IMARX THERAPEUTICS INC
Form 10-Q
August 11, 2009

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

FORM 10-Q

þ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2009

o **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Transition Period from _____ to _____

Commission File Number 001-33043

ImaRx Therapeutics, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**86-0974730**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
12277 134th Court NE, Suite 202, Redmond, WA	**98052**
(Address of Principal Executive Offices)	**(Zip Code)**

(425) 821-5501
(Registrant s Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES o NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated Filer o	Accelerated Filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company þ

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

The number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date is as follows:

Class	Outstanding at August 10, 2009
Common Stock $0.0001 par value	**10,165,733**

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PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements.

ImaRx Therapeutics, Inc.
(A Development-Stage Company)
Balance Sheets
(in thousands, except per share data)

	June 30 2009 (Unaudited)	December 31 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 167	$ 757
Inventory subject to return		12
Assets held for sale	133	108
Prepaid expenses and other	62	144
Total current assets	362	1,021
Long-term assets:		
Property and equipment, net		51
Total assets	$ 362	$ 1,072
LIABILITIES AND STOCKHOLDERS (DEFICIT) EQUITY		
Current liabilities:		
Accounts payable	$ 203	$ 117
Accrued expenses	88	82
Deferred revenue	200	226
Other		154
Total current liabilities	491	579
Stockholders (deficit) equity:		
Common stock, $.0001 par:		
100,000,000 shares authorized, 10,165,733 shares issued and outstanding at June 30, 2008 (unaudited) and December 31, 2008	1	1
Additional paid-in capital	91,889	91,808
Accumulated deficit	(92,019)	(91,316)
Total stockholders (deficit) equity	(129)	493
Total liabilities and stockholders (deficit) equity	$ 362	$ 1,072

See accompanying notes.

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ImaRx Therapeutics, Inc.
(A Development-Stage Company)
Statements of Operations
(in thousands, except per share data)
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30		September 23, 2008 (inception) through
	2009	2008	2009	2008	June 30, 2009
Revenues:					
Product sales, net	$	$ 2,040	$ 26	$ 3,889	$ 986
Research and development		106		201	
Total revenue		2,146	26	4,090	986
Costs and expenses:					
Cost of product sales		925	13	1,759	588
Research and development	41	1,033	80	2,600	167
General and administrative	421	2,994	757	4,988	1,375
Asset impairment	18	9,978	18	9,978	18
Total cost and expenses	480	14,930	868	19,325	2,148
Operating loss	(480)	(12,784)	(842)	(15,235)	(1,162)
Interest and other income, net	46	(58)	60	36	75
Interest expense		(30)		(203)	
Gain on settlement of accounts payable and other accrued liabilities			79		266
Gain on extinguishment of debt		5,602		5,602	
Net loss	$ (434)	$ (7,270)	$ (703)	$ (9,800)	$ (821)
Net loss per share:					
Basic and diluted	$ (0.04)	$ (0.72)	$ (0.07)	$ (0.97)	
Shares used in computing net loss per share:					
Basic and diluted	10,165,733	10,087,238	10,165,733	10,067,072	

See accompanying notes.

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ImaRx Therapeutics, Inc.
(A Development-Stage Company)
Statements of Cash Flows
(in thousands)

	Six Months Ended June 30		September 23, 2008 (inception) through June 30, 2009
	2009	2008	
	(unaudited)		
Operating activities			
Net loss	$ (703)	$ (9,800)	$ (821)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	8	448	25
Stock-based compensation	80	165	236
Gain on extinguishments of debt		(5,602)	
Loss on sale of property and equipment		198	
Asset impairment	18	9,978	19
Gain on settlement of accounts payable and other accrued liabilities	(79)		(266)
Changes in operating assets and liabilities:			
Inventory		437	
Inventory subject to return	12	1,251	587
Accounts receivable		321	
Prepaid expenses and other	82	407	146
Accounts payable	87	181	(1,169)
Accrued expenses and other liabilities	(69)	(45)	(35)
Deferred revenue	(26)	(2,732)	(994)
Net cash used in operating activities	(590)	(4,793)	(2,272)
Investing activities			
Purchase of property and equipment		(11)	
Net cash used in investing activities		(11)	
Financing activities			
Payment on note payable		(6,299)	
Change in restricted cash		388	
Net cash used in financing activities		(5,911)	
Net decrease in cash and cash equivalents	(590)	(10,715)	(2,272)
Cash and cash equivalents at the beginning of the period	757	12,861	2,439
Cash and cash equivalents at the end of the period	$ 167	$ 2,146	$ 167

See accompanying notes.

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ImaRx Therapeutics, Inc.
(A Development-Stage Company)
Notes to Financial Statements
June 30, 2009
(Unaudited)

1. The Company and Significant Accounting Policies

The Company

We are a development-stage biopharmaceutical company, whose research and development efforts have focused on the development of therapies for stroke and other vascular disorders, using our proprietary microsphere technology together with ultrasound. Our lead program, SonoLysis, involves the administration of our proprietary MRX-801 microspheres and ultrasound to break up blood clots and restore blood flow to oxygen deprived tissues. We were previously engaged in the commercialization of one drug approved by the Food and Drug Administration or FDA, urokinase, but sold all rights to that product to Microbix Biosystems, Inc., or Microbix, on September 23, 2008.

In June 2008, in response to new risks and challenges facing the Company, we announced a restructuring that included a significant workforce reduction in which all of our employees other than Bradford Zakes, our president and chief executive officer, and one additional employee were terminated. We paid a retention bonus to each of the remaining employees and entered into agreements with each of them to reimburse us a portion of the retention bonus should they voluntarily leave the employ of the Company prior to certain agreed upon dates.

On June 15, 2009, we entered into an Asset Purchase Agreement with WA 32609, Inc. to sell substantially all of the assets related to our therapy programs for the treatment of ischemic stroke, as well as other vascular disorders associated with blood clots, including but not limited to our clinical-stage SonoLysis product candidate, which involves the administration of our proprietary MRX-801 microspheres. We will receive $0.5 million in cash for the assets, subject to certain potential adjustments specified in the agreement. $0.4 million of the cash consideration will be paid at closing and the remaining $0.1 million will be placed in an escrow account to satisfy certain claims by WA 32609, Inc. that may arise post-closing. The escrow account will be released and distributed to us following the expiration of an approximately six-month holdback period. The sale is subject to shareholder approval at a special meeting of the shareholders which has been called for August 31, 2009.

On June 15, 2009, we entered into the First Amendment to the Asset Purchase Agreement with Microbix, which amended the Asset Purchase Agreement (Original Agreement) dated September 22, 2008. The Amendment provides that Microbix shall not be obligated to pay us the $2.5 million bonus due under the Original Agreement on release by the FDA of certain lots of urokinase. Instead, Microbix shall pay to us a sum of $0.2 million within 90 calendar days of the date of receipt by Microbix of written authorization from the FDA for the release of the urokinase lots should such authorization be received on or before September 1, 2010.

We are continuing to seek strategic alternatives for the remaining Company assets.

Basis of Presentation

The accompanying interim consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles, consistent in all material respects with those applied in our Annual Report on Form 10-K for the year ended December 31, 2008. The financial information is unaudited, but reflects all adjustments which are, in the opinion of management, necessary to reflect a fair statement of results for the interim periods presented. Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with the Annual Report on Form 10-K for the year ended December 31, 2008.

On September 23, 2008, upon the sale of the urokinase assets to Microbix, we returned to the development-stage. We no longer have any commercialized products or licensed technologies that will provide significant revenue in the immediate future. The sale of urokinase assets did not result in discontinued operations reporting as this was not considered a reportable segment. We purchased the urokinase inventory and related assets because it provided us with a source of cash to offset the development expenses associated with our SonoLysis program as well as afforded us the advantage of establishing key contacts within the medical community that would be beneficial to our development stage programs. At the time we purchased the urokinase assets from Abbott Laboratories, there were limited manufacturing facilities that had the capabilities to manufacture additional supplies of urokinase for

commercialization. We purchased urokinase with the intention of selling the purchased inventory for cash. Due to the amount of time and resources that it would require to remanufacture a new supply of urokinase at a new manufacturing facility, it was not our intention to reproduce additional commercial supplies of inventory once the existing supplies had been sold. Since discontinued operations reporting was not appropriate, the urokinase assets were written off and we will continue to record revenue until the product at our wholesale distributors is completely sold through to a third party.

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Our ability to continue as a going concern depends on our ability to successfully close the Asset Purchase Agreement with WA 32609, Inc. for our SonoLysis program and whether Microbix is successful in securing the release of the urokinase inventory by the FDA thereby triggering the payment of additional cash proceeds to the Company. We have had recurring losses, which have resulted in an accumulated deficit of $92.0 million at June 30, 2009. These conditions, among others, raise substantial doubt about our ability to continue as a going concern. The financial statements include adjustments to reduce the value of certain assets to fair value, but do not include any other adjustments relating to the recoverability and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event we cannot obtain additional financing or execute the strategic alternatives being considered.

2. Recently Adopted Accounting Pronouncements

In May 2009, the FASB issued SFAS No. 165 (SFAS 165), *Subsequent Events*. SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. The statement sets forth (a) The period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; (b) The circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and (c) The disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This statement was adopted in the quarter ended June 30, 2009 and did not have a material impact on our financial statements.

3. Restructuring

Our board of directors authorized a restructuring that was implemented on June 11, 2008, that included a workforce reduction in which the employment of all of our employees other than Bradford Zakes, our president and chief executive officer, and one additional employee were terminated. The costs associated with these actions were $0.8 million, of which $0.5 million represented severance payments for the affected employees, all of which were paid prior to June 30, 2008. We also incurred a $0.5 million asset impairment for long-lived assets. All expenses incurred due to the restructuring, other than assets impaired, were included in the statement of operations under general and administrative in the year ended December 31, 2008.

The following table presents the activity and balances of the restructuring (in thousands):

		Facility Closing
Liability, January 1, 2009	$	154
Cash payments		(75)
Adjustments to expense		(79)
Liability, June 30, 2009	$	

4. Assets Held for Sale

In connection with the June 11, 2008 restructuring, we discontinued substantially all research and development activity. As such, we initiated a process to sell certain items of laboratory equipment that would not be required for a future strategic transaction associated with our SonoLysis program. We determined that the plan of sale criteria in SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, had been met. Accordingly, the carrying value of the laboratory equipment was adjusted to its fair value less costs to sell.

On June 15, 2009, we signed an Asset Purchase Agreement with WA 32069, Inc. to sell substantially all of the assets related to our therapy programs for the treatment of ischemic stroke as well as other vascular disorders associated with blood clots, including but not limited to our clinical-stage SonoLysis product candidate, which involves the administration of our proprietary MRX-801 microspheres. This includes all laboratory equipment and IT related equipment. We determined that the plan of sale criteria in SFAS 144 had been met. Accordingly, the carrying value of the IT related equipment was adjusted to its fair value less costs to sell and resulted in an impairment charge of

$18,000 in the period ended June 30, 2009.

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5. Stockholders Equity (Deficit)

Proposed Reverse Stock Split

At the special meeting of stockholders to be held on August 31, 2009, our stockholders will be asked to approve an amendment to our fifth amended and restated certificate of incorporation effecting a reverse stock split of the issued and outstanding shares of our common stock. It is anticipated that the reverse stock split ratio will be one share for every ten shares of our common stock outstanding. Upon the effectiveness of the amendment to the fifth amended and restated certificate of incorporation effecting the reverse stock split, or the split effective time, the issued and outstanding shares of our common stock immediately prior to the split effective time will be reclassified into a smaller number of shares such that a current stockholder will own one new share of our common stock for each ten shares of issued common stock held by that stockholder immediately prior to the split effective time.

Stock Options

We have two equity incentive plans; the 2000 Stock Plan (2000 Plan) and the 2007 Performance Incentive Plan (2007 Plan). The 2000 Plan was terminated immediately following the closing of the initial public offering on July 31, 2007. No additional grants will be issued from the 2000 Plan; however, there are grants currently outstanding under this plan. The 2007 Plan became effective July 25, 2007, the effective date of the Company s initial public offering. As of June 30, 2009, the total compensation cost related to non-vested options not yet recognized is $0.4 million, which will be charged to expense over the next 1.4 years.

A summary of activity under our stock plans is as follows:

	Options	Exercise Price Per Share	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at December 31, 2008	732,079	$ 0.63-27.50	$ 6.93	
Granted				
Exercised				
Canceled	203,083	2.10-25.00	6.55	
Outstanding at June 30, 2009 (unaudited)	528,996	$ 0.63-27.50	$ 7.08	6.92
Options exercisable at June 30, 2009	379,309	$ 0.63-27.50	$ 9.04	7.01

6. Net Loss per Share

Basic and diluted net loss attributable to common stockholders per share is calculated by dividing the net loss applicable to common stockholders by the weighted-average number of common shares outstanding during the period. Diluted net loss per common share is the same as basic net loss per common share for all periods presented. The effects of potentially dilutive securities are antidilutive in the loss periods. At June 30, 2009, there were no options and warrants outstanding that would have had a dilutive effect should the Company have had net income during the periods reported.

7. Asset Acquisition and Sale

In April 2006, we acquired from Abbott Laboratories the assets related to Abbokinase, including the remaining inventory of finished product, all regulatory and clinical documentation, validated cell lines, and intellectual property rights for a total purchase price of $20.0 million. The total purchase price was comprised of $5.0 million in cash and a $15.0 million secured promissory note. In April 2008, we entered into a satisfaction, waiver and release agreement with Abbott Laboratories under which we paid Abbott Laboratories $5.2 million in cash and upon payment of the funds, the debt obligation was deemed to be indefeasibly paid in full by us and the note was cancelled and returned to us.

On September 23, 2008, we divested our urokinase business to Microbix. Under the terms of the agreement, Microbix purchased all remaining urokinase inventory and related assets and assumed full responsibility for ongoing

commercial and regulatory activities associated with the product for an upfront payment of $2.0 million in cash and the assumption of up to $0.5 million of chargeback liabilities for commercial product in the distribution channel. If the assumed chargeback liabilities paid by Microbix are less than the $0.5 million assumed, Microbix will issue payment to us for the difference. Microbix also agreed to make an additional payment of $2.5 million upon release by the FDA of the three lots of urokinase that are currently subject to a May 2008 Approvable Letter. Microbix is presently working with the FDA to secure the release of the three lots of urokinase. On June 15, 2009, we entered into the First Amendment with Microbix. The Amendment provides that Microbix shall not be obligated to pay the $2.5 million bonus due under the Original Agreement on release by the FDA of certain lots of urokinase to us. Instead, Microbix shall pay to us a sum of $0.2 million within 90 calendar days of the date of receipt by Microbix of written authorization from the FDA for the release of the urokinase lots should such authorization be received on or before September 1, 2010. As of August 7, 2009, Microbix has not secured the release of the three lots from the FDA. There can be no assurances that Microbix will be successful in securing such release. If Microbix is unable to secure the release of the three lots we will not be entitled to the additional $0.2 million payment.

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8. Commitments and Contingencies

We do not currently have a returns reserve recorded in our financial statements for any potential product returns for expired product. There is a large amount of inventory that was sold to the wholesale distributors with expiry dates of November 2008 and December 2008. When the product was sold to Microbix on September 23, 2008, they assumed all liabilities up to $0.5 million. There is a possibility that Microbix will incur liabilities in excess of the $0.5 million. The deferred revenue balance of $0.2 million at June 30, 2009 reflects the potential liability that we may be required to pay Microbix or other third parties.

We responded to an Internal Revenue Service (IRS) inquiry regarding our calendar year 2005 payroll tax reporting. The IRS did not allow our initial response and did not initially abate the penalty that was assessed of $70,000. In the second quarter ended June 30, 2009, we appealed this position with the IRS. At this time, we are awaiting a response to our appeal. At this time, we estimate that it is probable that the IRS will accept the appeal and abate the penalty and we estimate that this issue will be resolved in the third quarter ending September 30, 2009.

We have filed our calendar year 2008 franchise tax reports with the Delaware Secretary of State. We made estimated payments toward the 2008 franchise tax throughout our 2008 fiscal year. We received a refund payment in the amount of $0.1 million on August 3, 2009. A gain will be recorded in the accompanying financial statements in the quarter ended September 30, 2009.

9. Investment in Unconsolidated Entity

On April 24, 2009, we entered into a license agreement with Reflow Biomedical, Inc, a privately-held, development-stage biotechnology company, for rights to our SonoLysis patents for ocular-related indications. Under the terms of this agreement, ImaRx is eligible to receive a 3% royalty on future product sales, annual payment for supply of MRX-801 and a one-time payment for access to ImaRx regulatory files. Additionally, we received 2% equity in Reflow Biomedical on a fully diluted basis. The investment was accounted for using the cost method and was assigned zero value.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Cautionary Statement Regarding Forward-Looking Statements

The following discussion should be read in conjunction with the accompanying unaudited Consolidated Financial Statements and related notes appearing elsewhere in this report. This Quarterly Report on Form 10-Q contains forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. We cannot guarantee the accuracy of the forward-looking statements, and you should be aware that results and events could differ materially and adversely from those contained in the forward-looking statements. You should also consider carefully the statements set forth in Item 1A of Part II of this Quarterly Report entitled Risk Factors which address these and additional factors that could cause results or events to differ materially from those set forth in the forward-looking statements.

Our Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and amendments to all such reports are available, free of charge, on our Internet website under Investors-Financial Information, as soon as reasonably practicable after we file electronically such reports with, or furnish such reports to, the SEC. Our Internet website address is http://www.imarx.com. Information on our website does not constitute a part of this Quarterly Report on Form 10-Q. As used in this quarterly report on Form 10-Q, unless the context otherwise requires, the terms we, us, our, the Company, and ImaRx refer to ImaRx Therapeutics, Inc., a Delaware corporation, and its subsidiaries.

Overview

We are a development-stage biopharmaceutical company, whose research and development efforts have focused on the development of therapies for stroke and other vascular disorders, using our proprietary microsphere technology together with ultrasound. Our lead program, SonoLysis, involves the administration of our proprietary MRX-801 microspheres and ultrasound to break up blood clots and restore blood flow to oxygen deprived tissues. We were previously engaged in the commercialization of one drug approved by the Food and Drug Administration or FDA, urokinase. Urokinase is an FDA-approved thrombolytic or clot-dissolving agent, indicated for the treatment of acute massive pulmonary embolism. We purchased the product from Abbott Laboratories and had been selling the product since 2006 until we sold all rights to that product to Microbix Biosystems, Inc., or Microbix, in the third quarter of 2008.

In June 2008, in response to new risks and challenges facing the Company, we announced a restructuring that included a significant workforce reduction in which all of our employees other than Bradford Zakes, our president and chief executive officer, and one additional employee were terminated. We paid a retention bonus to each of the remaining employees and entered into agreements with each of them to reimburse us a portion of the retention bonus should they voluntarily leave the employ of the Company prior to certain agreed upon dates.

On April 24, 2009, we entered into a license agreement with Reflow Biomedical, Inc, for rights to our SonoLysis patents for ocular-related indications. Under the terms of this agreement, ImaRx is eligible to receive a 3% royalty on future product sales, annual payment for supply of MRX-801 and a one-time payment for access to ImaRx regulatory files. Additionally, we received 2% equity in Reflow Biomedical on a fully diluted basis.

On June 15, 2009, we entered into an Asset Purchase Agreement with WA 32609, Inc. to sell substantially all of the assets related to our therapy programs for the treatment of ischemic stroke as well as other vascular disorders associated with blood clots, including but not limited to our clinical-stage SonoLysis product candidate, which involves the administration of our proprietary MRX-801 microspheres. We will receive $0.5 million in cash for the assets, subject to certain potential adjustments specified in the agreement. $0.4 million of the cash consideration will be paid at closing and the remaining $0.1 million will be placed in an escrow account to satisfy certain claims by WA 32609, Inc. that may arise post-closing. The escrow account will be released and distributed to us following the expiration of an approximately six month holdback period. The sale is subject to shareholder approval at a special meeting of the shareholders which has been called for August 31, 2009.

On June 15, 2009, we entered into the First Amendment to the Asset Purchase Agreement with Microbix, which amended the Asset Purchase Agreement (Original Agreement) dated September 22, 2008. The Amendment provides that Microbix shall not be obligated to pay us the $2.5 million bonus due under the Original Agreement on release by the FDA of certain lots of urokinase. Instead, Microbix shall pay to us a sum of $0.2 million within 90 calendar days of the date of receipt by Microbix of written authorization from the FDA for the release of the urokinase lots should

such authorization be received on or before September 1, 2010.
We are continuing to seek strategic alternatives for the remaining company assets.

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Product Sales, Research and Development Revenue

Our primary source of revenue was derived from sales of urokinase product which commenced in October 2006 following our purchase of the product from Abbott Laboratories. Future revenue will be eliminated as the product and related assets were sold to Microbix on September 23, 2008. As a result of the sale of the urokinase assets and inventory to Microbix, future revenues will no longer be recognized once the product currently held at the wholesale distributors is sold through to the end user. In addition to our commercial product sales, we also generated a limited amount of revenue by providing research services for projects funded under various government grants. We currently have no outstanding grants under which we are receiving revenue. We may apply for similar government grants in future periods.

All product sales recorded to date relate to sales of urokinase in the United States. Due to our limited returns history and the fact that customers may return expired urokinase product that is in its original, unopened cartons within 12 months past the product expiration date, we currently account for these product shipments using a deferred revenue recognition model. We do not recognize revenue upon product shipment to a wholesale distributor but rather, we defer the recognition of revenue until the right of return no longer exists or when the product is sold to the end user as is stipulated by SFAS No. 48, *Revenue Recognition When the Right of Return Exists.* We record product sales net of chargebacks, distributor fees, discounts paid to wholesale distributors, and administrative fees paid to Group Purchasing Organizations (GPOs). The allowances are based on historical information and other pertinent data.

Cost of Product Sales

Cost of product sales had been determined using a weighted-average method and includes the acquisition cost of the inventory as well as additional labeling costs we incurred to bring the product to market. Our product pricing was fixed, but had the potential to include a variable sales or cash discount depending on the nature of the sale. Our gross margins were affected by chargebacks, discounts and administrative fees paid to the wholesale distributors and GPOs. Due to the divestiture of our urokinase product, we will cease to have cost of product sales once all vials at the wholesale distributors have been sold to a hospital or other end user or have expired.

Research and Development Expenses

We classify our research and development expenses into four categories of activity, namely; research, development, clinical and regulatory. Our research and development efforts were focused primarily on product candidates from our SonoLysis program. As part of our restructuring effort announced in June 2008, we have ceased substantially all research related activities.

General and Administrative Expenses

General and administrative expenses consist primarily of personnel-related expenses and other costs and fees associated with our general corporate activities, such as sales and marketing, administrative support, business development, intellectual property protection, public reporting and corporate compliance, as well as a portion of our overhead expenses. Although these expenses will be at reduced levels, we have incurred and will continue to incur expenses in the areas of legal compliance, accounting and corporate governance as a public company.

Critical Accounting Policies and Significant Judgments and Estimates

Our management s discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosed amounts of contingent assets and liabilities and our reported revenue and expenses. Significant management judgment was previously required to make estimates in relation to inventory and intangible asset valuation, chargebacks and administrative fee accruals, clinical trial costs and costs associated with transitioning to a public reporting company. We evaluate our estimates, and judgments related to these estimates, on an ongoing basis. We base our estimates of the carrying values of assets and liabilities that are not readily apparent from other sources on historical experience and on various other factors that we believe are reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. There has been no significant change in our critical accounting policies or estimates from those policies or estimates disclosed under the heading Critical Accounting Policies and Significant Judgments and Estimates in our Annual Report on form 10-K, filed with the Securities and Exchange Commission on March 6, 2009.

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Inventory and Inventory Subject to Return

Inventory of urokinase was comprised of finished goods and is stated at the lower of cost or market value. Inventory value was initially determined as a result of the purchase price allocation from the acquisition of this product from Abbott Laboratories in 2006.

On September 23, 2008, we divested the urokinase assets and sold the entire remaining urokinase inventory to Microbix. As such, the inventory value is zero.

As of June 30, 2009, all of the vials in inventory held by our wholesale distributors were sold to a hospital or other end user or had expired. As such, inventory subject to return is zero.

Long-lived and Intangible Assets

We account for long-lived assets in accordance with the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144). SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This Statement requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by comparing the carrying amount of an asset to the expected future net cash flows generated by the asset. If it is determined that the asset may not be recoverable and if the carrying amount of an asset exceeds its estimated fair value, an impairment charge is recognized to the extent of the difference. SFAS 144 requires companies to separately report discontinued operations, including components of an entity that either have been disposed of (by sale, abandonment or in a distribution to owners) or classified as held for sale. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

On June 15, 2009, we signed an Asset Purchase Agreement with WA 32069, Inc. to sell substantially all of the assets related to our therapy programs for the treatment of ischemic stroke as well as other vascular disorders associated with blood clots, including but not limited to our clinical-stage SonoLysis product candidate, which involves the administration of our proprietary MRX-801 microspheres. This includes all laboratory equipment and IT related equipment. We determined that the plan of sale criteria in SFAS 144 had been met. Accordingly, the carrying value of the IT related equipment was adjusted to its fair value less costs to sell and resulted in an impairment charge of $18,000 in the period ended June 30, 2009.

Deferred Tax Asset Valuation Allowance

Our estimate of the valuation allowance for deferred tax assets requires us to make significant estimates and judgments about our future operating results. Our ability to realize the deferred tax assets depends on our future taxable income as well as limitations on utilization. A deferred tax asset must be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized prior to its expiration. The projections of our operating results on which the establishment of a valuation allowance are based involve significant estimates regarding future demand for our products, competitive conditions, product development efforts, approvals of regulatory agencies and product cost. We have recorded a full valuation allowance on our net deferred tax assets due to uncertainties related to our ability to utilize our deferred tax assets in the foreseeable future. These deferred tax assets primarily consist of net operating loss carry forwards and research and development tax credits. Under Section 382 of the Internal Revenue Code of 1986, as amended, substantial changes in our ownership may limit the amount of net operating loss carry-forwards that could be utilized annually in the future to offset taxable income.

Revenue Recognition

Revenue from product sales is recognized pursuant to Staff Bulletin No. 104 (SAB 104), *Revenue Recognition in Financial Statements.* Accordingly, revenue is recognized when all four of the following criteria are met:

(i) persuasive evidence that an arrangement exists; (ii) delivery of the products has occurred; (iii) the selling price is both fixed and determinable; and (iv) collectibility is reasonably assured. We apply SFAS No. 48, *Revenue Recognition When the Right of Return Exists,* which among other criteria requires that future returns can be reasonably estimated in order to recognize revenue. The amount of future returns is uncertain due to the insufficiency of returns history data. Due to the uncertainty of returns, we are accounting for these product shipments to wholesale distributors using a deferred revenue recognition model. Under this model, we do not recognize revenue upon product shipment to wholesale distributors; therefore, recognition of revenue is deferred until the product is sold by the wholesale distributor to the end user.

Our customers consisted primarily of large pharmaceutical wholesale distributors who sell directly to hospitals and other healthcare providers. Provisions for product returns and exchanges, sales discounts, chargebacks, managed care and Medicaid rebates and other adjustments are established as a reduction of product sales revenues at the time such revenues are recognized. These deductions from gross revenue are established by us as our best estimate at the time of sale adjusted to reflect known changes in the factors that impact such reserves.

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Historically, we provided research services under certain grant agreements, including federal grants from the National Institutes of Health. We recognized revenue for these research services as the services are performed. Revenue from grants was recognized over the contractual period of the related award.

Results of Operations

Three Months Ended June 30, 2009 Compared to 2008

Product Sales, Research and Development Revenue. Our total revenues decreased from $2.1 million in the second quarter of 2008 to zero in the second quarter of 2009. The decrease resulted from the elimination of urokinase channel inventory due to divesting the urokinase assets to Microbix in September 2008.

Cost of Product Sales. Cost of product sales was $0.9 million in the second quarter of 2008 compared to zero for the second quarter of 2009. The decrease in cost of product sales was due to the elimination of urokinase inventory in the channel as a result of divesting the urokinase assets to Microbix in September 2008.

Research and Development Expenses. Research and development expenses decreased from $1.0 million in the second quarter of 2008 to $41,000 in the second quarter of 2009. This decrease was principally a result of the wind down of our clinical trial and our restructuring activities in addition to the elimination of stability costs as a result of our sale of urokinase assets.

General and Administrative Expenses. General and administrative expenses decreased from $3.0 million in the second quarter of 2008 to $0.4 million in the second quarter 2009. This decrease was principally a result of the cost saving activities related to our June 2008 restructuring which reduced salaries and other costs related to maintaining a public company infrastructure.

Interest and Other Income, net. Net other expense of $0.1 million in the second quarter 2008 was related to a loss on the sale of property and equipment offset by interest earned on cash balances. Other income of $46,000 in the second quarter ended 2009 was related to a receivable due from a licensing agreement we signed with Reflow Biomedical, Inc. on April 24, 2009 in relation to providing a supply our MRX-801 microspheres.

Asset Impairment. The asset impairment in the second quarter of 2008 of $10.0 million is related to a $0.5 million impairment of laboratory equipment that has been classified as available for sale and a $9.5 million impairment related to the write-down of our urokinase assets. The asset impairment in the second quarter of 2009 of $18,000 is related to the write-down of our IT related assets to fair value as a result of the Asset Purchase Agreement signed with WA 32609 on June 15, 2009.

Gain on Settlement of Accounts Payable and Other Liabilities. In the first quarter of 2009, we settled an outstanding lease obligation which resulted in a gain of $0.1 million.

Gain on Extinguishment of Debt. Gain on extinguishment of debt in the second quarter of 2008 is related to the satisfaction, waiver and release agreement signed with Abbott Laboratories related to our note payable for the purchase of the urokinase assets.

Six Months Ended June 30, 2009 Compared to 2008

Product Sales, Research and Development Revenue. Our total revenues decreased from $4.1 million for the six month period ended June 30, 2008 to $26,000 for the same period in 2009, primarily as a result of the decline in revenue recognized on product sales as a result of an ongoing reduction in channel inventory since divesting the product to Microbix in September 2008.

Cost of Product Sales. Cost of product sales was $1.8 million for the six month period ended June 30, 2008 compared to $13,000 for the six month period ended June 30, 2009. The decrease in cost of product sales was due to the decrease in inventory in the channel and the lack of current dated inventory to replenish the channel.

Research and Development Expenses. Research and development expenses decreased from $2.6 million for the six month period ended June 30, 2008 to $0.1 million for the same period in 2009. This decrease was principally a result of the wind down of our clinical trial and our restructuring activities.

General and Administrative Expenses. General and administrative expenses decreased from $5.0 million for the six month period ended June 30, 2008 to $0.8 million for the same period in 2009. This decrease was principally a result of the cost saving activities related to our June 2008 restructuring which reduced salaries and other costs related to maintaining a public company infrastructure in addition to reduced marketing costs as a result of the sale of our urokinase assets in September 2008.

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Interest and Other Income, net. Interest and other income of $36,000 for the six month period ended June 30, 2008 was related to the interest earned on cash balances offset partially by a loss on the sale of property and equipment. Other income of $60,000 for the six month period ended June 30, 2009 is primarily related to a receivable due from a licensing agreement we signed with Reflow Biomedical, Inc. on April 24, 2009 in relation to providing a supply our MRX-801 microspheres.

Asset Impairment. The asset impairment in the six months ended June 30, 2008 of $10.0 million is related to a $0.5 million impairment of all laboratory equipment that has been classified as available for sale and a $9.5 million impairment related to the write-down of our urokinase assets. The asset impairment in the six months ended June 30, 2009 of $18,000 is related to the write-down of our IT related assets to fair value as a result of the Asset Purchase Agreement signed with WA 32609 on June 15, 2009.

Gain on Settlement of Accounts Payable and Other Liabilities. In the first quarter of 2009, we settled an outstanding lease obligation which resulted in a gain of $0.1 million.

Gain on Extinguishment of Debt. Gain on extinguishment of debt was $5.6 million for the six months ended June 30, 2008 related to the satisfaction, waiver and release agreement signed with Abbott Laboratories relate to our note payable for the purchase of the urokinase assets.

Liquidity and Capital Resources

Sources of Liquidity

We have incurred losses since our organization on October 7, 1999. At June 30, 2009, we had an accumulated deficit of $92.0 million. We have historically financed our operations principally through the public offering and private placement of shares of our common and preferred stock and convertible notes, government grants, and product sales. At June 30, 2009, we had $0.2 million in cash and cash equivalents.

In April 2006, we acquired from Abbott Laboratories the assets related to urokinase, including the remaining inventory of finished product, all regulatory and clinical documentation, validated cell lines, and intellectual property rights, including trade secrets and know-how relating to the manufacture of urokinase using the tissue culture method. The purchase price for the assets was $20.0 million, which was paid in the form of $5.0 million in cash and the issuance of a $15.0 million non-recourse promissory note with an initial maturity date of December 31, 2007, which was later extended to March 31, 2008. On April 17, 2008, we entered into a satisfaction, waiver and release agreement with Abbott Laboratories regarding payment of the note. Under the terms of the agreement, we were required to pay Abbott Laboratories $5.2 million in cash and upon payment of the funds, the debt obligation was deemed to be indefeasibly paid in full by us and the note was cancelled and returned to us.

On September 23, 2008, we divested our urokinase assets to Microbix. Through this transaction, Microbix acquired the remaining urokinase inventory and related assets and assumed full responsibility for ongoing commercial and regulatory activities associated with the product. Microbix paid to us an upfront payment of $2.0 million and assumed up to $0.5 million in chargeback and other liabilities for commercial product currently in the distribution channel. If the assumed chargeback and other liabilities paid by Microbix are less than the $0.5 million assumed, Microbix will issue payment to us for the difference. Microbix also agreed to make an additional payment of $2.5 million upon release by the FDA of the three lots of urokinase that are currently subject to a May 2008 Approvable Letter. Microbix is presently working with the FDA to secure the release of the three lots of urokinase. On June 15, 2009, we entered into the First Amendment with Microbix. The Amendment provides that Microbix shall not be obligated to pay the $2.5 million bonus due under the Original Agreement on release by the FDA of certain lots of urokinase to us. Instead, Microbix shall pay to us a sum of $0.2 million within 90 calendar days of the date of receipt by Microbix of written authorization from the FDA for the release of the urokinase lots should such authorization be received on or before September 1, 2010. As of August 7, 2009, Microbix has not secured the release of the three lots from the FDA. There can be no assurances that Microbix will be successful in securing such release. If Microbix is unable to secure the release of the three lots we will not be entitled to the additional $0.2 million payment.

Cash Flows

Net Cash Used in Operating Activities. Net cash used in operating activities in the six months ended June 30, 2008 primarily reflects the net loss and the gain on extinguishment of debt offset in part by asset impairment charges, changes in working capital and depreciation. Net cash used in operating activities in the six months ended June 30,

2009 primarily reflects the net loss, offset in part by changes in working capital.

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Net Cash Used in Investing Activities. Net cash used in investing activities was $11,000 and zero for the six months ended June 30, 2008 and 2009, respectively. Net cash used in investing activities reflects purchases of property and equipment, including manufacturing, information technology, laboratory and office equipment.

Net Cash Used in Financing Activities. Net cash used in financing activities was $5.9 million for the six months ended June 30, 2008 and zero for the same period in 2009. Net cash used in financing activities for the six months ended June 30, 2008 was attributable to the $6.3 million payment on the note payable to Abbott Laboratories offset partially by the $0.4 million change in the restricted cash balance.

Operating Capital and Capital Expenditure Requirements

Historically, our primary source of liquidity has been the public offering and private placement of shares of our common and preferred stock and convertible notes, government grants and product sales of urokinase. We do not currently have a significant source of cash.

On June 15, 2009, we signed an Asset Purchase Agreement with WA 32609, Inc. under which we agreed to sell all of our SonoLysis assets for $0.5 million in cash. The sale is subject to shareholder approval at a special meeting of the shareholders which has been called for August 31, 2009. Assuming the asset sale is approved by our stockholders, we expect the transaction to close in September 2009. As a result of the sale of all of our urokinase assets to Microbix on September 23, 2008, we have sufficient capital to fund our operating needs into the third quarter of 2009 when we anticipate the Agreement with WA 32609, Inc. to close. If the asset sale to WA 32609 does not close due to the failure of our stockholders to approve the sale or for any other reason, we will not have sufficient capital to fund operations of the Company beyond the third quarter 2009. Our operating needs include the planned costs to operate our business and the amount required to fund our working capital and capital expenditures. At the present time, we have no material commitments for capital expenditures. We continue to explore strategic alternatives for the remaining Company assets.

We cannot be sure that our existing cash and cash equivalents will be adequate, or that additional financing will be available when needed, or that, if available, such financing will be obtained on terms favorable to us or our stockholders. Failure to obtain adequate cash resources may adversely affect our ability to operate as a going concern. If we raise additional funds by issuing equity securities, or enter into a strategic transaction, substantial dilution to existing stockholders will likely result. If we raise additions funds by incurring debt obligations, the terms of the debt will likely involve significant cash payment obligations as well as covenants and specific financial ratios that may restrict our ability to operate our business.

Item 4T. Controls and Procedures.

Based on an evaluation of the effectiveness of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, due to the restructuring plan initiated in June 2008 including the significant reduction in personnel in the accounting, finance and legal function, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were ineffective as of the end of the period covered by this report.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the six-month period ended June 30, 2009, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings.

As of the date of this Quarterly Report on Form 10-Q, we were not involved in any material legal proceedings.

Item 1A. Risk Factors.

The following sets forth material changes to our Risk Factors previously disclosed in our previously filed 2008 Annual Report on Form 10-K.

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Risks Related to the Asset Sale to WA 32609

We cannot be sure if or when the Asset Sale will be completed.

The consummation of the Asset Sale is subject to the satisfaction of various conditions, many of which are beyond our control, including, but not limited to, the approval of the Asset Sale by our stockholders. We cannot guarantee that we will be able to satisfy the closing conditions set forth in the Asset Purchase Agreement. If we are unable to satisfy the closing conditions in the Asset Purchase Agreement, Buyer will not be obligated to complete the Asset Sale.

If the Asset Sale is not completed, we will attempt to secure an alternative strategic transaction as well as additional financing. We only have sufficient cash to sustain operations into the third quarter of 2009. As a result, it is unlikely that another strategic transaction can be identified and finalized or that alternative financing can be secured within this timeframe. Therefore, in the event the asset sale is not completed, we will likely engage in a wind down of operations and an associated corporate dissolution under which it is unlikely there would be funds available for distribution to our stockholders.

We will incur significant costs in connection with the Asset Sale, whether or not it is completed.

We currently expect to incur approximately $170,000 of costs related to the Asset Sale. These expenses include, but are not limited to, legal and accounting fees and expenses, employee expenses, filing fees, printing expenses, proxy solicitation and other related charges. We may also incur additional unanticipated expenses in connection with the Asset Sale. Approximately $160,000 of the costs related to the Asset Sale, such as legal, financial advisory and accounting fees, will be incurred regardless of whether the Asset Sale is completed. These expenses will decrease the remaining cash available for use in connection with any future operations in the business.

The Asset Sale will not be completed if it is not approved by our stockholders, and we may not be able to secure additional financing to continue our business.

As of June 30, 2009, we had $0.2 million of cash and cash equivalents. If the Asset Sale is not approved by our stockholders, we believe that our existing cash and cash equivalents would be sufficient to meet our operating and capital requirements into the third quarter of 2009. Assuming the Asset Sale is not consummated; unless we are able to promptly secure an alternative strategic transaction or obtain additional financing we will likely not be able to continue our operations beyond the third quarter of 2009. There are no assurances that funding will be available when we need it on terms that we find favorable, if at all. If the Asset Sale is not completed, we will attempt to secure an alternative strategic transaction as well as additional financing. It is unlikely that another strategic transaction can be identified and finalized or that alternative financing can be secured within this timeframe. Therefore, in the event the asset sale is not completed, we will likely engage in a wind down of operations and an associated corporate dissolution under which it is unlikely there would be funds available for distribution to our stockholders.

Our chief executive officer has an interest in the Asset Sale other than, or in addition to, their interests as our stockholders generally.

Our chief executive officer has an employment agreement that provides for full vesting of all unvested stock options if his employment is terminated by us without cause or due to the executive officer s resignation with good reason in connection with a change in control. The consummation of the Asset Sale will be deemed a change of control under these agreements. The employment of our chief executive officer will likely be terminated following the consummation of the Asset Sale and Reverse Split. Such terminations will likely be deemed a termination without cause in connection with a change in control. There are 208,102 shares of common stock underlying unvested stock options held by our chief executive officer that will vest as a result of the Asset Sale. The weighted-average exercise price of those stock options is $3.93 per share. In addition, as a condition to the closing of the Asset Purchase, our chief executive officer will enter into an employment agreement with Buyer.

After completion of the Asset Sale, Buyer will not be obligated to make any future royalty or other payments to us or our stockholders and our stockholders will not have any other right to participate in any value derived from the assets sold by us pursuant to the Asset Purchase Agreement.

Our agreement with Buyer does not provide for the payment of any future royalties or other amounts to us or our stockholders based on the economic value derived by Buyer or other parties from the assets sold by us pursuant to the Asset Purchase Agreement. Accordingly, our stockholders will not have the right to participate, directly or indirectly, in any such value. The amount of the economic value that may be derived from Buyer or other parties from the use of

such assets may be significant and may substantially exceed the amount of cash we receive from the Asset Sale. We and our stockholders will not have any right or recourse against Buyer or any other party with respect to any portion of the economic value that may be derived from their use of such assets.

Risks Related to the Reverse Stock Split

If a Reverse Stock Split is implemented, the market price per share of our common stock after the Reverse Stock Split may not exceed or remain in excess of the current market price.

If the Reverse Stock Split is effected, there can be no assurance that the market price of the Company s common stock after effecting such Reverse Stock Split will increase in proportion to the reduction in the number of shares of our common stock issued and outstanding before the reverse stock split. Further, the market price per share of the Company s common stock following the effective time of the Reverse Stock Split may not be maintained for any period of time following the reverse stock split. For example, based on the closing price of our common stock on July 8, 2009 of $0.02 per share, if the Reverse Stock Split was implemented at 1 for 10, there can be no assurance that the post-split market price of our common stock would be $0.23 or even that it would remain above the pre-split market price.

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Item 6. Exhibits.
Exhibit Index

Exhibit No	Exhibit Title	Filed Herewith	Incorporated by Reference			
			Form	Exhibit No.	File No.	Filing Date
10.1	Asset Purchase Agreement by and among WA 32609 and ImaRx Therapeutics, Inc.	X				
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer	X				
31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer	X				
32	Section 1350 Certification of Periodic Financial Report by the Chief Executive Officer and Principal Financial and Accounting Officer	X				

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SIGNATURES

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

IMARX THERAPEUTICS, INC.

Date: August 11, 2009

By: /s/ Bradford A. Zakes
Bradford A. Zakes,
President and Chief Executive Officer
(Principal Executive Officer and Principal Financial Officer)

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EXHIBIT INDEX

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31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer	X				
32	Section 1350 Certification of Periodic Financial Report by the Chief Executive Officer and Principal Financial and Accounting Officer	X				