0   |
| Cash transferred to bankruptcy estate     | 0   | 0   |
| Net cash provided by financing activities | 0   | 0   |
| Change in cash                            | 0   | 0   |
| Cash - beginning of period                | 0   | 0   |
| Cash - end of period                      | \$ 0                                      | \$ 0                                      |
| Supplemental Cash Flow Information:       |   |   |
| Expenses paid by issuance of common stock | \$ 11,150                                 |   |

See Summary of Significant Accounting Policies and Notes to Financial Statements.

**Sheffield Pharmaceuticals, Inc.**Statements of Stockholders' Equity [Back to Table of Contents](#)

|                                     | Preferred Stock     |                        | Common Stock        |                        | Additional          | Accumulated          |
|-------------------------------------|---------------------|------------------------|---------------------|------------------------|---------------------|----------------------|
|                                     | Number of<br>Shares | Stated Or<br>Par value | Number of<br>Shares | Stated Or<br>Par Value | Paid-In<br>Capital  | Deficit              |
| <b>Balance at December 31, 2002</b> | <b>38,951</b>       | <b>390</b>             | <b>29,563,712</b>   | <b>295,637</b>         | <b>87,756,118</b>   | <b>(103,438,129)</b> |
| Stock issued for cash               | 276                 | 3                      | -                   | -                      | -                   | -                    |
| Effect of "Fresh Start" accounting  | (39,227)            | (393)                  | -                   | -                      | (88,051,755)        | (88,071,810)         |
| Net income                          | -                   | -                      | -                   | -                      | -                   | 15,362,319           |
| <b>Balance at December 31, 2003</b> | <b>0</b>            | <b>\$ 0</b>            | <b>29,563,712</b>   | <b>\$ 295,637</b>      | <b>\$ (295,637)</b> | <b>\$ 0</b>          |
| Net loss                            | -                   | -                      | -                   | -                      | -                   | -                    |
| <b>Balance at December 31, 2004</b> | <b>0</b>            | <b>\$ 0</b>            | <b>29,563,712</b>   | <b>\$ 295,637</b>      | <b>\$ (295,637)</b> | <b>\$ 0</b>          |
| Effect of reverse split             | -                   | -                      | (29,166,495)        | (295,240)              | 295,240             | -                    |
| Stock issued for change in control  | -                   | -                      | 280,000             | 280                    | (280)               | -                    |
| Stock issued for services           | -                   | -                      | 1,115,000           | 1,115                  | 10,035              | -                    |
| Net loss                            | -                   | -                      | -                   | -                      | -                   | (20,500)             |
| <b>Balance at December 31, 2005</b> | <b>0</b>            | <b>\$ 0</b>            | <b>1,792,217</b>    | <b>\$ 1,792</b>        | <b>\$ 9,358</b>     | <b>\$ (20,500)</b>   |

See Summary of Significant Accounting Policies and Notes to Financial Statements.

**SHEFFIELD PHARMACEUTICALS, INC.**

BACKGROUND AND SIGNIFICANT ACCOUNTING POLICIES [Back to Table of Contents](#)

December 31, 2005

**The Company**

Sheffield Pharmaceuticals, Inc. (the "Company"), was incorporated in 1986 and changed its domicile to Delaware on June 13, 1995. Prior to filing for bankruptcy under chapter 7, Sheffield marketed a portfolio of products utilized for treatment of pulmonary and respiratory diseases.

**Bankruptcy Proceedings:**

On June 6, 2003, the Company filed a voluntary Chapter 7 petition under the U.S. Bankruptcy Code in the U.S. Bankruptcy Court for the Western District of New York (case no. 03-22303). As a result of the filing, all of our properties were transferred to a United States Trustee and we terminated all of our business operations. The Bankruptcy Trustee has disposed of substantially all of the assets. On July 6, 2005, the Bankruptcy Court approved an Order confirming the sale of debtor's equity interest to Glenin Bay Equity, LLC.

**Basis of Presentation:**

We adopted "fresh-start" accounting as of June 7, 2003 in accordance with procedures specified by AICPA Statement of Position ("SOP") No. 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code. The results of the discontinued component have been reclassified from continuing operations to discontinued operations. The reclassification reduced sales for December 31, 2003 by \$75,000 and related expenses by \$1,000,000.

The accounts of the former subsidiaries were not included in the bankruptcy sale and have not been carried forward.

**Significant Accounting Policies**

**Use of Estimates**

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

**Cash and Cash Equivalents**

: For financial statement presentation purposes, the Company considers those short-term, highly liquid investments with original maturities of three months or less to be cash or cash equivalents.

**Property and Equipment**

New property and equipment are recorded at cost. Property and equipment included in the bankruptcy proceedings and transferred to the Trustee had been valued at liquidation value. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 5 years. Expenditures for renewals and betterments are capitalized. Expenditures for minor items, repairs and maintenance are charged to operations as incurred. Gain or loss upon sale or retirement due to obsolescence is reflected in the operating results in the period the event takes place.

**Valuation of Long-Lived Assets**

: We review the recoverability of our long-lived assets including equipment, goodwill and other intangible assets, when events or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on our ability to recover the carrying value of the asset from the expected future pre-tax cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference

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between estimated fair value and carrying value. Our primary measure of fair value is based on discounted cash flows. The measurement of impairment requires management to make estimates of these cash flows related to long-lived assets, as well as other fair value determinations.

### Stock Based Compensation:

Stock-based awards to non-employees are accounted for using the fair value method in accordance with SFAS No. 123, *Accounting for Stock-Based Compensation*, and EITF Issue No. 96-18, *Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services*.

We account for stock-based awards to employees using the intrinsic value method in accordance with APB Opinion No. 25 and FIN No. 44. As permitted by SFAS No. 123, as amended by SFAS No. 148, we have chosen to continue to account for our employee stock-based compensation plans under APB Opinion No. 25 and provide the expanded disclosures specified in SFAS No. 123.

### Fair Value of Financial Instruments

: Statements of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments," requires disclosure of fair value information about financial instruments. Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of January 23, 2006. The respective carrying value of certain on-balance sheet financial instruments approximated their fair values.

These financial instruments include cash and cash equivalents, accounts payable and accrued expenses. Fair values were assumed to approximate carrying values for these financial instruments since they are short-term in nature and their carrying amounts approximate fair values or they are receivable or payable on demand.

### Earnings per Common Share

: Basic net loss per share is computed using the weighted average number of common shares outstanding during the period. Diluted net loss per common share is computed using the weighted average number of common and dilutive equivalent shares outstanding during the period. Dilutive common equivalent shares consist of options to purchase common stock (only if those options are exercisable and at prices below the average share price for the period) and shares issuable upon the conversion of our Preferred Stock. Due to the net losses reported, dilutive common equivalent shares were excluded from the computation of diluted loss per share, as inclusion would be anti-dilutive for the periods presented. Except as otherwise noted, all share, option and warrant numbers have been restated to give retroactive effect to our reverse split. All per share disclosures retroactively reflect shares outstanding or issuable as though the reverse split had occurred January 1, 2002.

There were no common equivalent shares required to be added to the basic weighted average shares outstanding to arrive at diluted weighted average shares outstanding in 2005 or 2004.

### Income Taxes:

We must make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments occur in the calculation of certain tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes.

Deferred income taxes are recorded in accordance with SFAS No. 109, *Accounting for Income Taxes*, or SFAS 109. Under SFAS No. 109, deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax basis of assets and liabilities using the tax rates and laws in effect when the differences are expected to reverse. SFAS 109 provides for the recognition of deferred tax assets if realization of such assets is more likely than not to occur. Realization of our net deferred tax assets is dependent upon our generating sufficient taxable income in future years in appropriate tax jurisdictions to realize benefit from the reversal of temporary differences and from net operating loss, or NOL, carry forwards. We have determined it more likely than not that these timing differences will not materialize and have provided a valuation allowance against substantially all of our net deferred tax asset. Management will continue to evaluate the realizability of the deferred tax asset and its related valuation allowance. If our assessment of the deferred tax assets or the corresponding valuation allowance were to change, we

would record the related adjustment to income during the period in which we make the determination. Our tax rate may also vary based on our results and the mix of income or loss in domestic and foreign tax jurisdictions in which we operate.

In addition, the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize liabilities for anticipated tax audit issues in the U.S. and other tax jurisdictions based on our estimate of whether, and to the extent to which, additional taxes will be due. If we ultimately determine that payment of these amounts is unnecessary, we will reverse the liability and recognize a tax benefit during the period in which we determine that the liability is no longer necessary. We will record an additional charge in our provision for taxes in the period in which we determine that the recorded tax liability is less than we expect the ultimate assessment to be.

#### Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123 (revised 2004) "Share-Based Payment," or SFAS No. 123(R). SFAS No. 123(R) revises FASB Statement No. 123 "Accounting for Stock-Based Compensation," and supersedes APB Opinion No. 25, and its related implementation guidance. This Statement eliminates the ability to account for share-based compensation using the intrinsic value method under APB Opinion No. 25. SFAS No. 123(R) focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123(R) requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award, known as the requisite service period, which is usually the vesting period. SFAS No. 123(R) is effective for companies filing under Regulation SB as of the beginning of the first interim or annual reporting period that begins after December 15, 2005, which for us will be our first quarter of the year ending December 31, 2006. We anticipate adopting SFAS No. 123(R) beginning in the quarter ending March 31, 2006. Accordingly, the provisions of SFAS No. 123(R) will apply to new awards and to awards modified, repurchased, or cancelled after the required effective date. Additionally, compensation cost for the portion of awards for which the requisite service has not been rendered that are outstanding as of the required effective date must be recognized as the requisite service is rendered on or after the required effective date. These new accounting rules will lead to a decrease in reported earnings. Although our adoption of SFAS No. 123(R) could have a material impact on our financial position and results of operations, we are still evaluating the potential impact from adopting this statement.

In December 2004, the FASB issued SFAS No. 153, "*Exchanges of Nonmonetary Assets an amendment of APB Opinion No. 29*," which is effective for us starting July 1, 2005. In the past, we were frequently required to measure the value of assets exchanged in non-monetary transactions by using the net book value of the asset relinquished. Under SFAS No. 153, we will measure assets exchanged at fair value, as long as the transaction has commercial substance and the fair value of the assets exchanged is determinable within reasonable limits. A non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The adoption of SFAS No. 153 is not anticipated to have a material effect on our consolidated financial position, results of operations or cash flows.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections," which

replaces APB Opinion No. 20 "Accounting Changes," and FASB Statement No. 3 "Reporting Accounting Changes in Interim Financial Statements," and changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement requires retrospective application to prior periods financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. This Statement shall be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. Early adoption is permitted for accounting changes and corrections of errors made in fiscal years beginning after the date this Statement is issued. We do not believe that adoption of SFAS 154 will have a material impact on our financial statements.



**SHEFFIELD PHARMACEUTICALS, INC.**

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

1. "Fresh Start" Accounting:

On June 6, 2003 all assets were transferred to the chapter 7 trustee in settlement of all outstanding corporate obligations. We adopted "fresh-start" accounting as of June 7, 2003 in accordance with procedures specified by AICPA Statement of Position ("SOP") No. 90-7, "Financial Reporting by Entities in Reorganization under the Bankruptcy Code."

All results for periods subsequent to June 6, 2003 are referred to as those of the "Successor Company". The results of operations and cash flows as presented on the 2003 financial statements reflect the predecessor company. The successor company had no transactions between June 6 and the end of the reporting period, December 31, 2003.

In accordance with SOP No. 90-7, the reorganized value of the Company was allocated to the Company's assets based on procedures specified by SFAS No. 141, "Business Combinations". Each liability existing at the plan sale date, other than deferred taxes, was stated at the present value of the amounts to be paid at appropriate market rates. It was determined that the Company's reorganization value computed immediately before June 7, 2003 was \$0. We adopted "fresh-start" accounting because holders of existing voting shares immediately before filing and confirmation of the sale received less than 50% of the voting shares of the emerging entity and its reorganization value is less than its post-petition liabilities and allowed claims.

2. Bankruptcy Proceedings:

On June 6, 2003, the Registrant filed a voluntary Chapter 7 petition under the U.S. Bankruptcy Code in the U.S. Bankruptcy Court Western District of New York (case no. 03-22303). On July 6, 2005, the Bankruptcy Court approved an Order confirming the sale of the public shell to Glenin Bay Equity, LLC. The transaction confirmed by the Bankruptcy Court authorized Glenin Bay Equity, LLC. to receive 70,000,000 shares of common stock or 70.3% of common shares outstanding.

Resultant Change in Control:

In connection with the Order confirming the sale of debtor's interest to Glenin Bay Equity, LLC. approved by the U.S. Bankruptcy Court Western District of New York on July 6, 2005, the Court authorized a change in control pursuant to which Michael F. Manion will become our new director. The new board of directors appointed Michael F. Manion as chief executive officer and chief financial officer on July 8, 2005. The Court order further provided that the sale was free and clear of liens, claims and interests of others and that the sale was free and clear of any and all other real or personal property interests, including any interests in Sheffield's subsidiaries. The issuance of 280,000 shares of common stock along with a change in our board has resulted in a change in control.

3. Income Taxes:

Our net operating loss carryovers available to reduce future income taxes were reduced or eliminated through our bankruptcy proceedings. We have adopted SFAS 109 which provides for the recognition of a deferred tax asset based upon the value the loss carry-forwards will have to reduce future income taxes and management's estimate of the probability of the realization of these tax benefits.

Utilization of federal and state NOL and tax credit carry forwards may be subject to a substantial annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986, as amended and similar state provisions. The annual limitation may result in the expiration of NOL and tax credit carry forwards before full

utilization.

#### 4. Commitments:

The Company, prior to its bankruptcy, was a party to numerous claims and threatened litigation. As a result of the bankruptcy and the subsequent transfer by the Bankruptcy Trustee of the Company's corporate shell entity free of all liens, claims and encumbrances pursuant to Section 363(f) of the US Bankruptcy Code, the Company is no longer party to any litigation.

The Company is not a party to any leases and does not have any commitments

#### 4. Stockholders' Equity:

##### Reverse Stock Split

On August 30, 2005 we declared a reverse split of our common stock. The formula provided that every two-hundred-and fifty (250) issued and outstanding shares of common stock of the Corporation be automatically split into 1 share of common stock. The resulting share ownership interest including resulting fractional shares for each individual shareholder was rounded up to the third whole integer in such a manner that all rounding was done to the next 100 shares and each and every shareholder would own at least 100 shares. The reverse stock split was effective September 30, 2005 for holders of record at September 20, 2005. Except as otherwise noted, all share, option and warrant numbers have been restated to give retroactive effect to this reverse split. All per share disclosures retroactively reflect shares outstanding or issuable as though the reverse split had occurred January 1, 2004.

##### Common Stock

We are currently authorized to issue up to 100,000,000 shares of \$ 0.001 par value common stock. All issued shares of common stock are entitled to vote on a 1 share/1 vote basis. On July 7, 2005, pursuant to the Bankruptcy Court Order dated July 6, 2005, we issued 280,000 shares of common stock resulting in a change of control. We also issued 1,115,000 shares to Mr. Manion, our sole board member, to reimburse him for certain expenses valued at \$11,150 paid on our behalf.

##### Preferred Stock

We are currently authorized to issue up to 10,000,000 shares of \$ 0.001 par value preferred stock. On July 7, 2005 the board of directors approved the cancellation of all pre-bankruptcy preferred shares and approved the cancellation and extinguishment of all common and preferred share conversion rights of any kind, including without limitation, warrants, options, convertible debt instruments and convertible preferred stock of every series and accompanying conversion rights of any kind.

##### *Stock Based Compensation*

Stock based compensation is accounted for by using the intrinsic value based method in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). The Company has adopted Statements of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation, ("SFAS 123") which allows companies to either continue to account for stock based compensation to employees under APB 25, or adopt a fair value based method of accounting. The Company has elected to continue to account for stock based compensation to employees under APB 25. APB 25 recognizes compensation expense for options granted to employees only when the market price of the stock exceeds the grant exercise price at the date of the grant. The amount reflected as compensation expense is measured as the difference between the exercise price and the market value at the date of the grant.

There are no employee or non-employee options granted.