

CepTor CORP
Form 10QSB
August 14, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

FORM 10-QSB

(MARK ONE)

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2007**

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT
For the transition period from _____ to _____**

Commission file number: 333-105793

CEPTOR CORPORATION

(Name of Small Business Issuer in Its Charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

11-2897392

(IRS Employer Identification No.)

462 Seventh Avenue, Suite 1200
New York, New York 10018

(Address of principal executive offices) (Zip Code)

(212) 629-0804

(Issuer's telephone number)

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 o

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

As of August 02, 2007, there were 15,550,069 shares of the issuer's common equity outstanding.

Transitional Small Business Disclosure Format (Check one): Yes No

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PART I
FINANCIAL INFORMATION

Item Financial Statements**1.**

CepTor Corporation
(A Development Stage Company)
Balance Sheet
(Unaudited)

June 30,
2007

Assets

Current assets

Cash and cash equivalents	\$	22,249
Prepaid services and other current assets (note 5)		604

Total current assets		22,853
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Deferred financing costs (note 6)		242,098
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Total assets	\$	264,951
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Liabilities and Stockholders' Deficit

Current liabilities

Accounts payable	\$	4,001,884
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Accrued liabilities		1,423,682
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Convertible notes, net of discounts \$1,031,980 (note 8)		4,936,200
--	--	-----------

Unsecured advances		563,000
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Warrant liability (note 4)		1,324,150
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Conversion option liability (note 4)		700,650
--------------------------------------	--	---------

Total current liabilities		12,949,565
---------------------------	--	------------

Commitments and Contingencies

-

Stockholders' deficit

Preferred stock, \$0.0001 par value, authorized 20,000,000 shares, issued

and outstanding 216.4 shares of Series A Convertible		5,410,000
--	--	-----------

Common stock, \$0.0001 par value; 100,000,000 shares authorized;

15,550,069 shares issued and outstanding at June 30, 2007 (note 9)		1,555
--	--	-------

Additional paid-in capital		27,044,958
----------------------------	--	------------

Deficit Accumulated during the Development Stage		(45,141,127)
--	--	--------------

Total stockholder's deficit		(12,684,614)
Total liabilities and stockholders' deficit	\$	264,951

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

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CepTor Corporation
(A Development Stage Company)
Statements of Operations
(Unaudited)

	For the Three Months Ended June 30, 2007	For the Three Months Ended June 30, 2006 (Restated)	For the Six Months Ended June 30, 2007	For the Six Months Ended June 30, 2006 (Restated)	Cumulative from Inception (August 11, 1986) to June 30, 2007
Revenue:					
Other income	\$ -	\$ -	\$ -	\$ -	\$ 75,349
Operating (income) expenses:					
Impairment of fixed assets	-	-	35,562	-	71,124
Research and development	-	472,027	-	1,043,752	14,165,974
In-process research and development	-	-	-	-	5,034,309
General and administrative expenses	162,269	497,239	344,708	1,756,753	12,890,317
Gain on extinguishment of debt	-	(387,362)	-	(387,362)	(698,643)
Change in fair value of derivative financial instruments	(2,709,289)	311,147	(4,185,212)	(2,326,585)	(15,106,997)
Interest (income) expense, net	1,247,099	4,817,154	2,867,995	5,294,640	20,034,336
Total operating (income) expenses	(1,299,921)	5,710,205	(936,947)	5,381,198	(36,390,420)
Net income (loss)	\$ 1,299,921	\$ (5,710,205)	\$ 936,947	\$ (5,381,198)	\$ (36,315,071)
Preferred dividends	\$ -	\$ -	\$ -	\$ -	\$ (10,100,616)
Net income (loss) available to common shareholders	\$ 1,299,921	\$ (5,710,205)	\$ 936,947	\$ (5,381,198)	\$ (46,415,687)
Net loss per share - basic	\$ 0.08	\$ (0.38)	\$ 0.06	\$ (0.39)	
Net loss per share - fully diluted	\$ 0.05	\$ (0.38)	\$ 0.03	\$ (0.39)	
Weighted average shares outstanding - basic	15,500,069	14,855,983	15,500,069	13,785,982	
Weighted average shares outstanding - diluted	26,855,182	14,855,983	29,905,206	13,785,982	

Comprehensive income (loss) is equivalent to net income (loss) for all periods presented.

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

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CepTor Corporation
(A Development Stage Company)
Statements of Changes in Stockholders' (Deficiency) Equity
(Unaudited)

	Preferred Stock Shares	Common Stock Shares	Common Stock Amount	Deferred Subscription Receivables	Compens- ation	Additional Paid-in Capital	Treasury Stock Shares	Treasury Stock Amount	Accumulated Deficit During the Development Stage	Total Stockholders' (Deficiency) Equity
Balance, August 11, 1986 and December 31, 1986	- \$	-	- \$	- \$	- \$	- \$	-	- \$	- \$	-
Issuance of common stock for cash (\$0.0012)	-	840,818	84	-	-	916	-	-	-	1,000
Balance, December 31, 1987	- \$	840,818	\$ 84	\$ -	\$ -	916	-	\$ -	\$ -	1,000
Balance, December 31, 1988	- \$	840,818	\$ 84	\$ -	\$ -	916	-	\$ -	\$ -	1,000
Balance, December 31, 1989	- \$	840,818	\$ 84	\$ -	\$ -	916	-	\$ -	\$ -	1,000
Balance, December 31, 1990	- \$	840,818	\$ 84	\$ -	\$ -	916	-	\$ -	\$ -	1,000
Balance, December 31, 1991	- \$	840,818	\$ 84	\$ -	\$ -	916	-	\$ -	\$ -	1,000
Net loss	-	-	-	-	-	-	-	-	(8,006)	(8,006)
Balance, December 31, 1992	- \$	840,818	\$ 84	\$ -	\$ -	916	-	\$ -	\$ (8,006)	\$ (7,006)
Net loss	-	-	-	-	-	-	-	-	(1,169)	(1,169)
Convertible notes	-	176,572	18	-	-	3	-	-	-	21

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Issuance of common stock in exchange for services rendered (\$ 0.0142)	-	-	176,572	18	-	-	2,482	-	-	-	2,500	
Balance, December 31, 1993	- \$	-	1,193,962	\$ 120	\$	- \$	- \$	3,401	- \$	- \$	(9,175) \$	(5,654)
Net income	-	-	-	-	-	-	-	-	-	-	10,222	10,222
Distribution to stockholders	-	-	-	-	-	-	-	-	-	-	(4,260)	(4,260)
Balance, December 31, 1994	- \$	-	1,193,962	\$ 120	\$	- \$	- \$	3,401	- \$	- \$	(3,213) \$	308

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Net loss	-	-	-	-	-	-	-	-	-	(1,342)	(1,342)
Balance, December 31, 1995	- \$	-	1,193,962 \$	120 \$	- \$	- \$	3,401	- \$	- \$	(4,555) \$	(1,034)
Net loss	-	-	-	-	-	-	-	-	-	(8,727)	(8,727)
Balance, December 31, 1996	- \$	-	1,193,962 \$	120 \$	- \$	- \$	3,401	- \$	- \$	(13,282) \$	(9,761)
Net loss	-	-	-	-	-	-	-	-	-	(3,975)	(3,975)
Issued pursuant to acquisition (\$3.3501)	-	-	59,700	6	-	-	199,994	-	-	-	200,000
Issuance of common stock for cash (\$3.3501)	-	-	29,850	3	-	-	99,997	-	-	-	100,000
Capital contribution by stockholder	-	-	-	-	-	-	50,000	-	-	-	50,000
Expense pursuant to grant of stock option	-	-	-	-	-	-	20,356	-	-	-	20,356
Balance, December 31, 1997	- \$	-	1,283,512 \$	129 \$	- \$	- \$	373,748	- \$	- \$	(17,257) \$	356,620
Net loss	-	-	-	-	-	-	-	-	-	(21,102)	(21,102)
Balance, December 31, 1998	- \$	-	1,283,512 \$	129 \$	- \$	- \$	373,748	- \$	- \$	(38,359) \$	335,518
Net loss	-	-	-	-	-	-	-	-	-	(25,172)	(25,172)
Balance, December 31, 1999	- \$	-	1,283,512 \$	129 \$	- \$	- \$	373,748	- \$	- \$	(63,531) \$	310,346
Net loss	-	-	-	-	-	-	-	-	-	(36,256)	(36,256)
Issuance of common stock for cash (\$3.1409)	-	-	15,919	2	-	-	49,998	-	-	-	50,000
Balance, December 31, 2000	- \$	-	1,299,431 \$	131 \$	- \$	- \$	423,746	- \$	- \$	(99,787) \$	324,090
Net loss	-	-	-	-	-	-	-	-	-	(233,958)	(233,958)
Issued pursuant to funding agreement (\$0.0838)	-	-	1,083,729	108	-	-	90,659	-	-	-	90,767
Balance, December 31, 2001	- \$	-	2,383,160 \$	239 \$	- \$	- \$	514,405	- \$	- \$	(333,745) \$	180,899
Net loss	-	-	-	-	-	-	-	-	-	(654,599)	(654,599)
Issued pursuant to funding agreement	-	-	1,515,053	151	-	-	126,742	-	-	-	126,893

(\$0.0838)

Balance, December

31, 2002 - \$ - 3,898,213 \$ 390 \$ - \$ - \$ 641,147 - \$ - \$(988,344) \$ (346,807)

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Net income	-	-	-	-	-	-	-	-	-	72,498	72,498
Balance, December 31, 2003	- \$	-	3,898,213	\$ 390	\$	- \$	- \$	641,147	- \$	- \$ (915,846)	\$ (274,309)
Acquisition by Xechem International, Inc. and application of push-down accounting	-	-	-	-	-	-	4,118,463	-	-	915,846	5,034,309
Option granted pursuant to spinoff agreement	-	-	-	-	-	-	2,082,500	-	-	-	2,082,500
Common stock subject to repurchase under put right	-	-	(401,305)	(40)	-	-	(1,637,285)	-	-	-	(1,637,325)
Common stock issued May 2004, in connection with bridge loans (\$1.22)	-	-	451,597	45	-	-	549,955	-	-	-	550,000
Common stock issued May 2004, to placement agent for bridge loans (\$2.50)	-	-	36,000	4	-	-	89,996	-	-	-	90,000
Common stock issued September 2004, net of offering expenses of \$70,760 (\$1.68)	-	-	554,413	55	-	-	929,176	-	-	-	929,231
Common stock issued December 2004 to advisors for past services (\$2.50)	-	-	675,690	68	-	-	1,689,157	-	-	-	1,689,225
Reclassification in December 2004 of advances from Xechem as contribution to capital	-	-	-	-	-	-	350,310	-	-	-	350,310
Minority shareholders pursuant to	-	-	1,850,000	185	-	-	(185)	-	-	-	-

recapitalization											
Common stock issued December 2004 pursuant to exercise of options granted pursuant to spinoff agreement (\$0.00001)	-	-	3,031,943	303	(303)	-	-	-	-	-	-
Intrinsic value of beneficial conversion feature of replacement notes	-	-	-	-	-	-	1,111,240	-	-	-	1,111,240
Common stock issued December 2004 in conversion of convertible note (\$1.25)	-	-	167,610	17	-	-	209,495	-	-	-	209,512
Common stock issued December 2004 in connection with litigation settlement (\$2.50)	-	-	125,000	12	-	-	312,488	-	-	-	312,500
Warrants issued in connection with litigation settlement	-	-	-	-	-	-	109,500	-	-	-	109,500
Common stock issued December 2004 pursuant to placement agent agreement (\$2.50)	-	-	150,000	15	-	-	(15)	-	-	-	-
Warrants issued to nonemployees for services	-	-	-	-	-	-	396,000	-	-	-	396,000
Preferred stock and warrants issued pursuant to units sold December 2004 in a private placement (\$25,000)	145	3,626,750	-	-	-	-	(822,510)	-	-	-	2,804,240

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Acquisition December 2004 of treasury stock under put right (\$2.50)	-	-	-	-	-	-	-	145,070	(362,675)	-	(362,675)
Deemed dividend of beneficial conversion feature of units sold in private placement	-	-	-	-	-	-	936,116	-	-	(936,116)	
Amortization of deferred compensation	-	-	-	-	-	-	604,350	-	-	-	604,350
Net loss	-	-	-	-	-	-	-	-	-	(14,547,889)	(14,547,889)
Balance, December 31, 2004	145	\$ 3,626,750	10,539,161	\$ 1,054	\$ (303)	\$ -	\$ 11,669,898	145,070	\$ (362,675)	\$ (15,484,005)	\$ (549,359)
Preferred stock and warrants issued pursuant to units sold on January 5, 2005 in a private placement (\$25,000)	48	1,208,750	-	-	-	-	(159,359)	-	-	-	1,049,391
Deemed dividend of beneficial conversion feature of units sold January 5, 2005 in private placement	-	-	-	-	-	-	1,208,750	-	-	(1,208,750)	
Acquisition January 5, 2005 of treasury stock under put right (\$2.50)	-	-	-	-	-	-	-	48,350	(120,875)	-	(120,875)

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Preferred stock and warrants issued pursuant to units sold on January 18, 2005 in a private placement (\$25,000)	76	1,906,250	-	-	-	-	(252,624)	-	-	-	1,653
Deemed dividend of beneficial conversion feature of units sold January 18, 2005 in private placement	-	-	-	-	-	-	1,906,250	-	-	(1,906,250)	
Acquisition January 18, 2005 of treasury stock under put right (\$2.50)	-	-	-	-	-	-	-	76,250	(190,625)	-	(190,625)
Common stock issued January 2005 in connection with payment of legal fees (\$3.04)	-	-	23,000	2	-	-	69,998	-	-	-	70,000
Common stock issued January 2005 pursuant to amendment of placement agent agreement (\$2.50)	-	-	150,000	15	-	-	(15)	-	-	-	
Common stock issued February 2005 to advisors for past services (\$6.25)	-	-	7,500	1	-	-	46,874	-	-	-	46,874

Preferred stock and warrants issued pursuant to units sold on February 3, 2005 in a private placement (\$25,000)	224	5,612,000	-	-	-	-	(851,447)	-	-	-	4,760
Deemed dividend of beneficial conversion feature of units sold February 3, 2005 in private placement	-	-	-	-	-	-	5,612,000	-	-	(5,612,000)	

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Acquisition February 3, 2005 of treasury stock under put right (\$2.50)	-	-	-	-	-	-	-	224,480	(561,200)	-	(561,200)
Preferred stock and warrants issued pursuant to units sold on February 11, 2005 in a private placement (\$25,000)	18	437,500	-	-	-	-	(256,681)	-	-	-	180,819
Deemed dividend of beneficial conversion feature of units sold February 11, 2005 in private placement	-	-	-	-	-	-	437,500	-	-	(437,500)	-
Acquisition February 11, 2005 of treasury stock under put right (\$2.50)	-	-	-	-	-	-	-	17,500	(43,750)	-	(43,750)
Common stock issued February 2005 pursuant to cashless exercise of option (\$3.05)	-	-	100,191	10	-	-	(10)	-	-	-	-
Common stock issued March 2005 upon	(44)	(1,100,000)	440,000	44	-	-	1,099,956	-	-	-	-

conversion of preferred shares (\$2.50)											
Payment for common stock issued December 2004 pursuant to exercise of options granted pursuant to spinoff agreement (\$0.00001)	-	-	-	-	303	-	-	-	-	-	303
Common stock issued March 2005 pursuant to exercise of warrants (\$1.25)	-	-	5,000	1	-	-	6,249	-	-	-	6,250
Common stock issued April 2005 upon conversion of preferred shares (\$2.50)	(15)	(375,000)	150,000	15	-	-	374,985	-	-	-	-
Common stock issued May 2005 pursuant to financing letter agreement (\$3.00)	-	-	25,000	2	-	-	74,998	-	-	-	75,000
Common stock issued May 2005 upon conversion of preferred shares (\$2.50)	(41)	(1,025,000)	410,000	41	-	-	1,024,959	-	-	-	-
Common stock issued June 2005	(29)	(725,000)	290,000	29	-	-	724,971	-	-	-	-

upon conversion of preferred shares (\$2.50)										
Capital contribution for repurchase of common stock pursuant to Stock Purchase Agreement	-	-	-	-	-	424,818	-	-	-	424,818
Common stock repurchased June 2005 pursuant to Stock Repurchase Agreement (\$0.80)	-	-	-	-	-	-	2,886,563	(2,734,068)	-	(2,734,068)
Common stock issued July 2005 pursuant to Regulatory Milestone Plan (\$2.70)	-	-	100,000	10	-	269,990	-	-	-	270,000

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Common stock issued July 2005 upon conversion of preferred shares (\$2.50)	(20)	(500,000)	200,000	20	-	-	499,980	-	-	-
Common stock issued August 2005 upon conversion of preferred shares (\$2.50)	(84)	(2,087,500)	835,000	84	-	-	2,087,416	-	-	-
Common stock issued September 2005 upon conversion of preferred shares (\$2.50)	(25)	(625,000)	250,000	25	-	-	624,975	-	-	-
Common stock issued September 2005 pursuant to Stock Purchase Agreement	-	-	25,000	2	-	-	(2)	-	-	-
Expenses incurred pursuant to entering into Stock Purchase Agreement	-	-	-	-	-	-	(89,340)	-	-	-
Net proceeds from October 2005 sale of common stock issued December 2004 pursuant to exercise of options granted pursuant to spinoff agreement (\$0.63)	-	-	-	-	-	-	163,014	-	-	-

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Common stock issued October 2005 pursuant to Stock Purchase Agreement	-	-	377,359	38	-	-	(38)	-	-	-
Common stock issued November 2005 upon conversion of preferred shares (\$2.50)	(2)	(50,000)	20,000	2	-	-	49,998	-	-	-
Common stock issued December 2005 pursuant to Securities Purchase Agreement	-	-	268,817	27	-	-	37,343	-	-	-
Warrant liability established	-	-	-	-	-	-	(3,350,697)	-	-	(3,350,697)
Common stock issued December 2005 upon conversion of replacement notes (\$0.375)	-	-	485,000	48	-	-	181,827	-	-	181,827
Common stock issued December 2005 upon conversion of preferred shares (\$2.50)	(4)	(100,000)	40,000	4	-	-	99,996	-	-	-
Discount of secured convertible debenture upon fair value allocation of proceeds	-	-	-	-	-	-	250,000	-	-	250,000
Retirement of treasury shares	-	-	(3,398,213)	(340)	-	-	(4,012,853)	(3,398,213)	4,013,193	-
Reverse common stock	-	-	401,305	40	-	-	1,637,285	-	-	1,637,285

subject to
repurchase
under variable
shares put
right at
December 31,
2004

Amortization
of deferred
compensation

Net loss

Balance,

December 31,

2005

-	-	-	-	-	-	-	1,035,701	-	-	-	1,035,701
-	-	-	-	-	-	-	-	-	-	(13,267,590)	(13,267,590)
248	\$ 6,203,750	11,744,120	\$ 1,174	\$ -	\$ -	\$ -	\$ 22,646,665	- \$	-	\$ (37,916,095)	\$ (9,066,710)

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Common stock issued January 2006 upon conversion of preferred shares (\$2.50)	(10)	(250,000)	100,000	10		249,990				-
Common stock issued January 2006 upon conversion of replacement notes (\$0.375)	-	-	855,267	85	-	320,640	-	-	-	320,725
Common stock issued February 2006 upon conversion of preferred shares (\$2.50)	(7)	(175,000)	70,000	7	-	174,993	-	-	-	-
Common stock issued February 2006 upon conversion of 2005 Convertible Debentures (\$0.5795)	-	-	86,281	9	-	49,991	-	-	-	50,000
Common stock issued March 2006 upon conversion of preferred shares (\$2.50)	(7)	(168,750)	67,500	7	-	168,743	-	-	-	-
Common stock issued March 2006 upon conversion of options (\$0.359)	-	-	557,102	56	-	199,944	-	-	-	200,000
Expenses incurred pursuant to entering into Stock Purchase Agreement	-	-	-	-	-	(38,181)	-	-	-	(38,181)
Common stock issued March 2006 upon	-	-	148,236	15	-	49,985	-	-	-	50,000

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conversion of 2005 Convertible Debentures (\$0.3373) Common stock issued April 2006 upon conversion of 2005 Convertible Debentures (\$0.1985)	-	-	755,735	76	-	-	149,924	-	-	-	150,000
Common stock issued May 2006 upon conversion of preferred shares (\$2.50)	(3)	(75,000)	30,000	3	-	-	74,997	-	-	-	-
Common stock issued May 2006 upon conversion of 2005 Convertible Debentures (\$0.1616)	-	-	309,598	31	-	-	49,969	-	-	-	50,000
Common stock issued May 2006 pursuant to anti-dilution provisions	-	-	776,230	77	-	-	155,169	-	-	-	155,246
Incremental fair value of additional common stock issuable upon conversion of preferred shares	-	-	-	-	-	-	1,936,377	-	-	-	1,936,377
Amortization of deferred compensation	-	-	-	-	-	-	730,617	-	-	-	730,617
Net income (loss)	-	-	-	-	-	-	-	-	-	(8,161,979)	(8,161,979)
Balance, December 31, 2006	221	\$ 5,535,000	15,500,069	\$ 1,550	\$ -	\$ -	\$ 26,919,823	-	\$ -	\$ (46,078,074)	\$ (13,621,701)
Common shares issued January 2007 upon	(5)	(125,000)	50,000	5	-	-	124,995	-	-	-	-

conversion of
preferred shares
(\$2.50)

Value of options granted to board member	-	-	-	-	-	-	70	-	-	-	70
Net income (loss)	-	-	-	-	-	-	-	-	-	(362,974)	(362,974)
Balance March 31, 2007	216	5,410,000	15,550,069	1,555	-	-	27,044,888	-	-	(46,441,048)	(13,984,605)

Value of options granted to board member	-	-	-	-	-	-	70	-	-	-	70
Net income (loss)	-	-	-	-	-	-	-	-	-	1,299,921	1,299,921
Balance June 30, 2007	216	\$ 5,410,000	15,550,069	\$ 1,555	\$ -	\$ -	\$ 27,044,958	-	\$ -	\$ (45,141,127)	\$ (12,684,615)

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

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CepTor Corporation
(A Development Stage Company)
Statement of Cash Flows
(Unaudited)

	For the Six Months Ended June 30, 2007	For the Six Months Ended June 30, 2006 (Restated)	Cumulative from Inception (August 11, 1986) to June 30, 2007
Cash flows from operating activities:			
Net income (loss)	\$ 936,947	\$ (5,381,198)	\$ (35,952,097)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	-	9,535	50,559
Write-off in-process research and development	-	-	5,034,309
Charge for stock option issued pursuant to spin-off agreement	-	-	2,082,500
Stock based compensation to employees and directors	-	75,466	267,802
Stock-based compensation to non-employees	-	579,591	4,802,822
Stock-based component of payment of legal fees	-	-	70,000
Stock-based component of litigation settlement	-	-	422,000
Amortization of deferred compensation	140	-	140
Gain on extinguishment of debt	-	(387,362)	(698,643)
Impairment of fixed assets	36,362	-	36,362
Change in fair value of derivative securities	(4,185,212)	(2,326,585)	(13,631,074)
Non-cash interest expense	2,651,801	5,170,999	17,780,209
Changes in operating assets and liabilities:			
Prepaid services and other assets	12,292	101,240	(605)
Other assets	-	-	-
Accounts payable and accrued expenses	340,604	6,832	4,856,331
Net cash used in operating activities	(207,066)	(2,151,482)	(14,879,385)
Cash flows from investing activities:			
Acquisition of property and equipment	-	-	(86,921)
Net cash used in investing activities	-	-	(86,921)
Cash flows from financing activities:			
Proceeds from issuances of common stock	-	200,000	1,499,819
Net proceeds from issuances of preferred stock	-	-	10,448,629
Acquisition of treasury stock under put right	-	-	(1,279,125)
Acquisition of treasury stock under purchase agreement	-	-	(2,309,250)

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Distribution to shareholders	-	-	(4,260)
Capital contributed by Xechem International, Inc.	-	-	350,310
Proceeds from issuance of debt	217,000	1,876,000	7,757,444
Debt issuance costs	-	(355,949)	(1,125,012)
Principal payments on bridge loans	-	-	(350,000)
Net cash provided by financing activities	217,000	1,720,051	14,988,555
Net increase (decrease) in cash and cash equivalents	9,934	(431,431)	22,249
Cash and cash equivalents at beginning of period	12,315	434,277	-
Cash and cash equivalents at end of period	\$ 22,249	\$ 2,846	\$ 22,249

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

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Supplemental disclosures of cash flow information:

Cash paid during the period for:				
	Interest	\$	-	\$ 35,421
	Taxes	\$	-	\$ -
Deemed dividend of the beneficial conversion feature of units sold in private placement				
		\$	-	\$ 10,100,616
Issuance of 2,902,500 shares of common stock upon conversion of preferred shares				
		\$	-	\$ 668,750
		\$	-	\$ 6,587,500
Issuance of 267,500 shares of common stock upon conversion of preferred shares				
		\$	-	\$ 668,750
Issuance of 485,000 shares of common stock upon conversion of convertible note				
		\$	-	\$ 181,875
Issuance of 855,267 shares of common stock upon conversion of convertible note				
		\$	-	\$ 320,725
		\$	-	\$ 320,725
Issuance of 1,299,850 shares of common stock upon conversion of convertible shares				
		\$	-	\$ 300,000
		\$	-	\$ 300,000
Issuance of 100,000 shares of common stock pursuant to stock plan				
		\$	-	\$ 270,000
Issuance of 7,500 shares of common stock as compensation for past services				
		\$	-	\$ 46,875
Issuance of 25,000 shares of common stock as compensation for financial planning				
		\$	-	\$ 75,000
Issuance of 23,000 shares of common stock in payment of accrued legal fees				
		\$	-	\$ 70,000
Capital contribution for repurchase of common stock pursuant to Stock Purchase Agreement				
		\$	-	\$ 424,818
Issued 36,000 shares of common stock as debt issuance costs				
		\$	-	\$ 90,000
Issued 451,597 shares of common stock to bridge loan investors and placement agents				
		\$	-	\$ 550,000

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Issuance of 167,610 shares of common stock upon conversion of convertible notes	\$	-	\$	-	\$	209,512
Issuance of convertible notes in exchange for bridge loans and long-term debt plus accrued interest	\$	-	\$	-	\$	1,111,240
Obligation to repurchase 401,305 shares of common stock pursuant to put right	\$	-	\$	-	\$	1,637,325

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

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CepTor Corporation
(A Development Stage Company)
Notes to Condensed Financial Statements
June 30, 2007
(Unaudited)

NOTE 1 - BASIS OF INTERIM FINANCIAL STATEMENT PRESENTATION

The accompanying unaudited Condensed Financial Statements of CepTor Corporation have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and the instructions to Form 10-QSB. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for all periods presented have been made. The results of operations for the three and six month periods ended June 30, 2007 are not necessarily indicative of the operating results that may be expected for the entire year ending December 31, 2007.

NOTE 2 - THE COMPANY

Organization

The financial statements presented are those of CepTor Corporation ("CepTor" or the "Company"), incorporated in August 1986 in the State of Delaware.

Nature of Business and Development Stage Operations

The Company is a biopharmaceutical company which has historically been engaged in the research and development of therapeutic products for neuromuscular, neurodegenerative and other diseases with a focus on orphan diseases (defined as those which affect less than 200,000 people). Since its inception, the Company has devoted its efforts and resources to the development of its receptor mediated drug-targeting platform for neuromuscular and neurodegenerative diseases, and to raising the funds necessary to continue this research. Its two lead compounds are Myodur™, for neuromuscular disease, and Neurodur™, for neurodegenerative diseases. In January 2006, CepTor submitted an Investigational New Drug Application (IND) to the Food and Drug Administration (FDA) for Myodur™ with the hope of beginning clinical trials for this compound following approval of the IND. Since that time, the IND has remained on "clinical hold" pending resolution of certain issues raised by the FDA. Most recently, in October 2006, the Company was advised that, despite its efforts to resolve the concerns and issues previously raised by the FDA, the IND would remain on hold pending further testing and research as directed by the FDA.

As a result of the clinical hold status of our lead compound, our existing investors have advised us that they were unwilling to continue to fund either the research and development costs required to fully prosecute the IND filing, or the general operating costs necessary to keep the business afloat as those research and development activities continued. With no other financial resources available to us, we had no choice but to cease all efforts related to the research and development of our compounds, terminate all of our employees, and close down our corporate offices in Maryland. At present, we are maintaining our operations as a "virtual" office operated out of New York City and have one part-time employee, Howard Becker, our CEO appointed in December 2006.

In the period since the closure of the Company's Maryland offices and the termination of all of its Maryland based employees, we have been focusing on a two-part strategy, in cooperation with the existing secured creditors and

investors, whereby (i) our existing technologies would be divested from the corporation pursuant to a transaction that would allow CepTor to retain significant upside should the technologies ultimately fulfill their promise as marketable and commercially viable products, and (ii) a new technology would be acquired by the Company around which we could restructure our affairs. Any such transaction would have to have the full support of the existing secured creditors, which have a priority position with respect to all of CepTor's current assets.

As described more fully below, the Company has, to date, been unsuccessful in its efforts to acquire an alternative technology around which to reorganize its affairs, and the likelihood of such a transaction materializing, at least in the near term, is remote. The Company is continuing its discussions with the founding scientists responsible for the initial development of CepTor's existing technologies regarding a transaction that will allow those scientists, Drs. Al Stracher and Leo Kesner, to continue to develop the technologies, whether under CepTor's auspices or through a private company in which the founding scientists have a controlling interest. However, there can be no assurance that such a transaction will be consummated or that, if consummated, it will support the continued operation of the Company. Based on these circumstances, as well as the Company's lack of financial resources, there is substantial doubt as to the Company's ability to continue as a going concern.

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(Unaudited)

The Company is a development stage company which has a limited history of operations and has not generated any material revenues since its inception. The Company has received a limited amount of funding through grants and collaborative research efforts in connection with developing its products. The Company does not have any products that are approved for commercial distribution at the present time. As a development stage company, the Company is subject to all of the risks and uncertainties that are associated with developing a new business.

NOTE 3 - LIQUIDITY AND FINANCIAL CONDITION AND GOING CONCERN

The Company has had difficulty securing the necessary capital to execute its business plan and has not been able to remain current with respect to the payment terms of its operating obligations including its trade payables and accrued liabilities, which aggregated approximately \$5,425,566 at June 30, 2007. As described in Note 8, the Company is in default of substantially all of its convertible note obligations, which total approximately \$6 million in aggregate principal amount. These defaults occurred principally as a result of (i) the Company's failure to make the required payments of principal and interest under certain of these obligations (which triggered cross default provisions under the remaining note obligations), (ii) its failure to file a registration statement pursuant to the 2006 6% Convertible Notes within a specified period, (iii) its failure to file a post-effective amendment to its registration statement on Form SB-2 covering shares issuable under the 2005 Convertible Debentures within a specified period, and (iv) its failure to have sufficient authorized but unissued shares available to net share settle its 2005 convertible notes and all of its derivative financial instruments. The Company has pledged all of its assets to the holders of the 2006 6% Convertible Notes to secure its repayment obligations under those notes, and the holders of these notes currently have the rights to exercise remedies with respect to the collateral should they desire to do so.

The Company has exhausted substantially all of its capital resources, terminated substantially all of its employees except for its part-time chief executive officer and is currently unable to pursue further development of its product candidates. The primary reason for the Company's current difficulties has been its inability to date to procure approval of its IND for Myodur™. Specifically, in October 2006, the Company was informed by the FDA that its IND was to remain on hold pending the resolution of two remaining issues. Additional time is required to fully resolve the FDA issues and complete the Company's own internal research program, which the Company estimates would take an additional twelve to eighteen months to complete and would require a substantial investment of capital. The Company lacks the funding needed to resolve these issues and is currently unable to secure financing commitments for this purpose. Due to these remaining issues and the lack of adequate funding, the Company has halted development of its programs.

Throughout much of the first and second quarters of this year, the Company has been focusing on a two-part strategy, in cooperation with the existing secured creditors and investors, whereby (i) its existing technologies would be divested from the corporation pursuant to a transaction that would allow CepTor to retain significant upside should the technologies ultimately fulfill their promise as marketable and commercially viable products, and (ii) a new technology would be acquired by the Company around which to restructure its affairs. In anticipation of such a transaction, the Company had also initiated discussions with its trade creditors concerning a voluntary restructuring of those obligations. However, as of the date of this report, the discussions that had been previously ongoing with the owners of one such technology regarding a potential acquisition transaction have ceased entirely, and an alternative potential transaction has yet to be identified. Though the Company will continue to seek to identify a possible

transaction that will allow it to reorganize its affairs, there is a substantial doubt that any such transaction will materialize.

At present, the Company is continuing its discussions with Drs. Al Stracher and Leo Kesner, the original founding scientists behind CepTor's existing technologies, regarding a transaction that would enable those individuals to continue to develop the technologies, either through CepTor or a private company they control. However, even should such a transaction be consummated, there is no assurance that CepTor will be a viable, self-sustaining entity, nor is there any assurance that the Company will ever become operational. Accordingly, there is a material possibility that CepTor may be forced to terminate all operations and wind down its affairs, and/or commence bankruptcy or receivership proceedings. These matters raise substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that may result from the outcome of this uncertainty.

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Primarily as the result of recording during the six months ended June 30, 2007 non-cash interest expense of \$2,651,801 offset by a non-cash gain associated with the decrease in the liability associated with the fair values of its derivative financial instruments of \$4,185,212, the Company recorded a net income for the three and six month periods ended June 30, 2007 of \$1,299,921 and \$936,947, respectively. Non-cash interest expense consisted of the amortization of the discount on notes payable of \$1,563,907; amortization of deferred financing cost of \$945,116, and accrual of liquidated damages of \$142,778. The Company used net cash flows in its operating activities of \$207,066 during the six month period ended June 30, 2007. The Company's working capital deficiency amounted to \$12,926,712, and its development stage accumulated deficit amounted to \$45,141,127 at June 30, 2007. The Company will require substantial additional funding if it is ever to support the development of its proposed products and fund the operations contemplated under its business plan.

At June 30, 2007, the Company had \$6,531,180 in principal amount of notes outstanding. The December 2004 Convertible Note in the principal amount of \$448,736, was due July 3, 2006. There has not been an agreement on amended terms and no assurance that the Company will reach agreement with the note holder on amended terms. The terms of the 2004 Convertible Note do not provide for penalties or other payments upon default, and accordingly, the Company has not accrued a penalty as of March 31, 2007. Of the remaining convertible debt, (i) \$250,000 in principal plus accrued interest was due on December 9, 2006, (ii) \$3,569,444 in principal representing 2006 6% Convertible Notes mature during the period June 2007 through October 2007, and (iii) the Cornell Convertible Debentures of \$1,700,000 mature in December 2008. In addition to its convertible notes, the Company has received \$448,000 in unsecured cash advances, from an existing investor, of which \$102,000 was borrowed during the three months ended June 30, 2007. These unsecured cash advances are repayable on demand, and bear interest at the rate of 8% per year. Currently, the Company is in default of substantially all of its obligations to its convertible noteholders and such noteholders currently have the right to demand immediate payment of these loans. At present, the Company does not have, and has no identifiable prospect of obtaining, the available cash to repay these obligations. The note holders holding \$1,700,000 in principal indebtedness have a security interest in all the assets of the Company.

Due to the defaults of its note obligations, its lack of resources to settle its obligations when due and the possibility that all of the Company's indebtedness will be accelerated if a bankruptcy petition were filed by or against the Company, the Company has recorded all of its liabilities as current.

NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Company is a development stage enterprise. Accordingly, the Company has included its cumulative statements of operations and cash flows for the period of August 11, 1986 (date of inception) to June 30, 2007 in accordance with Statement of Financial Accounting Standards ("SFAS") No. 7 "Accounting and Reporting by Development Stage Enterprises."

The Company's net loss available to common shareholders as reported in its statement of operations for the period of August 11, 1986 (date of inception) to June 30, 2007 is \$45,141,127.

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Accounting for Stock-Based Compensation

Prior to January 1, 2006, the Company accounted for employee stock transactions in accordance with Accounting Principles Board ("APB") Opinion No. 25 "Accounting for Stock Issued to Employees." The Company applied the pro forma disclosure requirements of SFAS No. 123 "Accounting for Stock-Based Compensation."

Effective January 1, 2006, the Company adopted SFAS No. 123R "Share Based Payment." This statement is a revision of SFAS Statement No. 123, and supersedes APB Opinion No. 25, and its related implementation guidance. SFAS 123R addresses all forms of share based payment ("SBP") awards including shares issued under employee stock purchase plans, stock options, restricted stock and stock appreciation rights. Under SFAS 123R, SBP awards result in a cost that will be measured at fair value on the awards' grant date, based on the estimated number of awards that are expected to vest and that will result in a charge to operations. The Company adopted the modified prospective method with respect to accounting for its transition to SFAS 123(R) and had unrecognized compensation cost of \$2,520 as deferred compensation at January 1, 2007. Accordingly, the Company recognized expense on the statement of operations of \$140 for the fair value of these stock options which vested during the six month periods ended June 30, 2007. The fair value of these awards was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate: 3.3% to 3.6%; expected dividend yield: 0%; expected option life: 10 years; and volatility: 108% to 123%.

Net Loss per Share

Net loss per shares is presented under SFAS No. 128 "Earnings Per Share." Under SFAS 128, basic net earnings or loss per share is computed by dividing net income or loss by the weighted average number of common shares outstanding during the period. Diluted earnings per shares is computed by dividing net income or loss by the weighted average number of shares outstanding, after giving effect to potentially dilutive share equivalents outstanding during the period. Potentially dilutive common share equivalents are not included in the computation of diluted earnings per share if they are anti-dilutive.

Shares of common stock issuable upon the conversion or exercise of potentially dilutive securities are as follows:

	June 30,	
	2007	2006
Series A		
Preferred Stock	11,355,113	5,504,000
Warrants	33,912,855	20,583,232
Options	1,878,834	1,971,029
Convertible		
Notes	44,987,007	30,463,204
Total	92,133,809	58,521,465

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Accounting for Warrants and Freestanding Derivative Financial Instruments

The Company accounts for the issuance of common stock purchase warrants and other freestanding derivative financial instruments in accordance with the provisions of EITF 00-19. Based on the provisions of EITF 00-19, the Company classifies as equity any contracts that (i) require physical settlement or net-share settlement or (ii) gives the Company a choice of net-cash settlement or settlement in its own shares (physical settlement or net-share settlement). The Company classifies as assets or liabilities any contracts that (i) require net-cash settlement (including a requirement to net-cash settle the contract if an event occurs and if that event is outside the control of the Company) or (ii) give the counterparty a choice of net-cash settlement or settlement in shares (physical settlement or net-share settlement).

The terms of the Company's Cornell Convertible Debentures (see Note 8) provide for a conversion price in certain situations based on a floating conversion price which results in an indeterminable number of shares of common stock potentially issued upon conversion. Under accounting guidance provided by EITF 00-19, as of June 30, 2007, the Company had net liabilities of \$1,324,150 representing the fair value of warrants and options to purchase approximately 35.8 million shares of common stock which had been issued as components of other financing instruments or granted to non-employees for services rendered. The Company recorded additional liabilities for the fair value of warrants granted during the year ended December 31, 2006 in the aggregate amount of approximately \$5.7 million. The fair value of these awards was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: risk free interest rate: 4.7% to 5.1%; expected dividend yield: 0%; expected life: 3 years to 5 years; and volatility: 106% to 353%.

The accounting guidance shows that the warrants are a derivative liability and are marked to market for each reporting period. During the six months ended June 30, 2007, the Company recognized a credit of \$2,709,289 for the decrease in fair value of the derivative financial instruments. The fair value of these awards was estimated at June 30, 2007 using the Black-Scholes option pricing model with the following assumptions: risk fee interest rate: 4.7% to 5.0%; expected dividend yield: 0%; expected option life: 1.0 years to 4.8 years; and volatility: 293%.

Accounting for Conversion Options Embedded in Convertible Notes and Convertible Preferred Stock

The Company accounts for conversion options embedded in convertible notes and convertible preferred stock in accordance with SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" and EITF 00-19 "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock." SFAS 133 generally requires companies to bifurcate conversion options embedded in convertible notes and preferred shares from their host instruments and to account for them as free standing derivative financial instruments in accordance with EITF 00-19. SFAS 133 provides for an exception to this rule when convertible notes and mandatorily redeemable preferred shares, as host instruments, are deemed to be conventional as that term is described in the implementation guidance provided in paragraph 61 (k) of Appendix A to SFAS 133 and further clarified in EITF 05-2 "The Meaning of 'Conventional Convertible Debt Instrument' in Issue No. 00-19." SFAS 133 provides for an additional exception to this rule when the economic characteristics and risks of the embedded derivative instrument are clearly and closely related to the economic characteristics and risks of the host instrument.

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The Company accounts for convertible notes (deemed conventional) in accordance with the provisions of EITF 98-5 “Accounting for Convertible Securities with Beneficial Conversion Features,” and EITF 00-27 “Application of EITF 98-5 to Certain Convertible Instruments.” Accordingly, the Company records, as a discount to convertible notes, the intrinsic value of such conversion options based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. Debt discounts under these arrangements are amortized over the term of the related debt to their earliest date of redemption.

The Company has issued \$5,519,444 in principal of various convertible notes (see Note 8) with embedded conversion options accounted for as free standing derivative financial instruments in accordance with SFAS 133 and EITF 00-19 and on the dates of issuance recorded liabilities for conversion options of \$6,018,813. The fair value of these embedded conversion options were estimated at the date of issuance using the Black-Scholes option pricing model with the following assumptions: risk free interest rate: 3.3% to 5.2%; expected dividend yield: 0%; expected option life: one year to 3 years; and volatility: 130% to 353%. The accounting guidance instructs that the conversion options are a derivative liability and are marked to market for each reporting period. During the six months ended June 30, 2007, the Company recognized a credit of \$4,185,212 for the decrease in fair value of the derivative financial instruments. The fair value of these embedded conversion options were estimated at June 30, 2007 using the Black-Scholes option pricing model with the following assumptions: risk free interest rate: 4.8% to 5.0%; expected dividend yield: 0%; expected option life: one year to 2 years; and volatility: 293%.

The Company also determined that the conversion option embedded in its Series A Preferred stock is not a free-standing derivative in accordance with the implementation guidance provided in paragraph 61 (l) of Appendix A to SFAS 133.

Recently Issued Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements” (“SFAS 157”). This statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This statement does not require any new fair value measurements. The effective date of this statement is for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact, if any, of the adoption of SFAS 157.

In July 2006, the FASB issued Financial Interpretation No. 48, “Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109” (“FIN 48”), which is a change in accounting for income taxes. FIN 48 specifies how tax benefits for uncertain tax positions are to be recognized, measured, and derecognized in financial statements; requires certain disclosures of uncertain tax matters; specifies how reserves for uncertain tax positions should be classified on the balance sheet; and provides transition and interim period guidance, among other provisions. FIN 48 is effective for fiscal years beginning after December 15, 2006. We do not anticipate that this FASB will have any material impact on our financial condition or results of operations.

In September 2006, the SEC issued SAB No. 108, “Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements” (“SAB 108”), which provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current

year misstatement. The guidance is applicable for fiscal years ending after November 15, 2006. We do not anticipate that this SAB will have any material impact on our financial condition or results of operations.

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In November 2006, the EITF reached a final consensus in EITF Issue 06-6 “Debtor’s Accounting for a Modification (or Exchange) of Convertible Debt Instruments” (“EITF 06-6”). EITF 06-6 addresses the modification of a convertible debt instrument that changes the fair value of an embedded conversion option and the subsequent recognition of interest expense for the associated debt instrument when the modification does not result in a debt extinguishment pursuant to EITF 96-19, “Debtor’s Accounting for a Modification or Exchange of Debt Instruments.” The consensus should be applied to modifications or exchanges of debt instruments occurring in interim or annual periods beginning after November 29, 2006. The Company does not expect the adoption of EITF 06-6 to have a material impact on its consolidated financial position, results of operations or cash flows.

In November 2006, the FASB ratified EITF Issue No. 06-7, “Issuer’s Accounting for a Previously Bifurcated Conversion Option in a Convertible Debt Instrument When the Conversion Option No Longer Meets the Bifurcation Criteria in FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities” (“EITF 06-7”). At the time of issuance, an embedded conversion option in a convertible debt instrument may be required to be bifurcated from the debt instrument and accounted for separately by the issuer as a derivative under FAS 133, based on the application of EITF 00-19. Subsequent to the issuance of the convertible debt, facts may change and cause the embedded conversion option to no longer meet the conditions for separate accounting as a derivative instrument, such as when the bifurcated instrument meets the conditions of Issue 00-19 to be classified in stockholders’ equity. Under EITF 06-7, when an embedded conversion option previously accounted for as a derivative under FAS 133 no longer meets the bifurcation criteria under that standard, an issuer shall disclose a description of the principal changes causing the embedded conversion option to no longer require bifurcation under FAS 133 and the amount of the liability for the conversion option reclassified to stockholders’ equity. EITF 06-7 should be applied to all previously bifurcated conversion options in convertible debt instruments that no longer meet the bifurcation criteria in FAS 133 in interim or annual periods beginning after December 15, 2006, regardless of whether the debt instrument was entered into prior or subsequent to the effective date of EITF 06-7. Earlier application of EITF 06-7 is permitted in periods for which financial statements have not yet been issued.

In December 2006, the FASB issued FSP EITF 00-19-2 “Accounting for Registration Payment Arrangements” (“FSP EITF 00-19-2”). FSP EITF 00-19-2 addresses an issuer’s accounting for registration payment arrangements. This pronouncement specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement, whether issued as a separate agreement or included as a provision of a financial instrument, should be separately recognized and accounted for as a contingency in accordance with SFAS 5 “Accounting for Contingencies.” FSP EITF 00-19-2 amending previous standards relating to rights agreements became effective on December 21, 2006 with respect to arrangements entered into or modified beginning on such date and for the first fiscal year beginning after December 15, 2006 with respect to those arrangements entered into prior to December 21, 2006. The Company is in the process of evaluating the impact of the adoption of this statement on the Company’s results of operations and financial condition.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115” (“SFAS 159”). This statement permits all entities to choose, at specified election dates, to measure eligible items at fair value (the “fair value option”). A business entity must report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. Upfront costs and fees related to items for which the fair value option is elected must be

recognized in earnings as incurred and not deferred. This statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company is currently evaluating the impact, if any, of the adoption of SFAS 159.

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NOTE 5 - PREPAID EXPENSES

Prepaid expense consists primarily of unamortized premiums paid to carriers for insurance policies and retainers paid for professional services to be rendered.

NOTE 6 - DEFERRED FINANCING COSTS

The Company capitalizes the costs and expenses incurred in entering into its debt obligations which are then amortized over the term of the debt. During the three and six months ended June 30, 2007, the Company amortized \$438,931 and \$945,116, respectively, of deferred financing costs to non-cash interest expense, and at June 30, 2007 the balance in deferred financing costs is \$242,098.

NOTE 7 - ACCRUED EXPENSES

Accrued expenses at June 30, 2007 are as follows:

Financial investor relations fees	\$ 188,278
Interest on convertible notes	592,904
Liquidated damages	642,500
Total	\$ 1,423,682

Pursuant to the Company's sale of Series A Preferred Stock in a private placement, the Company had agreed to spend up to 3% of the gross proceeds from its private placement on financial investor relations activities, all of which was accrued as "Financial Investor Relations Fees" and charged to additional paid-in capital upon each closing of the private placement.

Pursuant to the registration rights agreement in connection with the 2006 6% Convertible Notes offering, the Company was obligated to pay liquidating damages of 2% of the principal amount for each 30-day period the registration statement was filed past August 21, 2006. As of June 30, 2007, the Company accrued 18% of the outstanding principal, or \$642,500.

NOTE 8 - UNSECURED ADVANCES AND CONVERTIBLE NOTES

During the three and six months ended June 30, 2007, the Company received unsecured advances, from an existing investor, in the amount of \$115,000 and \$217,000, respectively. These advances bear interest at the rate of 8% per annum.

Note Obligations in Default

The Company is in default of substantially all of its convertible note obligations, which amount to approximately \$6,000,000 in aggregate principal amount. These defaults occurred as a result of (i) the Company's failure to make the required payments of principal and interest under certain of these obligations (which triggered cross default provisions under the remaining loans), (ii) not filing a registration statement covering shares issuable under the 2006 6% Convertible Notes within the specified period, (iii) not filing a post-effective amendment to its registration statement on Form SB-2 covering shares issuable under the Cornell Convertible Debentures within the specified period, and (iv) its failure to have sufficient authorized but unissued shares available to net share settle its Cornell Convertible Debentures and all of its derivative financial instruments. As of June 30, 2007, the Company, on a fully diluted basis, had 107,633,878 shares issued and potentially issuable in connection with all of its outstanding common stock convertible instruments, stock options and derivative financial instruments.

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Convertible Promissory Notes

Pursuant to an offer dated October 22, 2004 as amended November 15, 2004, made to the holders of certain convertible notes, the Company issued \$901,728 of convertible notes due December 8, 2005 in exchange for convertible notes in the principal amount of \$825,000 plus accrued interest of \$76,728 (the “December 2004 Convertible Notes”).

The December 2004 Convertible Notes were convertible into shares of the Company's common stock at \$1.25 per share in amounts equal to the outstanding principal cancelled, plus accrued interest at 10% through the date of conversion. In April 2005, the Company renegotiated certain terms of the December 2004 Convertible Notes to extend the maturity date until July 3, 2006 and in exchange the Company (1) increased the contractual interest rate effective December 8, 2005 to 12%, (2) reduced the conversion rate from \$1.25 to \$0.75 per share and (3) eliminated the Company's right to call the December 2004 Convertible Notes (the “Amended December 2004 Convertible Notes”).

On December 9, 2005, the Company amended a portion of the Amended December 2004 Convertible Notes that was payable to Harbor Trust dated December 9, 2004, in the principal amount of \$452,991 by reducing the conversion price to \$0.375 from \$0.75 per share (the “Amended December 2005 Harbor Note”). The effect of this modification was insignificant since approximately 50% of the note was converted in December 2005 and the remainder was converted in January 2006. The Amended December 2005 Harbor Note bears interest at the rate of 10% per year through December 8, 2005 and 12% per year thereafter. The Amended December 2005 Harbor Note was fully converted on January 27, 2006.

The remaining Amended December 2004 Convertible Note in the principal amount of \$448,736 was due July 3, 2006. There has not been an agreement on amended terms and there is no assurance the Company will reach agreement with the note holder. The terms of the December 2004 Convertible Note do not provide for penalties or other payments upon default, and accordingly, the Company has not accrued any as of December 31, 2006. The conversion price was adjusted to \$0.15 from \$0.75 pursuant to the 2006 6% Convertible Note offering which commenced June 1, 2006 (see below).

As of June 30, 2007, the principal amount of \$448,736 remains outstanding under the December 2004 Convertible Note.

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2005 Harbor Note

On December 9, 2005, the Company issued a convertible promissory note (the “2005 Harbor Note”) in the principal amount of \$250,000 which bears interest at the rate of 6% per annum. All unpaid principal and interest under the 2005 Harbor Note was due and payable on December 9, 2006. The 2005 Harbor Note is convertible, in whole or in part, at any time, into common stock at an adjusted conversion price of \$0.15 per share (adjusted pursuant to the 2006 6% Convertible Note offering commenced on June 1, 2006, see below), subject to certain limitations on conversion as set forth in the 2005 Harbor Note, including where the resulting number of shares converted on a cumulative basis, would exceed 19.99% of the total number of shares of common stock outstanding and, subject to a conversion price adjustment in the event the Company offers or sells an option not pursuant to an approved stock plan to acquire common stock at a price per share less than the conversion price. The conversion option featured in this note is being accounted for as a free standing derivative financial instrument in accordance with SFAS 133 and EITF 00-19.

The fair value of the conversion option was \$42,710 at June 30, 2007.

There has not been an agreement on amended terms and no assurance the Company will reach agreement with the note holder. The terms of the 2005 Harbor Note do not provide for penalties or other payments upon default, and accordingly, the Company has not accrued any as of June 30, 2007.

As of June 30, 2007, the principal amount of \$250,000 remains outstanding under the 2005 Harbor Note. The amount of discount of this note, based on the original allocation of proceeds to the carrying amount of the note and the free standing conversion option, has been fully amortized to non-cash interest expense at June 30, 2007.

CORNELL CONVERTIBLE DEBENTURES

On December 9, 2005, the Company entered into a securities purchase agreement (the “Securities Purchase Agreement”) with Cornell Capital Partners, LP (“Cornell Capital”) pursuant to which Cornell Capital has purchased, in a private placement, secured convertible debentures in the aggregate principal amount of \$2,000,000 (the “Cornell Convertible Debentures”), which bear interest at the rate of 8% per annum. Pursuant to the Securities Purchase Agreement, the Company issued a Cornell Convertible Debenture in the principal amount of \$1,000,000 on each of December 9, 2005 and December 28, 2005. Each Cornell Convertible Debenture has a three-year maturity from the date of issuance and was subject to earlier conversion or redemption pursuant to its terms.

Cornell Capital has the right to convert a portion or all of the outstanding principal and interest under the Cornell Convertible Debentures into shares of common stock at a conversion price per share equal to the lesser of \$0.9765 (105% of the closing bid price of the common stock on December 8, 2005) (the “Fixed Price”) or (ii) 95% of the lowest closing bid price of the common stock for the twenty trading days immediately preceding the conversion date (the “Floating Price” and together with the Fixed Price, the “Conversion Price”), subject to adjustment as provided in the Cornell Convertible Debentures; provided, that any such conversion based on the Floating Price will generally be limited to \$150,000 of principal outstanding under the Cornell Convertible Debentures in any thirty day period; and further provided, that Cornell Capital may not convert the Cornell Convertible Debentures into shares of common stock if such conversion would result in Cornell Capital, together with its affiliates, beneficially owning in excess of

4.9% of the then issued and outstanding shares of common stock. The Conversion Price and number of shares of common stock issuable upon conversion of the Cornell Convertible Debentures is subject to certain exceptions and adjustment for stock splits and combinations and other dilutive events.

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Subject to the terms and condition of the Cornell Convertible Debentures, the Company had the right at any time upon three business days notice to redeem the Cornell Convertible Debentures, in whole or in part. If the closing bid price of the common stock, is less than the Fixed Price at the time of the redemption, the Company is obligated to pay, in addition to the principal and accrued interest being redeemed, a redemption premium of 8% of the principal amount being redeemed (the "Redemption Amount"). If the closing bid price is greater than the Fixed Price, the Company may redeem up to 50% of the principal amount at the Redemption Amount and the remaining 50% at the greater of the (x) Redemption Amount or (y) the market value of the common stock. In addition, Cornell Capital will receive a three-year warrant to purchase 25,000 shares of common stock for every \$100,000 redeemed by the Company, on a pro rata basis, at an exercise price per share of \$0.9765 (the "Redemption Warrant").

If an Event of Default (as such term is defined in the Cornell Convertible Debentures) occurs, any principal and accrued interest outstanding will become immediately due and payable, in cash or common stock, at Cornell Capital's election. Pursuant to the Securities Purchase Agreement, on December 9, 2005, the Company issued to Cornell Capital a warrant to purchase 1,000,000 shares of common stock at an exercise price per share of \$1.023 (110% of the closing bid price of the common stock on December 8, 2005) and (ii) 268,817 shares of common stock, and (iii) on each of December 9, 2005 and December 28, 2005, the Company made a cash payment to an affiliate of Cornell Capital of \$80,000 for expenses incurred in connection with the transaction.

On June 29, 2006, the Company entered into an assignment agreement ("Assignment Agreement") by and between Cornell Capital, The Longview Fund, LP ("Longview"), Alpha Capital Aktiengesellschaft ("Alpha"), Ellis International Ltd. ("Ellis") and Momona Capital Corp. ("Momona") (each an "Assignee") which provides for, among other things, the assignment of the unpaid and unconverted amounts outstanding under each of the Cornell Convertible Debentures to the Assignees in the amounts listed in the Assignment Agreement. The aggregate unpaid and unconverted principal amount of \$1,700,000 under the Cornell Convertible Debentures was assigned. The aggregate purchase price paid by the Assignees was \$1,914,180, of which \$1,836,000 is being paid for principal (which includes the Redemption Amount) and \$78,180 represents accrued interest. The Company now owes the principal amounts of \$700,000 and \$400,000 to Longview and \$300,000, \$200,000 and \$100,000 to Alpha, Ellis and Momona, respectively, in proportion to their assignment from Cornell Capital. All of the terms and conditions remain unchanged in the Cornell Convertible Debentures except that the Assignment Agreement provides that the Company may not redeem the Cornell Convertible Debentures, in whole or in part.

Pursuant to the Assignment Agreement, the Company was obligated to file an amended registration statement to reflect the change in selling shareholders by July 10, 2006. As of June 30, 2007, the Company had not met this obligation causing it to be in default under the terms of the Assignment Agreement. There has not been an agreement on amended terms and no assurance the Company will reach agreement with the note holders. The terms of the Cornell Convertible Debentures do not provide for penalties or other payments upon default, and accordingly, the Company has not accrued any as of June 30, 2007.

Pursuant to the Securities Purchase Agreement, the Company granted a security interest in all of its assets to Cornell Capital to secure its obligations under the Cornell Convertible Debentures, which security interest will be transferred to the Assignees pursuant to the Assignment Agreement.

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As of June 30, 2007, \$1,700,000 of principal of the Debentures remains outstanding. The conversion option featured in these Debentures is being accounted for as a free standing derivative financial instrument in accordance with SFAS 133 and EITF 00-19. The fair value of the conversion option amounted to \$418,391 at June 30, 2007. The amount of the unamortized discount of these Debentures, based on the original allocation of proceeds to the carrying amount of the note and the free standing conversion option, amounts to \$698,587, at June 30, 2007.

2006 6% CONVERTIBLE NOTES

On May 26, 2006, the Company entered into a placement agency agreement and term sheet for a private offering of one-year 6% convertible notes in an aggregate principal amount of up to \$6,000,000 (the "2006 6% Convertible Notes").

The Company offered the 2006 6% Convertible Notes on a "best efforts" basis only to "accredited investors" (as defined in Rule 501 (a) of Regulation D under Section 4(2) of the Securities Act of 1933, as amended) by offer letter dated May 25, 2006 (the "Offer Letter"), which sets forth the terms and conditions of the offering.

The 2006 6% Convertible Notes are payable one year after the date of funding, or earlier upon acceleration following the occurrence of an "Event of Default", as defined in the 2006 6% Convertible Notes. Interest on the 2006 6% Convertible Notes will accrue from the date of issue at 6% per annum, or 12 % per annum upon the occurrence of an Event of Default.

The principal of, and accrued interest on, the 2006 6% Convertible Notes is convertible into shares of common stock, at the option of the holders of the 2006 6% Convertible Notes, at an initial conversion price per share of \$0.15, subject to adjustment for certain issuances or events that will result in dilution (the "Fixed Conversion Price"). Since the 2006 6% Convertible Notes had not been fully converted or repurchased for 200% of their principal amount by September 30, 2006, on October 1, 2006, the conversion price became the lesser of (i) the Fixed Conversion Price and (ii) 90% of the lowest closing price (or, if no closing price is available, the average of closing bid and asked prices) of the Company's common stock for the 20 trading days immediately preceding the date on which a notice of conversion is delivered (the "Floating Conversion Price").

Purchasers of 2006 6% Convertible Notes who have not previously purchased shares of the Company's Series A Convertible Preferred Stock, par value \$0.0001 per share (the "Preferred Stock") are to receive, without additional consideration, five-year warrants to purchase a number of additional shares of common stock equal to 100% of the number of shares that the purchaser may initially acquire upon conversion of the 2006 6% Convertible Notes, at an initial exercise price of \$0.30 per share, subject to adjustment for certain issuances and events that will result in dilution.

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Purchasers of 2006 6% Convertible Notes who purchased shares of Preferred Stock, will be issued a number of additional shares of common stock upon conversion of the Preferred Stock, based upon the principal amount of 2006 6% Convertible Notes purchased relative to the total purchase price of the shares of Preferred Stock purchased, which will effectively reduce the per share conversion price of the Preferred Stock so that it is the same as the conversion price per share of the 2006 6% Convertible Notes, or to the extent purchasers have converted shares of Preferred Stock, but not sold the common stock received upon conversion, the Company will issue a number of additional shares of common stock that will provide equivalent value, in each case without additional consideration. The Company will issue warrants to purchase a number of additional shares of common stock at \$0.15 that will provide equivalent value, to those purchasers of 2006 6% Convertible Notes who have sold or otherwise disposed of shares of common stock received upon conversion of Preferred Stock. The Company also will reduce to \$0.30 the per share exercise price of warrants purchasers of the 2006 6% Convertible Notes received with their purchase of Preferred Stock, to the extent of the principal amount of 2006 6% Convertible Notes purchased relative to the total purchase price for the shares of Preferred Stock, subject to the Company's right, after the registration statement referred to below has become effective, to force the exercise of those warrants on 20 days' notice by offering to purchase those warrants for a nominal price if the closing price per share of the common stock exceeds \$0.45 for ten consecutive trading days.

The Company was obligated to file a registration statement by August 21, 2006 to register for resale the shares of common stock that purchasers of 2006 6% Convertible Notes may acquire upon conversion of the 2006 6% Convertible Notes or exercise of the warrants, as well as any additional shares of common stock which may be issued as part of the offering. Since the Company failed to file a registration statement for the resale of these shares by August 21, 2006, the Company is obligated to pay purchasers of the 2006 6% Convertible Notes liquidated damages in an amount equal to 2% of the principal amount of the 2006 6% Convertible Notes for each month, or portion of a month, for which the Company fails to timely file the registration statement or until the registration statement becomes effective, but in no event may the liquidated damages exceed 18% of the principal amount of the 2006 6% Convertible Notes. At March 31, 2007, the Company has accrued \$642,500 as estimated liquidated damages, which represent the damages which would be due with a potential delay of ten months in the filing of its registration statement.

As a condition to their purchase of the 2006 6% Convertible Notes, purchasers agreed not to sell, transfer or otherwise dispose of any securities of the Company prior to the 150th day after June 1, 2006, except that the restrictive period applicable to shares of common stock that were acquired, or may be acquired, upon conversion of shares of Preferred Stock held by the purchaser, expired on August 20, 2006 to the extent of the total purchase price paid by the purchaser for 2006 6% Convertible Notes bears in relation to the total purchase price paid for the Preferred Stock.

The Company is obligated to pay a cash fee equal to 10% of the gross proceeds from the sale of the 2006 6% Convertible Notes for purchasers obtained through the assistance of the placement agent, a portion of which may be reallocated to other registered broker-dealers participating in the offering, and reimburse the placement agent for \$15,000 of its legal expenses. The Company is obligated to issue to the placement agent, or its designee(s), at each closing, a five-year warrant to purchase such number of shares of common stock at an exercise price of \$0.15 per share equal to 10% of such number of shares of common stock into which the 2006 6% Convertible Notes sold through the placement agent at such closing are convertible. In addition, the Company has agreed to reduce to \$0.30 the per share exercise price of warrants to purchase shares of common stock issued to the placement agent previously,

as placement agent for our Preferred Stock.

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The Harbor Trust has agreed to a pledge of its 2005 Harbor Note dated December 9, 2005 issued in the name of The Harbor Trust in the principal amount of \$250,000 to secure a non-recourse obligation to increase the return to purchasers of Preferred Stock to the extent required to protect investors from a loss on their investment to the extent of such collateral, measured on the earlier of May 20, 2007 or the date on which all the 2006 6% Convertible Notes offered have been sold or otherwise disposed of, including by conversion. In consideration for the agreements made by The Harbor Trust, at each closing the Company is obligated to (i) pay The Harbor Trust a yield enhancement incentive fee equal to 10% of the aggregate gross proceeds of the 2006 6% Convertible Notes receiving the benefit of such protection (the "Yield Protected Notes"), plus (ii) issue to The Harbor Trust, for nominal consideration, five-year warrants to purchase, for the principal amount thereof, (A) 2006 6% Convertible Notes having a principal amount equal to 10% of the principal amount of the Yield Protected Notes sold in the Offering, and (B) five-year warrants to purchase a number of shares of common stock equal to 10% of the shares of common stock that purchasers of the Yield Protected Notes sold in the offering may acquire upon exercise of the warrants they received with the purchase of the Yield Protected Notes, at an exercise price of \$0.30 per share. In no event will the total yield enhancement incentive fee, plus the placement agent fee, paid by the Company exceed 10% of the gross proceeds of the offering.

From June 1, 2006 through October 19, 2006 (date of last closing under the offering), the Company sold an aggregate principal amount of \$3,569,444 of 2006 6% Convertible Notes. The Company issued five-year warrants to purchase an aggregate of 14,018,513 shares of common stock, at an initial exercise price of \$0.30 per share to purchasers of \$2,102,777 of 2006 6% Convertible Notes who had not previously purchased its Preferred Stock. The Company is obligated to issue to those purchasers of \$1,466,667 of 2006 6% Convertible Notes who had previously purchased Preferred Stock, upon the conversion of their Preferred Stock, 9,191,113 additional shares of common stock and adjust the exercise price to \$0.30 on warrants to purchase an aggregate of 293,333 shares of common stock received upon the purchase of the Preferred Stock. Pursuant to the terms of the 6% Notes Offering, the Company issued (i) warrants to purchase \$356,944 of 2006 6% Convertible Notes at an exercise price of \$356,944 and attached warrants to purchase 2,379,629 shares of common stock, and (ii) a warrant to purchase 1,401,851 shares of common stock at an exercise price of \$0.30, as yield enhancement fees.

Of the \$2,102,777 in principal purchased by those investors who had not previously purchased the Company's Preferred Stock, the Company recognized a debt discount of \$1,545,208 at date of issuance based on an allocation of the proceeds based on relative fair values of the 2006 6% Convertible Notes, the warrants and the conversion option, as determined by the Black-Scholes option pricing model. Since the Company is required to account for its derivative financial instruments as liabilities (see Note 3), the Company recorded the full fair values of the warrants and the conversion options at date of issuance of the 2006 6% Convertible Notes of \$3,161,789 and \$3,019,573, respectively, as liabilities and charged non-cash interest expense. The fair value of the warrants and conversion option was estimated at the date of issuance using the Black-Scholes option pricing model with the following assumptions: risk free interest rate: 4.7% to 5.1%; expected dividend yield: 0%; expected option life: 3 years to 5 years; and volatility: 173% to 223%. The Company marks to market these derivative financial instruments at each reporting date. At June 30, 2007, the Company valued the warrants and conversion options at \$1,324,150 and \$700,651, respectively.

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Of the \$1,466,667 in principal purchased by those investors who had previously purchased the Company's Preferred Stock, the Company recognized a debt discount of \$1,466,667 at date of issuance based on the (i) fair values of the conversion option, (ii) the incremental increase in fair value of the additional shares of common stock to be issued upon conversion of the Preferred Stock and (iii) the change in fair value of the underlying warrants associated with the Preferred Stock due to the change in exercise price, as determined by the Black-Scholes option pricing model. Since the Company is required to account for its derivative financial instruments as liabilities (see Note 3), the Company recorded the incremental fair value of the Preferred Stock warrants and the full fair value of the conversion options at date of issuance of the 2006 6% Convertible Notes of \$18,148 and \$2,026,398, respectively, as liabilities and charged the excess to non-cash interest expense. The fair value of these derivatives was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: risk free interest rate: 4.7% to 5.1%; expected dividend yield: 0%; expected option life: 3 years to 5 years; and volatility: 173% to 223%. The Company marks to market these derivative financial instruments at each reporting date. In addition, the Company charged non-cash interest expense and credited equity for the incremental increase in fair value of the additional shares of common stock issuable upon conversion of the Preferred Stock. At June 30, 2007, the Company's authorized common stock was not sufficient to accommodate the exercise of warrants or conversion privileges of outstanding convertible debts and exercisable warrants.

ADJUSTMENTS TO OUTSTANDING CONVERTIBLE SECURITIES AND OTHER RIGHTS TO PURCHASE COMMON STOCK RESULTING FROM 2006 6% CONVERTIBLE NOTES OFFERING

Pursuant to the terms of the 2006 6% Convertible Note offering, the conversion prices on certain convertible securities were adjusted to the conversion price of the 2006 6% Convertible Notes.

The Amended December 2004 Convertible Note and the 2005 Harbor Note in the principal amount of \$448,736 and \$250,000, respectively and with adjusted conversion prices of \$0.75 per share and \$0.375 per share, respectively, had their conversion prices adjusted to \$0.15 per share. As a result of this adjustment, the Company anticipates that it will issue an additional 2,937,220 and 1,063,616 shares, respectively, calculated as of June 30, 2007.

The Company evaluated the revision in the remaining Amended December 2004 Convertible Note to determine whether the reduction in the conversion price resulted in the issuance of a substantially different debt instrument. The Company determined that after giving effect to the substantial increase in the fair value of the beneficial conversion feature that resulted from reducing the conversion price, it had issued a substantially different debt instrument which resulted in a constructive extinguishment of the original debt instrument. Accordingly, the Company recorded a gain on the extinguishment of debt in the amounts of \$387,362 for the Amended December 2005 Convertible Note that was included in the statement of operations for the year ended December 31, 2006.

Since the incremental fair value of the Company's common stock which would be issued upon conversion, as determined by the Black-Scholes option pricing model, was in the aggregate greater than the principal balance of individual notes, the Company recorded an original issuance discount equal to the fair value of this beneficial conversion feature, limited to the principal balance of the notes. This debt discount is being amortized as non-cash interest expense over the remaining term of the Amended December 2004 Convertible Note. During the year ended December 31, 2006, the Company amortized an aggregate of \$448,736 of the debt discount which is included in

interest expense in the accompanying statement of operations. Assumptions relating to the estimated fair value of the beneficial conversion features are as follows: risk-free interest rate of 5.1%; expected dividend yield zero percent; expected life of 1.5 years; and current volatility of 165.4%.

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The Cornell Convertible Debentures in the principal of \$1,700,000 plus accrued interest, with a Fixed Conversion Price (as that term is defined in the Cornell Convertible Debentures) of \$0.9765, adjusted to a Fixed Conversion Price of \$0.15. In addition, the exercise price of the warrants issued to Cornell Capital, for the purchase of 1,000,000 shares of common stock at \$1.023 per share has been reduced to \$0.15 per share. As the terms of Cornell Convertible Debentures provide for a lower of Fixed Conversion Price or Floating Conversion Price (as both terms are defined in the Cornell Convertible Debentures) at conversion, the number of shares of common stock issuable upon conversion is indeterminate.

Certain options granted pursuant to our 2004 Incentive Stock Plan and certain shares of common stock issued upon exercise of those options, contain anti-dilution provisions which provide for a reduction of the exercise price if the Company sells common stock or issues convertible securities at a per share price less than their exercise price of \$0.359 (fair market value on the date of grant). As a result of the anti-dilution provision, the Company issued an additional 776,231 shares of common stock and increased the remaining unexercised option by an additional 776,230 shares of common stock issuable upon exercise to the option holders.

NOTE 9 - EQUITY TRANSACTIONS

During the six month period ended June 30, 2007, the Company issued the following equity securities.

Common Stock Issued Upon Conversion of Series A Preferred Stock

During the six-month period ended June 30, 2007, the Company issued 50,000 shares of common stock upon conversion of five shares of its Preferred Stock.

Insufficient Authorized but Unissued Shares of Common Stock

On May 9, 2006, the Board of Directors authorized an amendment to the Company's Amended and Restated Certificate of Incorporation to increase the number of authorized shares of capital stock from 120,000,000 shares to 270,000,000 shares, of which 250,000,000 shares would be designated as common stock and 20,000,000 shares would be designated as Preferred Stock. The proposed amendment has yet to be considered or approved by the stockholders. Accordingly, the Company has not satisfied its obligations in the agreements relating to those securities, and is in default of its obligations under those agreements (see note 8). As a result, the holders of those securities may accelerate payment of the Company's obligations, obtain liquidated damages under certain of those agreements and pursue other legal remedies against the Company that would have a material adverse affect on the Company's ability to remain in existence.

NOTE 10- STOCK BASED COMPENSATION

The Company, since its inception, has granted non-qualified stock options to various employees and non-employees at the discretion of the Board of Directors under its 2004 Incentive Stock Plan and its 2006 Incentive Stock Plan (the "Plans"). Both Plans have substantially the same terms. Substantially all options granted to date have exercise prices equal to the fair value of the underlying common stock at the date of grant and terms ranging from three to ten years.

Vesting periods range from fully vested at the date of grant to four years.

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The fair value of all awards is estimated at the date of grant using the Black-Scholes option pricing model. Assumptions relating to the estimated fair value of stock options that the Company granted prior to January 1, 2006 that were previously accounted for and recorded under the intrinsic value method prescribed under APB 25 are described in Note 3. Pursuant to SFAS 123R, the Company recognized expense on the statement of operations of \$70 and \$140 for the fair value of those stock options granted prior to January 1, 2006 and which vested during the three and six month periods ended June 30, 2007.

During March 2006, the Company granted stock options to acquire an aggregate of 1,514,206 shares of common stock to three consultants. The option agreements for two of the consultants contained anti-dilution protection of the exercise price and the number of shares issuable upon conversion in the event the Company issued common stock at a price less than the exercise price contained in their option. Each option was exercisable at a price of \$0.359 per share for a period of up to five years from issuance. All of these options were fully vested and non forfeitable on their date of issuance. The Company charged the estimated fair value of \$579,591 to compensation expense during the nine-month period ended September 30, 2006 with respect to these options. Assumptions relating to the estimated fair value of these stock options (as determined by the Black-Scholes option pricing model), which the Company accounted for in accordance with SFAS 123I and EITF 96-18, are as follows: risk-free interest rate of 4.7%; expected dividend yield zero percent; expected option life of 5 years; and current volatility of 129.6%.

Pursuant to the 2006 6% Convertible Note offering commencing in May 2006, the options for the two consultants who had the anti-dilution protection were adjusted for the dilutive effect of the offering. The two consultants were issued an aggregate of 776,230 additional shares of common stock of which the fair value of \$155,246 was charged to non-cash interest expense as a component of the 2006 6% Convertible Note Offering. In addition, they were granted an additional option, pursuant to the 2006 Incentive Stock Plan, to acquire an aggregate of 776,230 shares of common stock at an exercise price of \$0.15 per share, of which the fair value (as determined by the Black-Scholes option pricing model) of \$158,144 was charged to non-cash interest expense as a component of the 2006 6% Convertible Note offering. Assumptions related to the estimated fair value of the stock options at the date of adjustment, which the Company accounted for in accordance with SFAS 123R and EITF-96-18 were: risk free interest rate: 5.1%; expected dividend yield: 0%; expected option life: 5 years; and volatility: 173%. The exercise price on their remaining unexercised options was adjusted to \$0.15 per share.

During June 2006, the Company granted stock options to acquire an aggregate of 16,000 shares of common stock to three directors of the Company. Each option was exercisable at a price of \$0.21 per share for a period of up to ten years from issuance. All of these options vest over three years and were non forfeitable on their date of issuance. The fair value of these options (as determined by the Black-Scholes option pricing model) was \$3,360 and the Company amortized \$188 to compensation expense during the nine-month period ended September 30, 2006 with respect to these options. Assumptions relating to the estimated fair value of these stock options, which the Company accounted for in accordance with SFAS 123(R) and EITF 96-18 are as follows: risk-free interest rate of 5.1%; expected dividend yield zero percent; expected option life of 10 years; and current volatility of 220.3%.

During the three months ended March 31, 2007, options previously granted to certain former members of the Company's Board of Directors were forfeited. A total of 16,000 options previously granted to now terminated Board members was forfeited during the 1st quarter 2007.

No options were granted to officers or directors of the Company during the three months ended June 30, 2007.

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The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant. The Company has not paid dividends to date and does not expect to pay dividends in the foreseeable future due to its substantial accumulated deficit and limited capital resources. Accordingly, expected dividends yields are zero. Historical cancellations and forfeitures of stock options are insignificant. The Company will adjust its assumptions relating to its expectations of future vesting and terms of options at such times that additional data indicates that changes in these assumptions are necessary. Expected volatility is principally based on the historical volatility of the Company's stock.

A summary of option activity for the six-month period ended June 30, 2007 is as follows:

Options	Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2007	1,878,834	\$ 1.06	3.42	\$ -
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited or expired	16,000	4.84	7.87	-
Outstanding at June 30, 2007	1,862,834	\$ 0.53	3.52	\$ -
Exercisable at June 30, 2007	1,841,834	\$ 0.52	3.43	\$ -

As of June 30, 2007, the Company has \$2,170 of unrecognized compensation cost related to non-vested share-based compensation arrangements, which represents the fair value of stock options that the Company accounted for under APB 25 through December 31, 2005. These costs are expected to be recognized over a weighted-average period of 2.25 years.

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Item Management's Discussion and Analysis or Plan of Operation

2.

Overview

CepTor Corporation (hereinafter "CepTor" or the "Company") has been historically engaged in the research and development of therapeutic products for neuromuscular, neurodegenerative and other diseases with a focus on orphan diseases (defined as those which affect less than 200,000 people. Its two lead compounds are Myodur™, for neuromuscular disease, and Neurodur™, for neurodegenerative diseases. In January 2006, CepTor submitted an Investigational New Drug Application (IND) to the Food and Drug Administration (FDA) for Myodur™ with the hope of beginning clinical trials for this compound following approval of the IND. Since that time, the IND has remained on "clinical hold" pending resolution of certain issues raised by the FDA. Most recently, in October 2006, the Company was advised that, despite its efforts to resolve the concerns and issues previously raised by the FDA, the IND would remain on hold pending further testing and research as directed by the FDA.

Our existing investors have advised us that they were unwilling to continue to fund either the research and development costs required to fully prosecute the IND filing, or the general operating costs necessary to keep the business afloat as those research and development activities continued. Additionally, we have no assurances that with lapses of time which have now occurred whether the issues raised by the FDA in connection with our IND for Myodur™ could be successfully resolved or that an IND would ultimately win FDA approval. With no other financial resources available to us, we had no choice but to cease all efforts related to the research and development of our compounds, terminate all of our employees, and close down our corporate offices in Maryland. At present, we are maintaining our operations as a "virtual" office operated out of New York City and have one part-time employee, Howard Becker, our CEO.

The Myodur™ and Neurodur™ technologies have historically represented substantially all of the focus of the Company, and those technologies have been pledged to certain secured creditors under a credit facility entered into by the Company in late 2005. Based on the estimated realizable value of our early stage technologies, we do not believe that the liquidation of those assets would generate more than the amount of the debt which is secured by these technologies. However, rather than merely sell off the assets and terminate all operations, file a bankruptcy petition or consent to the foreclosure of the assets by the secured creditors, our efforts throughout the first and second quarters of this year were instead focused primarily on a two-part strategy whereby (i) our existing technologies would be divested from the corporation pursuant to a transaction that would allow CepTor to retain significant upside should the technologies ultimately fulfill their promise as marketable and commercially viable products, and (ii) a new technology would be acquired by the Company around which we could restructure our affairs. Any such transaction would have to have the full support of the existing secured creditors, as they have a priority position with respect to all of CepTor's current assets.

Unfortunately, the Company has been unsuccessful to date in its efforts to identify a suitable transaction for the acquisition of an alternative technology around which to reorganize its affairs. Previously reported discussions with the owners of one potential acquisition target have now ceased in their entirety, and an alternative potential transaction has yet to be identified. Though the Company will continue to seek to identify a possible transaction that will allow it to reorganize its affairs, there is a strong possibility that no suitable transaction will materialize.

Prior to the collapse of negotiations for the new technology CepTor had been pursuing, and in furtherance of the above-described two-part strategy of divesting CepTor of its existing technologies to facilitate any acquisition transaction, on March 29, 2007, CepTor executed a non-binding term sheet with its original founding scientists, Drs. Al Stracher and Leo Kesner. Had that transaction been consummated, our Myodur™ and Neurodur™ technologies would have been assigned to a private corporation controlled by them ("Newco") and the founding scientists would have

dedicated their efforts to the continued research and development activities for these products, with the initial goal of getting the FDA process back on track. CepTor was to retain a substantial minority interest in Newco, as well as a substantial gross royalty on any product sales had their efforts proven successful.

In view of CepTor's failure to date to identify a viable acquisition candidate to facilitate its reorganization, and the low likelihood of such a transaction materializing, at least in the near term, the primary justification for proceeding with the existing term sheet with the founding scientists has disappeared. As a result, that transaction remains on hold and, in the meantime, the Company is continuing its discussions with the founding scientists regarding an alternative transaction that would allow those scientists to continue to develop the technologies, whether under CepTor's auspices or through a private company in which the founding scientists have a controlling interest. However, there can be no assurance that such a transaction will be consummated or that, if consummated, it will support the continued operation of the Company. These matters raise substantial doubt as to the Company's ability to continue as a going concern.

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Even if CepTor is successful either in identifying a new technology to acquire or in consummating an alternative transaction with the founding scientists related solely to the existing technologies, a pre-condition to any such transaction will be to consensually restructure our approximately \$4 million in trade debt. Without such a consensual restructuring of the trade debt, we do not believe that we will be able to successfully close any transaction, whether it is for the acquisition of a new technology or for the continued development of our existing technologies. In that case, we would likely be left with no choice but to terminate operations or commence bankruptcy proceedings.

Given our present financial circumstances, as well as the absence of a presently identifiable acquisition transaction, there is a substantial risk that CepTor will be forced to cease operations in their entirety.

Capital Resources and Cash Requirements

The Company has had difficulty securing the necessary capital to execute its business plan and has not been able to remain current with respect to the payment terms of its operating obligations including its trade payables which aggregated approximately \$4 million at June 30, 2007. As described in note 8 to the financial statements, included in the Form 10-QSB, as Part One, Item 1, the Company is in default of substantially all of its convertible note obligations, which amount to approximately \$6 million in aggregate principal. These defaults occurred principally as a result of (i) the Company's failure to make the required payments of principal and interest under certain of these obligations (which triggered cross default provisions under the remaining note obligations), (ii) its failure to file a registration statement pursuant to the 2006 6% Convertible Notes within a specified period, (iii) its failure to file a post-effective amendment to its registration statement on Form SB-2 covering shares issuable under the Cornell Convertible Debentures within a specified period, and (iv) the failure of the Company to have sufficient authorized but unissued shares available to net share settle its Cornell Convertible Debentures and all of its derivative financial instruments.

The Company has exhausted substantially all of its capital resources, terminated substantially all of its employees and is currently unable to pursue further development of its product candidates. The primary reason for the Company's current difficulties has been its inability to date to procure approval of its IND for Myodur™. Specifically, in October 2006, the Company was informed by the FDA that its IND was to remain on hold pending the resolution of two remaining issues. Additional time is required to fully resolve the FDA issues and complete the Company's own internal research program, which the Company estimates would take an additional twelve to eighteen months to complete, and would require a substantial investment of capital. The Company lacks the funding that is necessary to resolve these issues and is currently unable to secure financing commitments for this purpose. With no other financial resources available to it, the Company had no choice but to cease all efforts related to the research and development of its compounds, terminate all of its employees, and close down its corporate offices in Maryland. At present, CepTor is maintaining its operations as a "virtual" office operated out of New York City and has one part-time employee, Howard Becker, the Company's CEO. The continuation of existence of the Company is no indicator of its ability to raise funds for its operations.

During the six months ended June 30, 2007, we funded our operations through unsecured advances of \$217,000.

Primarily as the result of recording interest expense of \$2,867,995 (including non-cash interest expense of \$2,651,801), offset by the non-cash gain associated with the decrease in the fair values of its derivative financial instruments of \$4,185,212, we recorded a net income for the three and six month periods ended June 30, 2007 of \$1,299,921 and \$936,947, respectively. Non-cash interest expense consisted primarily of the excess fair values of its derivative securities included in its financing transactions and amortization of deferred financing costs of those financing transactions. We used net cash flows in its operating activities of \$207,066 during the six-month period ended June 30, 2007. Our working capital deficiency amounted to \$12,926,712 and our development stage accumulated deficit amounted to \$45,141,127 at June 30, 2007. The Company will require substantial additional

funding to develop any newly acquired technology and fund ongoing costs of its operations.

At June 30, 2007, the Company had \$6,531,180 in principal amount of notes outstanding, of which approximately \$6 million were convertible notes and the balance represent unsecured demand notes. The December 2004 Convertible Note in the principal amount of \$448,736, was due July 3, 2006. There has not been an agreement on amended terms and no assurance that the Company will reach agreement with the note holder on amended terms. The terms of the December 2004 Convertible Note do not provide for penalties or other payments upon default, and accordingly, the Company has not accrued a penalty as of June 30, 2007. Of the remaining debt, (i) \$250,000 in principal plus accrued interest was due on December 9, 2006, (ii) \$3,569,444 in principal representing 2006 6% Convertible Notes mature during the period June 2007 through October 2007, (iii) the Cornell Convertible Debentures of \$1,700,000 mature in December 2008, and (iv) \$563,000 represent unsecured advances, from an existing investor, that accrue at an annual interest rate of between 6% and 8%. Currently, the Company is in default of substantially all of its obligations to its convertible noteholders and such noteholders currently have the right to demand immediate payment of these loans. At present, the Company does not have, and has no immediate prospect of obtaining, the available cash to repay these obligations. The note holders holding \$1,700,000 in principal have a security interest in all the assets of the Company.

If we are able to secure suitable financing we may continue the development of our technologies, explore the development of other technologies or we may acquire or merge into other businesses. If we decide to pursue any of these options, we will require substantial additional financing which we may or may not be able to obtain.

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Default of Various Obligations

The Company has been unsuccessful in its efforts to raise the necessary capital to fully execute its business plan and has not been able to remain current with respect to the payment terms of any of its operating obligations including its trade payables which aggregated approximately \$4 million at June 30, 2007. In addition, as described in Note 8, the Company is in default of substantially all of its convertible note obligations, which amount to approximately \$6,000,000 in aggregate principal amount. These defaults occurred principally as a result of (i) the Company's failure to make the required payments of principal and interest under certain of these obligations (which triggered cross default provisions under the remaining note obligations), (ii) its failure to file a registration statement pursuant to the 2006 6% Convertible Notes within a specified period, (iii) its failure to file a post-effective amendment to its registration statement on Form SB-2 covering shares issuable under the Cornell Convertible Debentures within a specified period, and (iv) its failure to have sufficient authorized but unissued shares available to settle its Convertible Debentures and all of its derivative and other financial instruments.

Due to the defaults and arrears with its noteholders and trade creditors, and the lack of resources to settle its obligations, creditors may seek to aggressively pursue remedies available to them, which could force the Company to commence bankruptcy proceedings or wind down its affairs. Such creditors may also seek to file an involuntary bankruptcy petition against the Company. Based on the status of its obligations, the Company has recorded all of its liabilities as currently due.

Research, Development and Manufacturing

Historically, our efforts and resources were directed to raising capital and moving our lead product into phase I clinical trials for Duchenne muscular dystrophy. Based on the decision by management to terminate all efforts with respect to the Company's existing products, there has been no development or manufacturing activity during the three and six months ended June 30, 2007.

Off Balance Sheet Arrangements

Currently, we do not have any off balance sheet arrangements which would require disclosure in our financial statements.

Employees

As of June 30, 2007, we had one part-time employee.

Properties

We lease our executive offices in New York, NY consisting of a single small office of approximately 180 square feet for approximately \$2,100 per month. This lease is a month-to-month lease and we believe should provide sufficient space for our administrative functions at this time.

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Item Controls and Procedures

3.

Evaluation of Our Disclosure Controls and Internal Controls

As of the end of the period covered by this Report, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Securities Exchange Act of 1934 Rule 13-d-15(e) and 15d-15(e)). Based upon that evaluation and management's assessment of the potential effects of the material weakness described below, our Chief Executive Officer concluded that as of the end of the period covered by this Report, our disclosure controls and procedures were effective to enable us to record, process, summarize and report information required to be included in our periodic SEC filings within the required time period.

Disclosure Controls and Internal Controls

Disclosure controls are procedures that are designed with the objective of ensuring that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended, such as this Report, is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls are also designed with the objective of ensuring that such information is accumulated to allow timely decisions regarding required disclosure. Internal controls are procedures which are designed with the objective of providing reasonable assurance that our transactions are properly authorized, recorded, and reported and our assets are safeguarded against unauthorized or improper use, and to permit the preparation of our financial statements in conformity with generally accepted accounting principles.

Our company is not an "accelerated filer" (as defined in the Exchange Act) and is not currently required to deliver management's report on control over our financial reporting until our fiscal year ended December 31, 2008. Nevertheless, we consider the effectiveness of our internal controls over financial reporting as part of the quarterly evaluations of our procedures. In connection therewith, we reported, for the years ended December 31, 2005 and 2006, that we identified certain matters that we believed constituted material weaknesses (as such term is defined under the Public Company Accounting Oversight Board Auditing Standard No. 2) in our internal controls over financial reporting. The first such material weakness related to our ability to ensure that the accounting for our equity-based transactions is accurate and complete and the second related to our limited segregation of duties.

With respect to the first material weakness, we previously adopted a policy of having our Chief Financial Officer review all of our agreements to ensure that we identify the applicable accounting treatments to evaluate any areas that may involve the application of highly specialized accounting principles including, but not necessarily limited to, complex equity transactions. At the present time, given our current status as a "virtual" company, we are not considering any complex equity transactions that implicate our ability to ensure proper accounting of equity transactions. If the Company succeeds in restructuring its affairs and involves itself in potentially complicated equity or other transactions that implicate accounting treatment of such transactions, we intend to put in place appropriate policies to ensure any such transactions are properly accounted for in a timely manner.

With respect to the second material weakness, which relates to our segregation of duties, we believe that, as a "virtual" company with one part-time employee, our risks of either material misstatement or misappropriation of assets is minimal. In addition, prior to the suspension of our research programs and the wind-down of our Baltimore office, substantially all of our general and administrative expenses and scientific research expenditures were reviewed and approved by employees who were knowledgeable of those matters. To date our procedures have also enabled us to comply with our financial reporting obligations within the time frames required by the SEC. Although we believe our risks with respect to this matter are minimal, we acknowledge that it would be beneficial for the Company to segregate certain procedures to a greater number of employees, once such additional employees are hired pending

development and execution of a new business plan. We believe that our limited segregation of duties still constitutes a material deficiency in our system. However, we currently have very limited financial resources and do not believe that at this time, it would be prudent for us to further constrain our liquidity by allocating resources to hiring additional employees as a corrective measure. We believe that the costs we would incur to increase our staff (solely for this purpose) exceed the potential reduction in risk, especially given our current circumstances. Our CEO is monitoring this situation to determine if these circumstances change. If the situation changes and sufficient capital is secured, it is our intention to increase staffing within our general accounting and financial functions.

As a result of our currently having only one employee who is responsible for all financial reporting, there has been a change in our internal controls over financial reporting that reflect that fact, and in fact, due to the lack of any segregation of duties due to the existence of only one employee, there is no effective internal control in the Company

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**PART II
OTHER INFORMATION**

Item Legal Proceedings

1.

In June 2007, a lawsuit was commenced against the Company and certain of its officers, directors and others in the District Court for the City and County of Denver, Colorado (*Jack J. Grynberg and Grynberg Petroleum Company v. Ceptor, Inc., et. al.*, 07-CV___). The complaint alleges fraud and breach of contract in connection with its investment of \$250,000 as part of the Company's 2005 sale of \$6 million of Series A Preferred Stock. The plaintiffs are seeking actual damages of \$244,000, together with punitive, treble and other damages. Such amount significantly exceeds 10% of the Company's current assets. As a result, an adverse decision would have a material adverse effect on the ability of the Company to continue its business and affairs.

Item Unregistered Sales of Equity Securities and Use of Proceeds

2.

None.

Item Defaults Upon Senior Securities

3.

As of the date hereof, the Company is in default of substantially all of its convertible note obligations, which amount to approximately \$6 million in aggregate principal amount. These defaults occurred principally as a result of (i) the Company's failure to make the required payments of principal and interest under certain of these obligations (which triggered cross default provisions under the remaining note obligations), (ii) its failure to file a registration statement pursuant to the 2006 6% Convertible Notes within a specified period, (iii) its failure to file a post-effective amendment to its registration statement on Form SB-2 covering shares issuable under the 2005 Convertible Debentures within a specified period, and (iv) the failure of the Company to have sufficient authorized but unissued shares available to net share settle its 2005 convertible notes and all of its derivative financial instruments.

The Company has pledged all of its assets to the holders of the 2006 6% Convertible Notes to secure its repayment obligations under those notes.

Item Submission of Matters to a Vote of Security Holders

4.

None.

Item Other Information

5.

None.

Table of Contents**FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-QSB contains forward-looking statements (as defined in Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). To the extent that any statements made in this Report contain information that is not historical, these statements are essentially forward-looking. Forward-looking statements can be identified by the use of words such as "expects," "plans" "will," "may," "anticipates," "believes," "should," "intends," "estimates," and other words of similar meaning. These statements are subject to risks and uncertainties that cannot be predicted or quantified and consequently, actual results may differ materially from those expressed or implied by such forward-looking statements. Such risks and uncertainties include, without limitation, our ability to finalize and close on a transaction for a new technology, our ability to raise capital to finance the development of any newly acquired technologies, the effectiveness, profitability and the marketability of those technologies, our ability to protect our proprietary information, general economic and business conditions, the impact of technological developments and competition, including our expectations and estimates concerning future financial performance and financing plans, adverse results of any legal proceedings, the impact of current, pending or future legislation and regulation on the healthcare industry, our ability to satisfy government and commercial customers using our technology, our ability to develop manufacturing capabilities or the inability to enter into acceptable relationships with one or more contract manufacturers for our products and key components and the ability of such contract manufacturers to manufacture products or components of an acceptable quality on a cost-effective basis, the volatility of our operating results and financial condition, our ability to attract or retain qualified senior management personnel, including sales and marketing and scientific personnel and other risks detailed from time to time in our filings with the SEC, and the risk that creditors, including convertible debt holders and secured creditors, may take aggressive collection action in respect of their past due obligations. We do not undertake any obligation to publicly update any forward-looking statements. As a result, you should not place undue reliance on these forward-looking statements.

We also use market data and industry forecasts and projections throughout this Report, which we have obtained from market research, publicly available information and industry publications. These sources generally state that the information they provide has been obtained from sources believed to be reliable, but that the accuracy and completeness of the information are not guaranteed. The forecasts and projections are based on industry surveys and the preparers' experience in the industry, and the projected amounts may not be achieved. Similarly, although we believe that the surveys and market research others have performed are reliable, we have not independently verified this information. Forecasts and other forward-looking information obtained from these sources are subject to the same qualifications and the additional uncertainties accompanying any estimates of future market size, revenue and market acceptance

Item Exhibits

6.

<u>Exhibit Number</u>	<u>Description</u>
2 .1	Certificate of Ownership and Merger of CepTor Corporation into CepTor Research and Development Company (incorporated by reference herein to Exhibit 2.1 to the Company's Current Report on Form 8-K dated January 31, 2005 (the "January 2005 8-K"))
3 .1	Amended and Restated Certificate of Incorporation, dated January 27, 2005 (incorporated herein by reference to Exhibit 3.1 to the January 2005 8-K)
3 .2	Certificate of Correction to Amended and Restated Certificate of Incorporation (incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, dated February 10, 2005)
3 .3	

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- Amended and Restated By-laws (incorporated herein by reference to Exhibit 3.2 to the January 2005 8-K)
- 4 .1 Form of Common Stock Certificate (incorporated herein by reference to Exhibit 4.1 to the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2004 (the "2004 10-KSB"))
- 4 .2 CepTor Agreement, dated March 31, 2004 (the "CepTor Agreement"), by and among William Pursley, Xechem and the Company (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, dated December 9, 2004 (the "2004 Form 8-K"))
- 4 .3 First Amendment to CepTor Agreement effective April 23, 2004, by and among William Pursley, the Company and Xechem (incorporated herein by reference to Exhibit 4.2 to the 2004 8-K)
- 4 .4 Second Amendment to CepTor Agreement, dated December 9, 2004, by and among William Pursley, the Company and Xechem (incorporated by reference to Exhibit 4.3 to the 2004 8-K)
- 4 .5 Form of Unit Warrant (incorporated by reference to Exhibit 4.4 to the Company's Registration Statement on Form SB-2 as filed with the SEC on February 11, 2005 (the "Form SB-2"))
- 4 .6 Form of Amended and Restated Convertible Promissory Note (incorporated herein by reference to Exhibit 4.7 to the 2004 10-KSB)
- 4 .7 Form of Subscription Agreement (incorporated herein by reference to Exhibit 4.6 to the Form SB-2)
- 4 .8 Securities Purchase Agreement, dated June 17, 2005 by and between the Company, Xechem and William Pursley (incorporated herein by reference to Exhibit 99.01 to the Company's Current Report on Form 8-K filed on June 20, 2005)
- 4 .9 Common Stock Purchase Agreement, dated October 7, 2005, between the Company and Fusion Capital Fund II, LLC ("Fusion") (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed October 11, 2005 (the "October 2005 8-K"))
- 4 .10 Registration Rights Agreement, dated October 7, 2005, between the Company and Fusion (incorporated herein by reference to Exhibit 4.2 to the October 2005 8-K)
- 4 .11 Common Stock Warrant with Fusion, dated October 7, 2005 (incorporated by reference herein to Exhibit 4.1 to the October 2005 8-K)

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Exhibit Number	Description
4 .12	Agreement between the Company and Brown Advisory Securities, LLC, dated May 20, 2005 (incorporated herein by reference to Exhibit 4.1 to the Company's Registration Statement on Form SB-2 as filed with the SEC on October 17, 2005 (the "October 2005 SB-2"))
4 .13	Secured Convertible Debenture, dated December 9, 2005, issued by the Company to Cornell Capital (incorporated herein by reference to Exhibit 4.1 to our Current Report on Form 8-K, filed December 15, 2005 ("December 2005 8-K"))
4 .14	Warrant issued to Cornell Capital, dated December 9, 2005 (incorporated herein by reference to Exhibit 4.2 to the December 2005 8-K)
4 .15	Form of Redemption Warrant to Cornell Capital (incorporated herein by reference to Exhibit 4.3 to the December 2005 8-K)
4 .16	\$250,000 Convertible Promissory Note, dated December 9, 2005, to Harbor Trust (incorporated herein by reference to Exhibit 4.4 to the December 2005 8-K)
4 .17	\$452,991.10 Amended Promissory Note, dated December 9, 2005, to Harbor Trust (incorporated herein by reference to Exhibit 4.5 to the December 2005 8-K)
4 .18	Secured Convertible Debenture, dated December 28, 2005, issued by the Company to Cornell Capital (incorporated herein by reference to Exhibit 4.10 to the Company's Registration Statement on Form SB-2, dated December 29, 2005 ("December 2005 SB-2"))
4 .19	Non-Qualified Option Certificate and Addendum thereto, dated March 3, 2006, to Little Gem Life Sciences Fund, LLC (incorporated herein by reference to Exhibit 4.18 to the Company's Annual Report on Form 10-KSB for the year ended December 31, 2005 ("2005 10-KSB"))
4 .20	Non-Qualified Option Certificate and Addendum thereto, dated March 3, 2006, to Peter Chung (incorporated herein by reference to Exhibit 4.19 to the 2005 10-KSB)
4 .21	Placement Agency Agreement (incorporated herein by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K filed with the SEC on June 2, 2006)
4 .22	Form of Subscription Agreement (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the SEC on June 2, 2006)
4 .23	Form of 6% Convertible Note (incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed with the SEC on June 2, 2006)
4 .24	Form of Common Stock Purchase Warrant (incorporated herein by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed with the SEC on June 2, 2006)
4 .25	Assignment Agreement, dated June 29, 2006 (incorporated herein by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed with the SEC on July 6, 2006)
4 .26	Secured Convertible Debenture with Longview Fund, LP, dated June 29, 2006 (incorporated herein by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed with the SEC on July 6, 2006)
4 .27	Secured Convertible Debenture with Longview Fund, LP, dated June 29, 2006 (incorporated herein by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed with the SEC on July 6, 2006)

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Exhibit Number	Description
4 .28	Secured Convertible Debenture with Alpha Capital, Aktiengesellschaft, dated June 29, 2006 (incorporated herein by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed with the SEC on July 6, 2006)
4 .29	Secured Convertible Debenture with Ellis International Ltd., dated June 29, 2006 (incorporated herein by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed with the SEC on July 6, 2006)
4 .30	Secured Convertible Debenture with Momona Capital, dated June 29, 2006 (incorporated herein by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed with the SEC on July 6, 2006)
4 .31	Warrant, dated June 29, 2006 (incorporated herein by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed with the SEC on July 6, 2006)
4 .32	Securities Purchase Agreement, dated August 14, 2006, by and between the Company and the signatories thereto (incorporated herein by reference to Exhibit 4.32 to the Company's Quarterly Report on Form 10-QSB for the quarterly period ended June 30, 2006 ("June 30, 2006 10-QSB"))
10 .1	Employment Agreement, dated March 31, 2004, by and between William H. Pursley and the Company (incorporated herein by reference to Exhibit 10.1 to the Form SB-2)
10 .2	Founders' Plan (incorporated herein by reference to Exhibit 10.5 to the Form SB-2)
10 .3	2004 Incentive Stock Plan (incorporated herein by reference to Exhibit 10.6 to the Form SB-2)
10 .4	Deferred Stock Plan for Non-Employee Directors under the 2004 Incentive Stock Plan (incorporated herein by reference to Exhibit 10.7 to the 2004 10-KSB)
10 .5	2006 Incentive Stock Plan (incorporated herein by reference to Exhibit 10.7 to the 2005 10-KSB)
10 .6	Sublease Agreement, dated March 4, 2004, by and between the Company and Millennium Inorganic Chemicals, Inc. (incorporated herein by reference to Exhibit 10.7 to the Form SB-2)
10 .7	Exclusive License Agreement, dated September 15, 2004, between the Company and JCR Pharmaceuticals Company, Ltd. (incorporated herein by reference to Exhibit 10.8 to the Form SB-2)
10 .8	Indemnification Agreement, dated October 6, 2005, by and between William H. Pursley and the Company (incorporated herein by reference to Exhibit 10.9 to the October 2005 SB-2)
10 .9	Securities Purchase Agreement, dated December 9, 2005, between the Company and Cornell Capital (incorporated herein by reference to Exhibit 10.1 to the December 2005 8-K)
10 .10	Side Letter, dated December 9, 2005, between the Company and Cornell Capital (incorporated herein by reference to Exhibit 10.2 to the December 2005 8-K)
10 .11	Investor Registration Rights Agreement, dated December 9, 2005, between the Company and Cornell Capital (incorporated herein by reference to Exhibit 10.3 to the December 2005 8-K)
10 .12	Security Agreement, dated December 9, 2005, between the Company and Cornell Capital (incorporated herein by reference to Exhibit 10.4 to the December 2005 8-K)
10.13	Rights Agreement, dated March 7, 2006, between the Company and American Stock Transfer & Trust Company (incorporated herein by reference to Exhibit 1 to the Company's Registration Statement on Form 8-A, dated March 8, 2006)
10.14	Manufacture and Supply Agreement entered into as of April 18, 2005 by and among Peninsula Laboratories Inc., Bachem AG, Bachem Americas and the Company (incorporated by reference herein to Exhibit 10.14 to the Company's Quarterly Report on Form 10-QSB for the quarter ended March 31, 2005)
10.15	Term Sheet, dated May 3, 2006, by and between the Company and Margie Chassman (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed May 9, 2006)
31.1*	Section 302 Certification of Principal Executive Officer and Principal Financial Officer
32.1*	Section 906 Certification of Principal Executive Officer and Principal Financial Officer

* Filed herewith.

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CEPTOR CORPORATION

Date: August 14, 2007

By:

/s/ Howard Becker

Howard Becker

Chief Executive Officer and Director

(Principal Executive Officer and

Principal Financial Officer)

