

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2011

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission file number 001-32639

Manhattan Pharmaceuticals, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

36-3898269
(I.R.S. Employer Identification No.)

48 Wall Street, New York, New York 10005
(Address of principal executive offices)

(212) 582-3950
(Issuer's telephone number)

Check whether the issuer: (1) 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 issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

As of August 9, 2011 there were 2,595,866 shares of the issuer's common stock, \$.001 par value, outstanding.

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Forward-Looking Statements

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities and Exchange Act of 1934. Any statements about our expectations, beliefs, plans, objectives, assumptions or future events or performance are not historical facts and may be forward-looking. These statements are often, but not always, made through the use of words or phrases such as “anticipate,” “estimate,” “plan,” “project,” “expect,” “may,” “intend” and similar words or phrases. Accordingly, these statements involve estimates, assumptions and uncertainties that could cause actual results to differ materially from those expressed in them. These statements are therefore subject to risks and uncertainties, known and unknown, which could cause actual results and developments to differ materially from those expressed or implied in such statements. Such risks and uncertainties relate to, among other factors:

- the development of our drug candidates;
- the regulatory approval of our drug candidates;
- our use of clinical research centers and other contractors;
- our ability to find collaborative partners for research, development and commercialization of potential products;
- acceptance of our products by doctors, patients or payers;
- our ability to market any of our products;
- our history of operating losses;
- our ability to compete against other companies and research institutions;
- our ability to secure adequate protection for our intellectual property;
- our ability to attract and retain key personnel;
- availability of reimbursement for our product candidates;
- the effect of potential strategic transactions on our business;
- our ability to obtain adequate financing; and
- the volatility of our stock price.

Further, any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for us to predict which factors will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Part I – Financial Information

Item 1. Unaudited Condensed Consolidated Financial Statements

MANHATTAN PHARMACEUTICALS, INC. and SUBSIDIARY

(A Development Stage Company)

Condensed Consolidated Balance Sheets

	June 30, 2011	December 31, 2010
	(unaudited)	(See Note 1)
Assets		
Current assets:		
Cash and cash equivalents	\$ 492,508	\$ 478,668
Grant receivable	-	244,479
Debt issue costs	-	4,408
Other current assets	116,826	141,622
Total current assets	609,334	869,177
In-process research and development	17,742,110	17,742,110
Property and equipment, net	1,816	2,984
Other assets	7,750	21,370
Total assets	\$ 18,361,010	\$ 18,635,641
Liabilities and Stockholders' Deficiency		
Current Liabilities:		
Notes payable, current portion, net of discount	\$ 775,290	\$ 2,054,246
Accounts payable and accrued expenses	207,649	223,516
Interest payable, current portion, net of beneficial conversion	160,061	480,890
Derivative liability	2,639,728	534,846
Total current liabilities	3,782,728	3,293,498
Notes payable, noncurrent portion, net of discount	16,475,433	16,130,571
Interest payable, noncurrent portion	252,396	626,697
Exchange obligation	-	3,949,176
Total liabilities	20,510,557	23,999,942
Commitments and contingencies		
Stockholders' deficiency:		
Preferred stock, \$.001 par value. Authorized 1,500,000 shares; no shares issued and outstanding at June 30, 2011 and December 31, 2010	-	-
Common stock, \$.001 par value. Authorized 500,000,000 shares; 2,595,866 shares issued and outstanding at June 30, 2011 and 2,419,305 shares issued and outstanding at December 31, 2010	2,596	2,419
Contingently issuable shares	15,890	15,890
Additional paid-in capital	58,291,913	55,927,180
Deficit accumulated during the development stage	(60,459,946)	(61,309,790)
Total stockholders' deficiency	(2,149,547)	(5,364,301)
Total liabilities and stockholders' deficiency	\$ 18,361,010	\$ 18,635,641

See accompanying notes to unaudited condensed consolidated financial statements.

MANHATTAN PHARMACEUTICALS, INC. and SUBSIDIARY
(A Development Stage Company)
Condensed Consolidated Statements of Operations
(Unaudited)

	Three months ended June 30,		Six months ended June 30,		Cumulative period from August 6, 2001 (inception) to June 30, 2011
	2011	2010	2011	2010	
Revenue	\$ -	\$ -	\$ -	\$ -	\$ -
Costs and expenses:					
Research and development	90,218	50,999	445,395	68,766	29,273,399
General and administrative	232,688	474,092	443,596	985,770	20,157,993
In-process research and development charge	-	-	-	-	11,887,807
Impairment of intangible assets	-	-	-	-	1,248,230
Loss on disposition of intangible assets	-	-	-	-	1,213,878
Total operating expenses	<u>322,906</u>	<u>525,091</u>	<u>888,991</u>	<u>1,054,536</u>	<u>63,781,307</u>
Operating loss	<u>(322,906)</u>	<u>(525,091)</u>	<u>(888,991)</u>	<u>(1,054,536)</u>	<u>(63,781,307)</u>
Other (income) expense:					
Equity in losses of Hedrin JV	-	-	-	-	750,000
Gain on Nordic Settlement	-	-	(4,517,488)	-	(4,517,488)
Change in fair value of derivative liability	2,231,746	(2,808,996)	2,061,311	(1,866,735)	(1,030,672)
Interest and other income	(323)	(76,716)	(466)	(152,030)	(2,416,140)
Interest expense	428,210	351,215	717,808	587,992	2,630,256
Loss on early extinguishment of debt	-	159,070	-	159,070	159,070
Realized gain on sale of marketable equity securities	-	-	-	-	(76,032)
Total other (income) expense	<u>2,659,633</u>	<u>(2,375,427)</u>	<u>(1,738,835)</u>	<u>(1,271,703)</u>	<u>(4,501,006)</u>
Net income (loss)	<u>(2,982,539)</u>	<u>1,850,336</u>	<u>849,844</u>	<u>217,167</u>	<u>(59,280,301)</u>
Preferred stock dividends (including imputed amounts)	-	-	-	-	(1,179,645)
Net income (loss) applicable to common shares	<u>\$ (2,982,539)</u>	<u>\$ 1,850,336</u>	<u>\$ 849,844</u>	<u>\$ 217,167</u>	<u>\$ (60,459,946)</u>
Net income (loss) per common share:					
Basic and diluted	<u>\$ (1.15)</u>	<u>\$ 0.77</u>	<u>\$ 0.33</u>	<u>\$ 0.11</u>	
Weighted average shares of common stock outstanding:					
Basic and diluted	<u>2,595,866</u>	<u>2,408,594</u>	<u>2,572,454</u>	<u>2,052,719</u>	

See accompanying notes to unaudited condensed consolidated financial statements.

MANHATTAN PHARMACEUTICALS, INC. and SUBSIDIARY
(A Development Stage Company)
Condensed Consolidated Statements of Stockholders' Equity (Deficiency)
(unaudited)

	Common stock shares	Common stock amount	Additional paid- in capital	Deficit accumulated during development stage	Other	Total stockholders' equity (deficiency)
Stock issued at \$0.02 per share for subscription receivable	203,355	\$ 203	\$ 3,797	\$ -	\$ (4,000)	\$ (0)
Net loss	-	-	-	(56,796)	-	(56,796)
Balance at December 31, 2001	203,355	203	3,797	(56,796)	(4,000)	(56,796)
Proceeds from subscription receivable	-	-	-	-	4,000	4,000
Stock issued at \$0.02 per share for license rights	50,839	51	949	-	-	1,000
Stock options issued for consulting services	-	-	60,589	-	(60,589)	-
Common stock issued at \$31.50 per share, net of expenses	60,866	61	1,704,257	-	-	1,704,318
Amortization of unearned consulting services	-	-	-	-	22,721	22,721
Net loss	-	-	-	(1,037,320)	-	(1,037,320)
Balance at December 31, 2002	315,060	315	1,769,592	(1,094,116)	(37,868)	637,923
Common stock issued at \$31.50 per share, net of expenses	26,436	26	743,665	-	-	743,691
Effect of reverse acquisition	125,752	126	2,336,115	-	-	2,336,241
Payment for fraction shares for stock combination	-	-	(300)	-	-	(300)
Preferred stock issued at \$10 per share, net of expenses	-	-	9,045,176	-	1,000	9,046,176
Imputed preferred stock dividend	-	-	418,182	(418,182)	-	-
Amortization of unearned consulting services	-	-	-	-	37,868	37,868
Unrealized loss on short-term investments	-	-	-	-	(7,760)	(7,760)
Net loss	-	-	-	(5,960,907)	-	(5,960,907)
Balance at December 31, 2003	467,248	467	14,312,430	(7,473,205)	(6,760)	6,832,932
Exercise of stock options	552	1	30,099	-	-	30,100
Common stock issued at \$55.00 per share, net of expenses	67,379	67	3,361,651	-	-	3,361,718
Preferred stock dividend accrued	-	-	-	(585,799)	-	(585,799)
Preferred stock dividend paid by issuance of preferred shares	-	-	281,073	-	25	281,098
Conversion of preferred stock to common stock at \$55.00 per share	31,005	31	140	-	(171)	-
Warrants issued for consulting services	-	-	125,558	-	(120,968)	4,590
Amortization of unearned consulting services	-	-	-	-	100,800	100,800
Unrealized gain and reversal of unrealized loss on short-term investments	-	-	-	-	20,997	20,997
Net loss	-	-	-	(5,896,031)	-	(5,896,031)
Balance at December 31, 2004	566,184	566	18,110,951	(13,955,035)	(6,077)	4,150,405
Common stock issued at \$55.50 and \$57.50 per share, net of expenses	238,354	238	12,249,971	-	-	12,250,209
Common stock issued at \$55.50 in satisfaction of accounts payable	13,513	13	749,987	-	-	750,000
Exercise of stock options	648	1	32,399	-	-	32,400
Exercise of warrants	5,597	6	68,485	-	-	68,491
Preferred stock dividend accrued	-	-	-	(175,663)	-	(175,663)
Preferred stock dividend paid by issuance of preferred shares	-	-	477,736	-	42	477,778
Conversion of preferred stock to common stock at \$55.00 per share	162,937	163	733	-	(896)	-
Stock issued in connection with acquisition of Tarpan Therapeutics, Inc.	214,621	215	11,052,769	-	-	11,052,984
Reversal of unrealized gain on short-term investments	-	-	-	-	(12,250)	(12,250)
Share-based compensation	-	-	66,971	-	20,168	87,139
Net loss	-	-	-	(19,140,997)	-	(19,140,997)
Balance at December 31, 2005	1,201,854	1,202	42,810,002	(33,271,695)	987	9,540,496
Cashless exercise of warrants	547	-	-	-	-	-
Costs associated with private placement	-	-	(15,257)	-	-	(15,257)
Unrealized loss on short-term investments	-	-	-	-	(987)	(987)
Share-based compensation	-	-	1,675,499	-	-	1,675,499
Net loss	-	-	-	(9,695,123)	-	(9,695,123)
Balance at December 31, 2006	1,202,401	1,202	44,470,244	(42,966,818)	-	1,504,628

MANHATTAN PHARMACEUTICALS, INC. and SUBSIDIARY
(A Development Stage Company)
Condensed Consolidated Statements of Stockholders' Equity (Deficiency)
(unaudited)

	Common stock shares	Common stock amount	Additional paid- in capital	Deficit accumulated during development stage	Other	Total stockholders' equity (deficiency)
Common stock issued at \$42.00 and \$45.00 per share, net of expenses	203,710	\$ 204	\$ 7,851,981	\$ -	\$ -	\$ 7,852,185
Common stock issued at \$36.00 per share in satisfaction of accounts payable	556	\$ 1	19,999	-	-	20,000
Common stock issued with in-licensing agreement at \$45.00 per share	2,500	\$ 2	112,498	-	-	112,500
Common stock issued with in-licensing agreement at \$40.00 per share	3,000	\$ 3	119,997	-	-	120,000
Warrants issued for consulting services	-	-	83,670	-	-	83,670
Exercise of warrants	206	-	7,233	-	-	7,233
Cashless exercise of warrants	112	-	(6)	-	-	(6)
Share-based compensation	-	-	1,440,956	-	-	1,440,956
Net loss	-	-	-	(12,032,252)	-	(12,032,252)
Balance at December 31, 2007	1,412,485	1,412	54,106,572	(54,999,070)	-	(891,086)
Sale of warrant	-	-	150,000	-	-	150,000
Warrants issued with 12% notes	-	-	170,128	-	-	170,128
Share-based compensation	-	-	463,890	-	-	463,890
Net loss	-	-	-	(4,268,858)	-	(4,268,858)
Balance at December 31, 2008	1,412,485	1,412	54,890,590	(59,267,928)	-	(4,375,926)
Cumulative effect of a change in accounting principle	-	-	(150,000)	127,778	-	(22,222)
Balance at January 1, 2009, as adjusted	1,412,485	1,412	54,740,590	(59,140,150)	-	(4,398,148)
Warrants issued with secured 12% notes	-	-	46,125	-	-	46,125
Warrants issued to placement agent - secured 12% notes	-	-	6,919	-	-	6,919
Share-based compensation	-	-	353,438	-	-	353,438
Net loss	-	-	-	(2,793,285)	-	(2,793,285)
Balance at December 31, 2009	1,412,485	1,412	55,147,072	(61,933,435)	-	(6,784,951)
Common stock issued at \$3.50 per share, net of expenses	865,572	866	2,584,621	-	-	2,585,487
Derivative liability associated with warrants issued with common stock	-	-	(3,497,898)	-	-	(3,497,898)
Shares issued and issuable in Merger with Ariston	141,248	141	1,475,906	-	15,890	1,491,937
Share-based compensation	-	-	217,479	-	-	217,479
Net income	-	-	-	623,645	-	623,645
Balance at December 31, 2010	2,419,305	2,419	55,927,180	(61,309,790)	15,890	(5,364,301)
Share-based compensation	-	-	13,613	-	-	13,613
Shares issued on achievement of Ariston milestone	176,561	177	220,524	-	-	220,701
Derivative liability associated with warrant amendment	-	-	(115,000)	-	-	(115,000)
Beneficial conversion feature of Secured 12% Notes	-	-	2,245,596	-	-	2,245,596
Payable and interest	-	-	-	849,844	-	849,844
Net income	-	-	-	-	-	-
Balance at June 30, 2011	2,595,866	\$ 2,596	\$ 58,291,913	\$ (60,459,946)	\$ 15,890	\$ (2,149,547)

See accompanying notes to unaudited condensed consolidated financial statements.

MANHATTAN PHARMACEUTICALS, INC. and SUBSIDIARY
(A Development Stage Company)
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Six months ended June 30,		Cumulative period
	2011	2010	from August 6, 2001
			(inception) to June
			30, 2011
Cash flows from operating activities:			
Net income/(loss)	\$ 849,844	\$ 217,167	\$ (59,280,301)
Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:			
Equity in losses of Hedrin JV	-	-	750,000
Non cash gain on Nordic settlement	(4,017,488)	-	(4,017,488)
Share-based compensation	13,613	206,141	4,413,403
Amortization of OID, issue costs and beneficial conversion feature	154,547	207,612	1,091,178
Change in fair value of derivative liability	2,061,311	(1,866,735)	(1,030,670)
Loss on early extinguishment of debt	-	159,070	159,070
Shares issued in connection with in-licensing agreement	-	-	232,500
Shares issued in connection with Ariston milestone	220,701	-	220,701
Warrants issued to consultant	-	-	83,670
Amortization of intangible assets	-	-	145,162
Gain on sale of marketable equity securities	-	-	(76,032)
Depreciation	1,168	2,383	232,031
Noncash portion of in-process research and development charge	-	-	11,721,623
Loss on impairment and disposition of intangible assets	-	-	2,462,108
Other	-	-	23,917
Changes in operating assets and liabilities, net of acquisitions:			
Decrease in grant receivable	244,479	-	-
Decrease in prepaid expenses and other current assets	24,440	50,341	61,931
Decrease/(increase) in other assets	10,859	-	(25,511)
Decrease in accounts payable and accrued expenses	(15,867)	(354,993)	(138,175)
Increase in interest payable	566,233	363,376	1,445,246
Net cash provided by/(used in) operating activities	<u>113,840</u>	<u>(1,015,638)</u>	<u>(41,525,637)</u>
Cash flows from investing activities:			
Purchase of property and equipment	-	(2,844)	(242,452)
Cash acquired in connection with acquisitions	-	519,365	493,334
Net cash provided from the purchase and sale of short-term investments	-	-	435,938
Proceeds from sale of license	-	-	200,001
Net cash provided by investing activities	<u>-</u>	<u>516,521</u>	<u>886,821</u>
Cash flows from financing activities:			
Proceeds related to sale of common stock, net	-	2,163,486	28,059,748
Proceeds from sale of preferred stock, net	-	-	9,046,176
Proceeds from the Hedrin JV agreement	-	-	3,199,176
Proceeds from sale of notes payable	-	-	1,509,915
Sale of warrant	-	-	150,000
Net repayments of notes payable	(100,000)	(110,334)	(1,207,124)
Other, net	-	-	373,433
Net cash provided by/(used in) financing activities	<u>(100,000)</u>	<u>2,053,152</u>	<u>41,131,324</u>
Net increase in cash and cash equivalents	13,840	1,554,035	492,508
Cash and cash equivalents at beginning of period	478,668	17,996	-
Cash and cash equivalents at end of period	<u>\$ 492,508</u>	<u>\$ 1,572,031</u>	<u>\$ 492,508</u>

MANHATTAN PHARMACEUTICALS, INC. and SUBSIDIARY
(A Development Stage Company)
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Six months ended June 30,		Cumulative period from
	2011	2010	August 6, 2001
			(inception) to June 30,
			2011
Supplemental disclosure of cash flow information:			
Interest paid	\$ 363	\$ 15,949	\$ 67,868
Supplemental disclosure of noncash investing and financing activities:			
Issuance of common stock for acquisitions	\$ -	\$ 1,491,937	\$ 14,881,163
Conversion of debt to common stock and warrants	-	422,000	422,000
In-process research and development acquired	-	17,742,110	17,742,110
Investment in Hedrin JV	-	-	1,250,000
Beneficial conversion feature	2,245,596	-	2,245,596
Warrants issued with notes payable	-	-	250,562
Note issued to settle accrued expenses	-	-	211,900
Common stock issued in satisfaction of accounts payable	-	-	770,000
Imputed and accrued preferred stock dividend	-	-	1,179,644
Conversion of preferred stock to common stock	-	-	1,067
Preferred stock dividends paid by issuance of shares	-	-	759,134
Issuance of common stock in connection with in-licensing agreement	-	-	232,500
Marketable equity securities received in connection with sale of license	-	-	359,907
Warrants issued to consultant	-	-	83,670
Net liabilities assumed over assets acquired in business combination	-	-	(675,416)
Cashless exercise of warrants	-	-	33

See accompanying notes to unaudited condensed consolidated financial statements.

MANHATTAN PHARMACEUTICALS, INC. and SUBSIDIARY
(a Development Stage Company)
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of Manhattan Pharmaceuticals, Inc. ("Manhattan") and subsidiary (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the rules and regulations of the Securities and Exchange Commission. Accordingly, the unaudited condensed consolidated financial statements do not include all information and footnotes required by accounting principles generally accepted in the United States of America for complete annual financial statements. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, consisting of only normal recurring adjustments, considered necessary for a fair presentation. Interim operating results are not necessarily indicative of results that may be expected for the year ending December 31, 2011 or for any other interim period. These unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited financial statements as of and for the year ended December 31, 2010, which are included in the Company's Annual Report on Form 10-K for such year. The condensed balance sheet as of December 31, 2010 has been derived from the audited financial statements included in the Form 10-K for that year.

As of June 30, 2011, the Company has not generated any revenues from the development of its products and is therefore still considered to be a development stage company.

In March 2010, Manhattan entered into an Agreement and Plan of Merger (the "Merger Agreement") by and among the Company, Ariston Pharmaceuticals, Inc., a Delaware corporation ("Ariston") and Ariston Merger Corp., a Delaware corporation and wholly-owned subsidiary of the Company (the "Merger Sub"). Pursuant to the terms and conditions set forth in the Merger Agreement, the Merger Sub merged with and into Ariston (the "Merger"), with Ariston being the surviving corporation of the Merger. As a result of the Merger, Ariston became a wholly-owned subsidiary of Manhattan. The operating results of Ariston from March 8, 2010 to June 30, 2011 are included in the accompanying condensed consolidated statements of operations.

On June 20, 2011, the Company effected a 1 for 50 reverse stock split (the "Reverse Split"). All references to common shares and per share data for prior periods have been retroactively adjusted to reflect the Reverse Split as if it had occurred at the beginning of the earliest period presented.

Segment Reporting

The Company has determined that it operates in only one segment currently, which is biopharmaceutical research and development.

Financial Instruments

At December 31, 2010, the fair values of cash and cash equivalents, grant receivable, accounts payable, the convertible 5% notes payable, the ICON convertible note payable, the non-interest bearing note payable and the secured 12% notes payable approximate their carrying values. At June 30, 2011, the fair values of cash and cash equivalents, accounts payable, the convertible 5% notes payable, the ICON convertible note payable and the non-interest bearing note payable approximate their carrying values. At June 30, 2011 the carrying value of secured 12% notes payable does not approximate its fair value of \$1,725,000 because of the recognition of a beneficial conversion feature during the six months ended June 30, 2011.

MANHATTAN PHARMACEUTICALS, INC. and SUBSIDIARY
(a Development Stage Company)
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Investment in Joint Venture

The Company accounted for its investment in a joint venture using the equity method of accounting up through January 4, 2011, the date of the settlement agreement discussed in Note 6, and the cost method subsequent to January 4, 2011. Under the equity method, the Company records its pro-rata share of joint venture income or losses and adjusts the basis of its investment accordingly.

Fair Value Measurements

The Company uses a standard framework in how to value the fair value of assets and liabilities. This framework is intended to increase consistency in how fair value determinations are made under various existing accounting standards that permit, or in some cases require, estimates of fair market value. This standard also expands financial statement disclosure requirements about a company's use of fair value measurements, including the effect of such measures on earnings.

This standard defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This standard also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. That hierarchy is as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Observable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company utilizes the market approach to measure fair value of its financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The Company's financial assets (cash equivalents) as of June 30, 2011 and December 31, 2010 were held in money market funds which is a Level 1 measurable input.

The Company utilizes the Black-Scholes Option Pricing model to estimate the fair value of its derivative liabilities associated with warrant obligations and a convertible note obligation (see Note 9). The Company considers them to be Level 3 instruments. The following table shows the weighted average assumptions the Company used to develop the fair value estimates for the determination of the derivative liabilities at June 30, 2011 and 2010:

	June 30,	
	2011	2010
Fair value	\$0.1050 - \$0.1380	\$1.217 - \$1.305
Expected volatility	89%	88%
Dividend yield	-	-
Expected term (in years)	3.533 - 3.78	2.76 - 4.78
Risk-free interest rate	1.30%	1.79%

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The following table summarizes the changes in Level 3 instruments for the six month periods ended June 30, 2011 and 2010:

	June 30,	
	2011	2010
Fair value at January 1	\$ 534,846	\$ 784,777
Purchases, sales, issuances and settlements	43,571	1,557,416
Net unrealized (gain)/loss	<u>2,061,311</u>	<u>(152,030)</u>
Fair value at June 30	<u>\$2,639,728</u>	<u>\$2,190,163</u>

New Accounting Pronouncements

In April 2010, the FASB issued a new pronouncement “Revenue Recognition – Milestone Method”. This pronouncement provides guidance on the criteria that should be met for determining whether the milestone method of revenue recognition is appropriate. A vendor can recognize consideration that is contingent upon achievement of a milestone in its entirety as revenue in the period in which the milestone is achieved only if the milestone meets all criteria to be considered substantive. The following criteria must be met for a milestone to be considered substantive. The consideration earned by achieving the milestone should: 1. Be commensurate with either the level of effort required to achieve the milestone or the enhancement of the value of the item delivered as a result of a specific outcome resulting from the vendor’s performance to achieve the milestone; 2. Related solely to past performance; and 3. Be reasonably relative to all deliverables and payment terms in the arrangement. No bifurcation of an individual milestone is allowed and there can be more than one milestone in an arrangement. Accordingly, an arrangement may contain both substantive and nonsubstantive milestones. This pronouncement became effective on a prospective basis for milestones achieved in fiscal years beginning on or after June 15, 2010. The adoption of this guidance does not have a material impact on our financial statements.

2. LIQUIDITY

The Company had a net income of \$849,844 and cash flows from operating activities of \$113,840 for the six month period ended June 30, 2011. Net income for the six month period ended June 30, 2011 includes a \$4,517,488 gain on settlement with Nordic Biotech Ventures II K/S of which \$4,017,488 was non cash. The Company had a net income of \$217,167 and negative cash flows from operating activities of \$1,015,638 for the six month period ended June 30, 2010. The net loss applicable to common shares from date of inception, August 6, 2001, to June 30, 2011 amounts to \$60,459,946.

During the six months ended June 30, 2011 the Company received approximately \$0.5 million from the Nordic Settlement (see Note 6) and \$244,479 from a grant receivable, and repaid \$100,000 of principal on the ICON note payable (see Note 9). During the six months ended June 30, 2010 the Company received approximately \$2.2 million from an equity financing transaction (see Note 7) and approximately \$40,000 from Ariston Pharmaceuticals, Inc. in exchange for a note. In addition, approximately \$422,000 of notes payable and interest payable thereon was converted in this equity transaction. The Company repaid the \$40,000 received from Ariston in the first quarter of 2010 and the \$27,000 received from Ariston in the fourth quarter of 2009 together with interest thereon prior to the Merger.

Management believes that the Company will continue to incur net losses through at least June 30, 2012 and for the foreseeable future. Based on the resources of the Company available at June 30, 2011, management believes that the Company has sufficient capital to fund its operations through the end of 2011. Management believes that the Company will need additional equity or debt financing or generate revenues through licensing of its products or entering into strategic alliances to be able to sustain its operations into 2012. Furthermore, the Company will need additional financing thereafter to complete development and commercialization of its products. There can be no assurances that we can successfully complete development and commercialization of our products. In addition, \$250,000 of debt matures in November 2011 and \$1,725,000 principal amount of debt plus interest thereon matures in December 2011. The Company intends to convert the \$1,725,000 plus interest thereon onto equity.

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The Company's continued operation will depend on its ability to raise additional funds through various potential sources such as equity and debt financing, collaborative agreements, strategic alliances and its ability to realize the full potential of its technology in development. Additional funds may not become available on acceptable terms, and there can be no assurance that any additional funding that the Company does obtain will be sufficient to meet the Company's needs in the long-term.

These matters raise substantial doubt about the Company's ability to continue as a going concern. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

3. REVERSE STOCK SPLIT

The Company implemented a 1-for-50 reverse stock split of its common stock, \$0.001 par value per share on June 20, 2011 (the "Reverse Split"). The split-adjusted shares of the Company's Common Stock began trading on the OTCBB on July 14, 2011 under the symbol "MHAND," with a "D" added for 20 trading days to signify that the reverse stock split has occurred. A new CUSIP number has been assigned to the Company's Common Stock as a result of the reverse split.

The reverse Stock Split did not change the par value of the Company's Common Stock, which remains at \$0.001 per share, or the number of shares of common stock the Company is authorized to issue, which remains at 500,000,000 shares. At the Company's Annual Meeting of Stockholders held on May 20, 2011, the Company's stockholders approved a proposal authorizing the Company's Board of Directors (the "Board"), at its discretion, to amend the Company's Amended and Restated Certificate of Incorporation, as amended (the "Certificate of Incorporation"), to effect a reverse stock split of the Company's issued and outstanding shares of common stock, par value \$0.001 per share, within the range of 1-for-25 and 1-for-50, inclusive, without further approval or authorization of the Company's stockholders if the Board determines in the future that such a reverse stock split is in the best interests of the stockholders. This 1-for-50 reverse stock split was approved by the Company's Board of Director pursuant to such stockholder authorization.

Details of the Reverse Split:

- At June 20, 2011, immediately and without further action by the Company's stockholders, every fifty (50) shares of the Company's pre-split Common Stock, par value \$0.001 per share, was automatically converted into one (1) share of post-split Common Stock, par value \$0.001 per share. Accordingly, the Company's approximately 129.8 million pre-split shares of common stock outstanding will be combined into approximately 2.6 million post-split shares outstanding. The reverse stock split affects all issued and outstanding shares of the Company's Common Stock immediately prior to June 20, 2011. In addition, proportional adjustments will be made to the Company's equity awards, outstanding warrants and convertible notes.
- Continental Stock Transfer and Trust Company, Manhattan's transfer agent, will act as exchange agent for the exchange. Stockholders will receive forms and notices to exchange their existing shares for new shares from the exchange agent or their broker. No fractional shares will be issued. Stockholders who otherwise would be entitled to receive fractional shares because they hold a number of shares not evenly divisible by 50, will automatically receive one whole share of Common Stock in lieu of the fractional share.

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As a result of the Reverse Split the secured 12% notes (see Note 9) and interest thereon are now convertible into common stock at \$0.50 (\$0.01 on a pre-Reverse Split basis). This triggered the anti-dilution rights of certain warrant holders. All share amounts are reflected in these financial statements on a post Reverse Split basis and reflect the anti-dilution rights. The following table illustrates the effects of the Reverse Split and the anti-dilution rights.

	As of June 30, 2011, pre- Reverse Split Shares	Anti-dilution Effect Shares	Reverse Split Effect Shares	As of June 30, 2011, post- Reverse Split Shares
Shares outstanding	129,793,289		(127,197,423)	2,595,866
Shares issuable:				
Warrants:				
With antidilution rights	129,911,363	963,038,387	(1,071,090,755)	21,858,995
Without antidilution rights	12,989,189		(12,729,405)	259,784
Total warrants	<u>142,900,552</u>	<u>963,038,387</u>	<u>(1,083,820,160)</u>	<u>22,118,779</u>
Options	11,564,936		(11,333,637)	231,299
Ariston milestone shares	15,890,452		(15,572,643)	317,809
Convertible debt	<u>278,846,053</u>		<u>(273,269,131)</u>	<u>5,576,921</u>
Total shares issued and issuable	<u>578,995,282</u>	<u>963,038,387</u>	<u>(1,511,192,994)</u>	<u>30,840,674</u>

4. COMPUTATION OF NET INCOME (LOSS) PER COMMON SHARE

Basic net income (loss) per common share is calculated by dividing net income (loss) applicable to common shares by the weighted-average number of common shares outstanding for the period. Diluted net income (loss) per common share is the same as basic net income (loss) per common share for the three and six month periods ended June 30, 2011 and 2010, since potentially dilutive securities would have an anti-dilutive effect either because such potentially dilutive securities were out of the money and the Company realized net income in the period or because the Company incurred a net loss in the period. The amounts of potentially dilutive securities excluded from the calculation were 27,926,999 and 4,278,376 shares at June 30, 2011 and 2010, respectively.

5. SHARE-BASED COMPENSATION

The Company has stockholder-approved stock incentive plans for employees, directors, officers and consultants. Prior to January 1, 2006, the Company accounted for the employee, director and officer plans using the intrinsic value method. On January 1, 2006, the Company adopted the share-based payment method for employee options using the modified prospective transition method.

The Company recognizes compensation expense related to stock option grants on a straight-line basis over the vesting period. The Company recognized share-based compensation cost of \$13,613 and \$206,141 for the six months ended June 30, 2011 and 2010 respectively. The Company did not capitalize any share-based compensation cost.

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Options granted to consultants and other non-employees are recorded at fair value at the date of grant and subsequently adjusted to fair value at the end of each reporting period until such options vest, and the fair value of the options, as adjusted, is amortized to consulting expense over the related vesting period. As a result of adjusting consultant and other non-employee options to fair value, the Company recognized share-based compensation cost of \$0 and \$74, respectively, for the three and six month periods ended June 30, 2011 and 2010. The Company has allocated share-based compensation costs to general and administrative and research and development expenses as follows:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2011	2010	2011	2010
General and administrative expense:				
Share-based employee compensation cost	\$ 5,537	\$ 15,434	\$ 13,613	\$ 206,067
Share-based consultant and non-employee cost	-	(17)	-	7
Total general and administrative expense	<u>5,537</u>	<u>15,417</u>	<u>13,613</u>	<u>206,074</u>
Research and development expense:				
Share-based employee compensation cost	-	-	-	-
Share-based consultant and non-employee cost	-	(157)	-	67
Total research and development expense	<u>-</u>	<u>(157)</u>	<u>-</u>	<u>67</u>
Total share-based cost	<u>\$ 5,537</u>	<u>\$ 15,260</u>	<u>\$ 13,613</u>	<u>\$ 206,141</u>

To compute compensation charges in 2011 and 2010 the Company estimated the fair value of each option award on the date of grant using the Black-Scholes model. The Company based the expected volatility assumption on a volatility index of peer companies as the Company did not have a sufficient number of years of historical volatility of its common stock. The expected term of options granted represents the period of time that options are expected to be outstanding. The Company estimated the expected term of stock options by the simplified method. The expected forfeiture rates are based on the historical employee forfeiture experiences. To determine the risk-free interest rate, the Company utilized the U.S. Treasury yield curve in effect at the time of grant with a term consistent with the expected term of the Company's awards. The Company has not declared a dividend on its common stock since its inception and has no intentions of declaring a dividend in the foreseeable future and therefore used a dividend yield of zero.

The following table shows the weighted average assumptions the Company used to develop the fair value estimates for the stock options granted in the six month period ended June 30, 2010 (there were no options granted in the six month period ended June 30, 2011):

	Six months ended June 30,	
	2011	2010
Expected volatility	-	88%
Dividend yield	-	-
Expected term (in years)	-	5.7
Risk-free interest rate	-	2.46%

The Company has shareholder-approved incentive stock option plans for employees under which it has granted non-qualified and incentive stock options. In December 2003, the Company established the 2003 Stock Option Plan (the "2003 Plan"), which provided for the granting of up to 108,000 options to officers, directors, employees and consultants for the purchase of stock. Subsequently, the Company increased the number of shares of common stock reserved for issuance under the 2003 Plan by 192,000. At June 30, 2011, 300,000 shares were authorized for issuance. The options have a maximum term of 10 years and vest over a period determined by the Company's Board of Directors (generally 3 years) and are issued at an exercise price equal to or greater than the fair market value of the shares at the date of grant. The 2003 Plan expires on December 10, 2013 or when all options have been granted, whichever is sooner. At March 31, 2011 options to purchase 208,754 shares were outstanding, 556 shares of common stock were issued and there were 90,690 shares reserved for future grants under the 2003 Plan.

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In July 1995, the Company established the 1995 Stock Option Plan (the "1995 Plan"), which provided for the granting of options to purchase up to 2,600 shares of the Company's common stock to officers, directors, employees and consultants. The 1995 Plan was amended several times to increase the number of shares reserved for stock option grants. In June 2005, the 1995 Plan expired and no further options can be granted. At June 30, 2011 options to purchase 22,545 shares were outstanding and no shares were reserved for future stock option grants under the 1995 Plan.

A summary of the status of the Company's stock options as of June 30, 2011 and changes during the period then ended is presented below:

	Shares	Weighted average exercise price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding at December 31, 2010	231,499	\$ 24.35	6.97	
Granted	-			
Exercised	-			
Cancelled	(200)	\$ 14.00		
Outstanding at June 30, 2011	<u>231,299</u>	<u>\$ 24.37</u>	<u>5.69</u>	<u>\$ -</u>
Exercisable at June 30, 2011	<u>210,299</u>	<u>\$ 26.46</u>	<u>5.11</u>	<u>\$ -</u>
Vested and expected to vest at June 30, 2011	<u>228,939</u>	<u>\$ 24.59</u>	<u>5.40</u>	<u>\$ -</u>

As of June 30, 2011, the total compensation cost related to nonvested option awards not yet recognized is \$42,503. The weighted average period over which it is expected to be recognized is approximately 1.68 years.

6. JOINT VENTURE

In February 2008, the Company and Nordic Biotech Advisors ApS through its investment fund Nordic Biotech Venture Fund II K/S ("Nordic") entered into a joint venture agreement (the "Hedrin JV Agreement") to develop and commercialize the Company's North American rights (under license) to its Hedrin product.

Pursuant to the Hedrin JV Agreement, Nordic formed a new Danish limited partnership, H Pharmaceuticals K/S, (the "Hedrin JV") and provided it with \$5.5 million funding in several tranches through January of 2010 and the Company assigned and transferred its North American rights in Hedrin to the Hedrin JV in return for a \$3.5 million cash payment from the Hedrin JV, paid in several tranches, and equity in the Hedrin JV representing 47.62% of the nominal equity interests in the Hedrin JV. Through January 2010 the Company recognized an investment in the Hedrin JV of \$0.75 million and an exchange obligation of \$3.95 million. The exchange obligation represents the Company's obligation to Nordic to issue the Company's common stock in exchange for all or a portion of Nordic's equity interest in the Hedrin JV upon the exercise by Nordic of the put issued to Nordic in the Hedrin JV Agreement transaction. The put is described below.

Nordic had an option to put all or a portion of its equity interest in the Hedrin JV to the Company in exchange for the Company's common stock (the "Nordic Put"). The Company had an option to, under certain conditions, call all or a portion of Nordic's equity interest in the Hedrin JV in exchange for the Company's common stock (the "Nordic Call"). The Nordic Put and the Nordic Call terminated upon the execution, on January 4, 2011, of a settlement and release agreement between Nordic and the Company. The settlement and release agreement is discussed below.

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Nordic paid the Company a non-refundable fee of \$150,000 in February 2008 for the right to receive a warrant covering shares of the Company's common stock. The warrant (the "Nordic Warrant") was issued in 2008. The Nordic Warrant terminated upon the execution, on January 4, 2011, of a settlement and release agreement between Nordic and the Company. The settlement and release agreement is discussed below.

The Hedrin JV is responsible for the development and commercialization of Hedrin for the North American market and all associated costs including clinical trials, regulatory costs, patent costs, and future milestone payments owed to Thornton & Ross, Ltd., the licensor of Hedrin.

The Hedrin JV engaged the Company to provide management services to the Hedrin JV in exchange for a management fee. For the six months ended June, 2011 and 2010, the Company has recognized \$0 and \$150,000, respectively, of management fees earned from the Hedrin JV which is included in the Company's consolidated statements of operations as a component of interest and other income. The management services agreement terminated upon the execution, on January 4, 2011, of a settlement and release agreement between Nordic and the Company. The settlement and release agreement is discussed below.

As previously reported, the Company and Nordic have had various disputes relating to the Hedrin JV, to the Nordic Put and the Nordic Warrant. On January 4, 2011 the Company entered into a settlement and release agreement (the "Nordic Settlement") with Nordic and the Hedrin JV that resolves all disputes between and among the Company, Nordic and the Hedrin JV.

The principal terms of the Nordic Settlement are:

- The Nordic Put has been terminated. The Company believed the Nordic Put permitted Nordic to become the owner, upon exercise of the Nordic Put, of 1,428,571 shares of the Company's common stock. Nordic asserted that the Nordic Put would have permitted Nordic to become the owner of 3,666,666 shares of the Company's common stock.
- The Nordic Warrant has been terminated. The Company believed the Nordic Warrant covered 285,714 shares of the Company's common stock. Nordic asserted that the Nordic Warrant covered 666,666 shares of the Company's common stock.
- Nordic was required to make an additional, non-dilutive capital contribution to the Hedrin JV of \$1,500,000, which includes \$300,000 contributed to the Hedrin JV by Nordic on December 15, 2010.
- The Hedrin JV has paid to the Company a settlement amount of \$500,000, less any "Excess Payment" (defined below). An "Excess Payment" is the amount by which Nordic's and the Hedrin JV's reasonable out-of-pocket legal and other costs incurred with respect to the Settlement and Release Agreement exceed \$70,000. To date there have been no Excess Payments.
- Our equity interest in the Hedrin JV was reduced to 15%, and further reductions in our equity interest are possible if and when Nordic makes additional capital contributions to the Hedrin JV. In no event shall the capital contributions by Nordic reduce our ownership in the Hedrin JV below 5%.
- The Hedrin JV has paid \$75,000 to the Company under the Services Agreement, dated February 21, 2008, and that Services Agreement is terminated as of December 31, 2010.
- The Hedrin JV Agreement, dated January 31, 2008, as amended on February 18, 2008, and as further amended by an Omnibus Amendment on June 9, 2008, between the Company and Nordic; the Shareholders' Agreement, dated February 21, 2008, as amended by an Omnibus Amendment on June 9, 2008, with respect to the Hedrin JV, and the Registration Rights Agreement, dated February 25, 2009, are terminated.

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The Company recognized a gain on the Nordic Settlement of approximately \$4.5 million during the six months ended June 30, 2011. The components of the gain on the Nordic Settlement are as follows:

	<u>Total</u>	<u>Cash portion</u>	<u>Non cash portion</u>
Exchange obligation, termination of the Nordic Put	\$ 3,949,176	\$ -	\$ 3,949,176
Termination of the Nordic Warrant	71,429	-	71,429
Payment of settlement amount	500,000	500,000	-
Other	(3,117)	-	(3,117)
Totals	<u>\$ 4,517,488</u>	<u>\$ 500,000</u>	<u>\$ 4,017,488</u>

On April 19, 2011 H Pharmaceuticals K/S (the "Hedrin JV"), of which the Company is a 15% limited partner, filed a demand for arbitration against Thornton & Ross, LTD. ("T&R") with respect to alleged breaches by T&R of an Exclusive License Agreement (the "Hedrin License") dated June 28, 2007, which was originally entered into between the Company and T&R, and which the Company assigned in 2008 to the Hedrin JV, with T&R's consent. The Hedrin JV is seeking damages from T&R in the amount of approximately \$7,000,000. The Company was not a party to the initial arbitration demand.

On May 20, 2011 T&R filed an answer to the arbitration demand in which T&R asserted counterclaims against the Hedrin JV for alleged breaches by the Hedrin JV of the Hedrin License and for declaratory relief that the Hedrin License was properly terminated by T&R. In addition, T&R has impleaded an individual (who is not associated with the Company), Nordic Biotech Venture Fund II K/S (an investment fund) and the Company, demanding arbitration against them based on alleged breaches of the Hedrin License and other related claims. T&R is seeking damages of approximately \$20,000,000.

The Company has not yet responded to the arbitration demand against it, but believes that T&R's claims against the Company are without merit.

7. 2010 EQUITY FINANCING

On March 2, 2010, the Company raised aggregate gross proceeds of approximately \$2,547,500 pursuant to a private placement of its securities (the "2010 Equity Financing"). The Company entered into subscription agreements (the "Subscription Agreements") with seventy-seven accredited investors (the "Investors") pursuant to which the Company sold an aggregate of 101.9 Units (as defined herein) for a purchase price of \$25,000 per Unit. Pursuant to the Subscription Agreements, the Company issued to each Investor units (the "Units") consisting of (i) 7,143 shares of common stock, \$0.001 par value per share (the "Common Stock" or "Shares") of the Company and (ii) 10,714 warrants (each a "Warrant" and collectively the "Warrants"), each of which will entitle the holder to purchase one additional share of Common Stock for a period of five years (each a "Warrant Share" and collectively the "Warrant Shares") at an exercise price of \$0.08 per share. Because the Warrant Shares are convertible into shares of the Company, subject to adjustment, the conversion feature is subject to Derivative Liability accounting (see Note 10).

National Securities Corporation ("National") was the placement agent for the 2010 Equity Financing transaction. In connection with the issuance of the Securities, the Company issued warrants to purchase an aggregate of 72,786 shares of Common Stock at an exercise price of \$4.00 per share, subject to adjustment, to the placement agent and certain of its designees. Because the warrant is convertible into shares of the Company, subject to adjustment, the warrants are subject to Derivative Liability accounting (see Note 10). The warrants expire on March 2, 2015.

All of the Investors represented that they were "accredited investors," as that term is defined in Rule 501(a) of Regulation D under the Securities Act, and the sale of the Units was made in reliance on exemptions provided by Regulation D and Section 4(2) of the Securities Act of 1933, as amended.

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In connection with the closing of the private placement, the Company, the placement agent acting in connection with the private placement (the "Placement Agent") and the Investors entered into a Registration Rights Agreement, dated as of March 2, 2010, and the Company agreed to, and did, file a registration statement to register the resale of the Shares, within 60 days of the final closing date and the registration statement was declared effective within the time limits of the Registration Rights Agreement.

The Company received net proceeds of approximately \$2,100,000 after payment of an aggregate of approximately \$300,000 of commissions and expense allowance to the Placement Agent, and approximately \$100,000 of other offering and related costs in connection with the private placement.

The Company did not use any form of advertising or general solicitation in connection with the sale of the Units. The Shares, the Warrants and the Warrant Shares are non-transferable in the absence of an effective registration statement under the Act, or an available exemption therefrom, and all certificates are imprinted with a restrictive legend to that effect.

On April 8, 2010, the Company completed the final closing of the 2010 Equity Financing. In connection with the final closing, the Company sold an aggregate of 2.4 additional Units and received net proceeds of approximately \$51,700 after payment of an aggregate of \$8,300 of commissions and expense allowance to placement agent. In connection with the final closing, the Company also issued a warrant to purchase 257 shares of Common Stock at an exercise price of \$4.00 per share to the placement agent as additional compensation for its services.

In addition, on April 8, 2010, the holder of the Convertible 12% Note (see Note 8) with a stated value of \$400,000 and \$22,000 of accrued interest, exercised its option to convert its Debenture (including all accrued interest thereon) into 16.88 Units. The conversion price was equal to the per Unit purchase price paid by the Investors in the private placement.

The Company issued a total of 137,714 shares of common stock and warrants to purchase 206,571 shares of common stock at an exercise price of \$4.00 per share to the investors in the final closing of the 2010 Equity Financing, including the conversion of the 12% Convertible Note.

8. ARISTON MERGER

On March 8, 2010, the Company entered into the Merger Agreement by and among the Company, Ariston and Merger Sub. Pursuant to the terms and conditions set forth in the Merger Agreement, on March 8, 2010, the Merger Sub merged with and into Ariston, with Ariston being the surviving corporation of the Merger. As a result of the Merger, Ariston became a wholly-owned subsidiary of the Company.

Under the terms of the Merger Agreement, the consideration payable by Manhattan to the stockholders and note holders of Ariston consists of the issuance of 1,412,488 shares of Manhattan's common stock, par value \$0.001 per share, ("Common Stock") at Closing (as defined in the Merger Agreement) plus the right to receive up to an additional 494,370 shares of Common Stock (the "Milestone Shares") upon the achievement of certain product-related milestones described below. In addition, Manhattan has reserved 772,624 shares of its Common Stock for possible future issuance in connection with the conversion of \$15.45 million of outstanding Ariston convertible promissory notes. The noteholders will not have any recourse to Manhattan for repayment of the notes (their sole recourse being to Ariston), but the noteholders will have the right to convert the notes into shares of the Manhattan's Common Stock at the rate of \$20.00 per share. Further, Manhattan has reserved 100,000 shares of its Common Stock for possible future issuance in connection with the conversion of the \$1.0 million outstanding Ariston convertible promissory note issued in satisfaction of a trade payable. The noteholder will not have any recourse to Manhattan for repayment of the note (their sole recourse being to Ariston), but the noteholder will have the right to convert the note into shares of Manhattan's Common Stock at the rate of \$0.20 per share.

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Upon the achievement of the milestones described below, Manhattan would be obligated to issue portions of the Milestone Shares to the former Ariston stockholders and noteholders:

- Upon the affirmative decision of Manhattan's Board of Directors, provided that such decision is made prior to March 8, 2011, to further develop the AST-915, either internally or through a corporate partnership, Manhattan would issue 176,561 of the Milestone Shares. This milestone was attained in January 2011 and the shares were issued in March 2011. The Company recognized approximately \$220,000 of research and development expense during the three months ended June 30, 2011 from the issuance of these shares.
- Upon the acceptance by the FDA of the Ariston's filing of the first New Drug Application for the AST-726 product candidate, Manhattan would issue 141,248 of the Milestone Shares.
- Upon the Company receiving FDA approval to market the AST-726 product candidate in the United States of America, Manhattan would issue 176,561 of the Milestone Shares.

Certain members and former members of Manhattan's board of directors and principal stockholders of Manhattan at the time of the Merger owned Ariston securities as of the closing of the Merger:

- Timothy McInerney, a former director of Manhattan, owned 333 shares of Ariston common stock which represented less than 1% of Ariston's outstanding common stock as of the closing of the Merger.
- Neil Herskowitz, a director of Manhattan, indirectly owned convertible promissory notes of Ariston with interest and principal in the amount of \$192,739.
- Michael Weiser, a former director of Manhattan, owned 2,347 shares of Ariston common stock, which represented approximately 2.1% of Ariston's outstanding common stock as of the closing of the Merger.
- Lindsay Rosenwald, a more than 5% beneficial owner of Manhattan common stock, in his individual capacity and indirectly through trusts and companies he controls, owned 9,958 shares of Ariston common stock, which represented approximately 8.9% of Ariston's outstanding common stock as of the closing of the Merger and indirectly owned convertible promissory notes of Ariston in the amount of \$141,438.

The Company merged with Ariston principally to add new products to its portfolio. Prior to the Merger, Ariston was a private, clinical stage specialty biopharmaceutical company based in Shrewsbury, Massachusetts that in-licensed, developed and planned to market novel therapeutics for the treatment of serious disorders of the central and peripheral nervous systems.

The Merger date fair value of the total consideration paid was \$1,491,937 which consisted of 141,248 shares of the Company's common stock issued upon the Merger and 317,809 contingently issuable shares upon Ariston's attaining certain milestones as described above. At the time of the Merger, the Company did not believe the attainment of the milestone for AST-915 was highly probable and, therefore, recorded no contingent consideration relative to it. The par value of the contingently issuable common shares is reflected in the accompanying consolidated balance sheets as of June 30, 2011 and December 31, 2010 as a component of stockholders' deficiency, contingently issuable shares. The Company incurred \$9,527 of acquisition related costs.

The following table summarizes the fair values of the assets acquired and liabilities assumed at the Merger date:

Cash and cash equivalents	\$ 519,365
Other assets	120,870
Total identifiable assets	640,235
Accounts payable and accrued expenses	437,615
ICON convertible note payable	1,000,000
5% convertible notes payable	15,452,793
Total identifiable liabilities	16,890,408
Net identifiable assets (liabilities)	(16,250,173)
In-process research and development acquired	17,742,110
Net assets acquired	\$ 1,491,937

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The following supplemental pro forma information presents the financial results as if the acquisition of Ariston had occurred on January 1, 2010 for the three and six month periods ended June 30, 2010. This supplemental pro forma information has been prepared for comparative purposes and does not purport to be indicative of what would have occurred had the acquisition been made on January 1, 2010, nor are they indicative of future results.

Pro forma consolidated results:	Three Month Period Ended June 30, 2010	Six Month Period Ended June 30, 2010
Revenue	\$ -	\$ -
Net income	\$ 1,850,336	\$ 63,164
Basic and diluted income per share	\$ 0.77	\$ 0.03

9. NOTES PAYABLE

The following is a summary of Notes Payable:

	At June 30, 2011			At December 31, 2010		
	Current portion, net	Non-current portion, net	Total	Current portion, net	Non-current portion, net	Total
Secured 12% Note Payable, Net	\$ 105,612	\$ -	\$ 105,612	\$ 1,722,346	\$ -	\$ 1,722,346
Non-interest Bearing Note Payable, Net	241,900	-	241,900	231,900	-	231,900
Convertible 5% Notes Payable	-	16,225,433	16,225,433	-	15,452,793	15,452,793
ICON Convertible Note	427,778	250,000	677,778	100,000	677,778	777,778
Total	\$ 775,290	\$ 16,475,433	\$ 17,250,723	\$ 2,054,246	\$ 16,130,571	\$ 18,184,817

a. Secured 12% Notes Payable

In 2008 and 2009 the Company sold \$1,725,000 of 12% senior secured notes (the "Secured 12% Notes") that mature two years after issuance and issued warrants to the investors to purchase 1.15 million shares of the Company's common stock at \$4.50 per share. The warrants expire on December 31, 2013. Net proceeds of \$1.4 million were realized and \$78,000 of issuance costs were paid outside of the closings. On February 9, 2011 the maturity date of the Secured 12% Notes was extended to December 31, 2011.

National Securities Corporation ("National") was the placement agent for the Secured 12% Notes Transaction. The Company issued to National, as a component of their placement agent fee, warrants to purchase 0.2 million shares of the Company's common stock at \$4.50 per share. The warrants expire on December 31, 2013.

Interest on the Secured 12% Notes is compounded quarterly and payable at maturity. At June 30, 2011 and December 31, 2010, accrued and unpaid interest on the Secured 12% Notes amounted to approximately \$616,000 and \$481,000, and is reflected in the accompanying balance sheets at June 30, 2011 and December 31, 2010, respectively, as part of interest payable. The Secured 12% Notes are secured by a pledge of all of the Company's assets except for its investment in the Hedrin JV. In addition, to provide additional security for the Company's obligations under the notes, the Company entered into a default agreement, which provides that upon an event of default under the notes, the Company shall, at the request of the holders of the notes, use reasonable commercial efforts to either (i) sell a part or all of the Company's interests in the Hedrin joint venture or (ii) transfer all or part of the Company's interest in the Hedrin JV to the holders of the notes, as necessary, in order to fulfill the Company's obligations under the notes, to the extent required and to the extent permitted by the applicable Hedrin joint venture agreements.

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The Company incurred a total of approximately \$424,000 of costs in the issuance of the \$1,725,000 of Secured 12% Notes sold in 2008 and 2009. These costs were capitalized and were amortized over the life of the Secured 12% Notes into interest expense. During the six months ended June 30, 2011 and the year ended December 31, 2010, the amount amortized into interest expense was approximately \$4,000 and \$197,000, respectively. At June 30, 2011 the costs of issuance were fully amortized. At December 31, 2010 the remaining unamortized balance of approximately \$4,000 is reflected in the accompanying balance sheet as of December 31, 2010 as debt issue costs.

The Company recognized an original issue discount (the "OID") of approximately \$194,000 on the issuance of the Secured 12% Notes sold for the value of the warrants issued to the investors. The OID is being amortized over the life of the Secured 12% Notes into interest expense. During the six months ended June 30, 2011 and year ended December 31, 2010 the amount amortized into interest expense was approximately \$3,000 and \$91,000, respectively. At June 30, 2011 the OID was fully amortized. At December 31, 2010 the remaining unamortized balance of approximately \$3,000 has been netted against the face amount of Notes Payable in the accompanying balance sheet as of December 31, 2010.

On February 9, 2011, the Company entered into a waiver and forbearance agreement (the "Extension Agreement") with the requisite holders of the Secured 12% Notes whereby the holders of the notes (the "Noteholders") agreed to forbear the exercise of their rights under the Notes and waive the default thereof until December 31, 2011. As part of the Extension Agreement, the Company has agreed to take and has taken prompt steps to seek to reduce its outstanding indebtedness by permitting the Noteholders to convert the Secured 12% Notes into shares of the Company's common stock at a conversion price of \$0.50 per share and to amend the terms of the warrants issued with the Secured 12 % Notes to include a full-ratchet anti-dilution feature and an exercise price of \$0.50 per share. The Company obtained stockholder approval to, among other things, increase the number of its authorized common stock. The Company has increased its authorized shares of common stock through the Reverse Split. As a result of the Reverse Split the Secured 12% Notes now convert into common stock at a conversion price of \$0.50, this triggered the antidilution rights of the warrants issued with Secured 12% Notes, the warrants issued with the Convertible 12% Note and the warrants issued in the 2010 Equity Pipe.

The closing market price of the Company's common stock on February 9, 2011 was greater than the conversion price, therefore the Company recognized a beneficial conversion feature of \$1,725,000 on the Secured 12% Notes and \$502,949 on interest payable on the Secured 12% Notes. The closing market price of the Company's common stock on March 31, 2011 was greater than the conversion price, therefore the Company recognized an additional beneficial conversion feature of \$17,647 on interest payable on the Secured 12% Notes. The closing market price of the Company's common stock on June 30, 2011 was less than the conversion price, therefore there were no beneficial conversion charges for the interest during the quarter ended June 30, 2011. The beneficial conversion feature has been recorded as a discount on the Secured 12% Notes and on the interest payable on the Secured 12% Notes. The conversion of the Secured 12% Notes became convertible upon the execution of the Reverse Split, June 20, 2011. The beneficial conversion feature is being amortized on a straight-line basis over the remaining term of the Secured 12% Notes (June 20, 2011 through December 31, 2011). The Company amortized \$137,485 of the beneficial conversion feature for the six months ended June 30, 2011, which is reflected in the accompanying Statement of Operations for the six months ended June 20, 2011 as a component of interest expense.

b. 8% Note Payable

On December 21, 2009, the Company entered into a Future Advance Promissory Note (the "8% Note") with Ariston under which the Company may withdraw up to \$67,000 bearing interest at a rate of 8%. As of December 31, 2009, the Company had withdrawn \$27,000 from Ariston subject to the terms of the 8% Note. On January 13, 2010, the Company withdrew an additional \$20,000 subject to the 8% Note and on January 28, 2010, the Company withdrew an additional \$20,000 subject to the 8% Note. On March 4, 2010, the Company repaid Ariston the \$67,000 withdrawn subject to the 8% Note and accrued interest of \$816.

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c. Non-interest Bearing Note Payable

On October 27, 2009, the Company entered into a Settlement Agreement and Mutual Release with Swiss Pharma Contract LTD (“Swiss Pharma”) pursuant to which the Company agreed to pay Swiss Pharma \$200,000 and issue to Swiss Pharma an interest free promissory note due on October 27, 2011 in the principal amount of \$250,000 in full satisfaction of the September 5, 2008 arbitration award.

In connection with the non-interest bearing note, the Company recognized an original issue discount of \$40,000 of imputed interest on the note, which is being amortized into interest expense on a straight-line basis over the two-year term of the note. For the three months ended March 31, 2011 and the year ended December 31, 2010, the Company amortized \$5,000 and \$20,000 of the OID into interest expense, respectively. The remaining unamortized balances of \$8,100 and \$18,100 have been netted against the face amount of Notes payable, current portion, net in the accompanying balance sheets as of June 30, 2011 and December 31, 2010, respectively.

d. Convertible 12% Note Payable

In October 2009, the Company sold a 12% Original Issue Discount Senior Subordinated Convertible Debenture with a stated value of \$400,000 (the “Convertible 12% Note”) and a warrant to purchase 44,444 shares of the Company’s common stock for a purchase price of \$200,000. National was the placement agent for the Convertible 12% Note transaction. The Company issued to National, as a component of their placement agent fee, warrants to purchase 4,444 shares of the Company’s common stock. The warrants issued to the investors and National expire in October 2014 and were exercisable at an original price of \$5.50 per share, subject to adjustment. As a result of the 2010 Equity Financing the exercise price and number of shares represented by these warrants adjusted to 69,841 shares at \$3.50 per share for the investors and 6,984 shares at \$3.50 per share for National.

The Convertible 12% Note was convertible into shares of the Company’s common stock in the event the Company issues new securities in connection with a financing. The Convertible 12% Note may be converted into such new securities at a conversion price equal to the purchase price paid by the purchasers of such new securities. On April 8, 2010, the holder of the Convertible 12% Note exercised its option to convert its note, including all accrued interest thereon, into 16.88 Units of the 2010 Equity Financing.

e. Convertible 5% Notes Payable

Upon the Merger, Ariston issued \$15,452,793 of five-year 5% notes payable (the “5% Notes”) in satisfaction of several note payable issuances. The cumulative liability including accrued and unpaid interest of these several issuances of notes was \$15,452,793 as of the Merger date. The 5% Notes and accrued and unpaid interest thereon are convertible at the option of the holder into the Manhattan’s common stock at the conversion price of \$20 per share. Ariston agreed to make quarterly payments on the 5% Notes equal to 50% of the net product cash flow received from the exploitation or commercialization of Ariston’s product candidates, AST-726 and AST-915. The 5% Notes are solely the obligation of Ariston and have no recourse to Manhattan other than the conversion feature discussed above. Interest accrues monthly, is added to principal on an annual basis, every March 8, and is payable at maturity. For the six months ended June 30, 2011, the Company recorded approximately \$398,000 of interest expense on the 5% Notes. On March 8, 2011 the accrued and unpaid interest on the 5% Notes was \$772,640 and was added to the principal amount of the 5% Notes Payable. At June 30, 2011 the principal amount of the 5% Notes was \$16,225,433 and interest payable on the 5% Notes Payable was \$252,396 and were reflected as components of notes payable, noncurrent portion, net and interest payable, noncurrent portion, respectively, in the accompanying balance sheet as of June 30, 2011. At December 31, 2010 the principal amount of the 5% Notes was \$15,452,793 and interest payable on the 5% Notes Payable was \$626,697 and were reflected as components of notes payable, noncurrent portion, net and interest payable, noncurrent portion, respectively, in the accompanying balance sheet as of December 31, 2010.

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f. ICON Convertible Note Payable

Upon the Merger, Ariston satisfied an account payable of \$1,275,188 to ICON Clinical Research Limited (“ICON”) through the payment of \$275,188 in cash and the issuance of a three-year 5% note payable (the “ICON Note”). The principal was to be repaid in 36 monthly installments of \$27,778 commencing in April 2010. Interest was payable monthly in arrears. On March 1, 2011 Ariston entered into an amended and restated convertible promissory note (the “Amended ICON Note”) with ICON. The principal terms of the Amended ICON Note are that monthly payments of principal and interest will be waived for the thirteen month period ended December 31, 2011 (the “Waiver Period”) in exchange for a single payment of \$100,000 on March 31, 2011, an increase in the interest on the Amended ICON Note from 5% to 8% per annum during the Waiver Period and a balloon payment on January 31, 2012. The Amended Note will decrease the debt service requirements of the Company and Ariston by approximately \$300,000 during the thirteen-month period ended December 31, 2011. The Amended ICON Note is convertible at the option of the holder into the Company’s common stock at the conversion price of \$10 per share. During the six months ended June 30, 2011, the Company has recorded approximately \$29,000 of interest expense on the Amended ICON Note. At June 30, 2011 the principal amount of the Amended ICON Note was \$667,778, of which \$427,778 was current, and interest payable on the Amended ICON Note was \$32,798 and were reflected as components of notes payable, current portion, net, notes payable, noncurrent portion, net, and interest payable, current portion, net respectively, in the accompanying balance sheet as of June 30, 2011. At December 31, 2010 the principal amount of the Amended ICON Note was \$777,778, of which \$100,000 was current, and interest payable on the Amended ICON Note was \$3,303 and were reflected as components of notes payable, current portion, net, notes payable, noncurrent portion, net and interest payable, current portion, net, respectively, in the accompanying balance sheet as of December 31, 2010.

10. DERIVATIVE LIABILITY

In April 2008, the FASB issued ASC 815 which provides guidance on determining what types of instruments or embedded features in an instrument held by a reporting entity can be considered indexed to its own stock for the purpose of evaluating the first criteria of the scope exception in the pronouncement on accounting for derivatives. This pronouncement was effective for financial statements issued for fiscal years beginning after December 15, 2008. The adoption of these requirements can affect the accounting for warrants and many convertible instruments with provisions that protect holders from a decline in the stock price (or “down-round” provisions). For example, warrants with such provisions will no longer be recorded in equity. Down-round provisions reduce the exercise price of a warrant or convertible instrument if a company either issues equity shares for a price that is lower than the exercise price of those instruments or issues new warrants or convertible instruments that have a lower exercise price. We evaluated whether warrants to acquire stock of the Company contain provisions that protect holders from declines in the stock price or otherwise could result in modification of the exercise price under the respective warrant agreements. We determined that the warrant issued to Nordic in April 2008 (the “Nordic Warrant”), contained such provisions, thereby concluding it was not indexed to the Company’s own stock and was reclassified from equity to derivative liabilities.

In accordance with ASC 815, the Company estimated the fair value of the Nordic Warrant as of January 1, 2009 to be \$22,222 by recording a reduction in additional paid-in capital of \$150,000 and a decrease in deficit accumulated during the development stage of \$127,778. The effect of this adjustment was recorded as a cumulative effect of change in accounting principle in our statements of stockholders’ equity (deficiency).

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We also determined that the Convertible 12% Note Payable issued in 2009, the warrants issued in connection with the Convertible 12% Note Payable, the warrants issued in connection with the 2010 Equity Financing and the amended warrants associated with the Secured 12% Notes contained such provisions and therefore are derivatives. We determined the fair value based on significant inputs not observable in the market and thus represents a Level 3 measurement as defined in ASC 815. The fair values of these derivatives are as follows:

	December 31, 2010	Purchases, sales, issuances and settlements	Change in Fair Value During Six Months Ended June 30, 2011	June 30, 2011
Nordic Warrant	\$ 71,429	\$ (71,429)	\$ -	\$ -
Warrants issued with Convertible 12% Notes	15,644	-	53,191	68,835
Warrants issued in 2010 Equity Financing	447,773	-	1,047,618	1,495,391
Amended warrants associated with the 12% Secured Notes	-	115,000	960,502	1,075,502
Total	\$ 534,846	\$ 43,571	\$ 2,061,311	\$ 2,639,728

In accordance with ASC 815, the fair values of these derivatives were recorded in the accompanying condensed consolidated balance sheets as of June 30, 2011 and December 31, 2010, as a component of a current liability, derivative liability. The changes in fair value during the six months ended June 30, 2011 and 2010 were \$2,061,311 and \$(1,866,735), respectively and are reported as a non-cash charge in the accompanying condensed consolidated statements of operations as a component of other (income) expense.

11. NIH Agreement

In May 2011 the Company entered into an amendment of a Cooperative Research and Development Agreement (“CRADA”) with the National Institute of Health (“NIH”) for the conduct of two efficacy studies utilizing the Company’s AST-915 product candidate. The Company’s commitment under the CRADA is the payment of \$50,000 to the NIH and to provide a neurologist to assist the NIH in the conduct of these two efficacy studies. The term of the amended CRADA is July 1, 2011 through June 30, 2012. The Company paid the \$50,000 in June 2011. The \$50,000 payment is recorded as a component of other current assets in the accompanying Balance Sheet as of June 30, 2011 and will be amortized on a straight-line basis over the term of the amended CRADA.

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

You should read the following discussion of our results of operations and financial condition in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2010 (the "Annual Report") and our financial statements for the six month period ended June 30, 2011 included elsewhere in this report.

We were incorporated in Delaware in 1993 under the name "Atlantic Pharmaceuticals, Inc." and, in March 2000, we changed our name to "Atlantic Technology Ventures, Inc." In 2003, we completed a "reverse acquisition" of privately held "Manhattan Research Development, Inc". In connection with this transaction, we also changed our name to "Manhattan Pharmaceuticals, Inc." From an accounting perspective, the accounting acquirer is considered to be Manhattan Research Development, Inc. and accordingly, the historical financial statements are those of Manhattan Research Development, Inc. During 2005 we merged with Tarpan Therapeutics, Inc. ("Tarpan"). Tarpan was a privately held New York based biopharmaceutical company developing dermatological therapeutics. This transaction was accounted for as a purchase of Tarpan by the Company.

On March 8, 2010, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") by and among the Company, Ariston Pharmaceuticals, Inc., a Delaware corporation ("Ariston") and Ariston Merger Corp., a Delaware corporation and wholly-owned subsidiary of the Company (the "Merger Sub"). Pursuant to the terms and conditions set forth in the Merger Agreement, on March 8, 2010, the Merger Sub merged with and into Ariston (the "Merger"), with Ariston being the surviving corporation of the Merger. As a result of the Merger, Ariston became a wholly-owned subsidiary of the Company. The operating results of Ariston from March 8, 2010 to June 30, 2011 are included in the accompanying Condensed Consolidated Statements of Operations.

We are a specialty healthcare product company focused on developing and commercializing pharmaceutical treatments for underserved patient populations. We aim to acquire rights to these technologies by licensing or otherwise acquiring an ownership interest, funding their research and development and eventually either bringing the technologies to market or out-licensing.

This discussion includes "forward-looking" statements that reflect our current views with respect to future events and financial performance. We use words such as we "expect," "anticipate," "believe," and "intend" and similar expressions to identify forward-looking statements. Investors should be aware that actual results may differ materially from our expressed expectations because of risks and uncertainties inherent in future events, particularly those risks identified under the heading "Risk Factors" following Item 1 in the Annual Report, and should not unduly rely on these forward looking statements.

Results of Operations

Six-month Periods ended June 30, 2011 vs 2010:

	<u>Six months ended June 30,</u>		<u>Increase/ (decrease)</u>	<u>% Increase/ (decrease)</u>
	<u>2011</u>	<u>2010</u>		
Costs and expenses:				
Research and development:				
Share-based compensation	\$ -	\$ -	\$ -	N/A
Other research and development expenses	445,000	69,000	376,000	544.93%
Total research and development expenses	445,000	69,000	376,000	544.93%
General and administrative:				
Share-based compensation	14,000	206,000	(192,000)	-93.20%
Other general and administrative expenses	430,000	780,000	(350,000)	-44.87%
Total general and administrative expenses	444,000	986,000	(542,000)	-54.97%
Other (income)/expense:				
Gain on Nordic Settlement	(4,517,000)	-	(4,517,000)	N/A
Change in fair value of derivative liability	2,061,000	(1,867,000)	3,928,000	-210.39%
Loss on early extinguishment of debt	-	159,000	(159,000)	N/A
Interest expense	718,000	588,000	130,000	22.11%
Interest and other income/(expense)	(1,000)	(152,000)	151,000	-99.34%
Total other (income)/expense	(1,739,000)	(1,272,000)	(467,000)	36.71%
Net income/(loss)	\$ 850,000	\$ 217,000	\$ 633,000	291.71%

During each of the six month periods ended June 30, 2011 and 2010, we did not recognize any revenues. We are considered a development stage company and do not expect to have revenues relating to our products candidates prior to June 30, 2012, if at all.

For the six months ended June 30, 2011 research and development expense was \$445,000 as compared to \$69,000 for the six months ended June 30, 2010. This increase of \$376,000, or 545%, is primarily due to development activities, including the issuance of milestone shares in connection with the Ariston Merger, on the products acquired in the Ariston Merger during the 2011 period and limited product development activity during the 2010 period.

For the six months ended June 30, 2011 general and administrative expense was \$444,000 as compared to \$986,000 for the six months ended June 30, 2010. This decrease of \$542,000, or 55%, is primarily due to a reduction in staff and other cost cutting measures.

For the six months ended June 30, 2011 other (income)/expense was \$1,739,000 as compared to \$1,272,000 for the six months ended June 30, 2010. This change of \$467,000, or 37%, is primarily due to the recognition of a gain on the Nordic Settlement of \$4,517,000 and the loss on early extinguishment of debt recognized during the 2010 period, offset by a change in fair value of derivative liability of \$3,928,000, an increase in interest expense of \$130,000 and a change in other (income)/expense of \$151,000.

Net income for the six months ended June 30, 2011 was \$850,000 as compared to \$217,000 for the six months ended June 30, 2010. This increase of \$633,000, or 292%, is primarily due to a change in other (income)/expense of \$467,000 and a decrease in expenses of \$166,000.

Three-month Periods ended June 30, 2011 vs 2010:

	<u>Three months ended June 30,</u>		<u>Increase/ (decrease)</u>	<u>% Increase/ (decrease)</u>
	<u>2011</u>	<u>2010</u>		
Costs and expenses:				
Research and development:				
Share-based compensation	\$ -	\$ -	\$ -	N/A
Other research and development expenses	90,000	51,000	39,000	76.47%
Total research and development expenses	90,000	51,000	39,000	76.47%
General and administrative:				
Share-based compensation	5,000	15,000	(10,000)	-66.67%
Other general and administrative expenses	228,000	460,000	(232,000)	-50.43%
Total general and administrative expenses	233,000	475,000	(242,000)	-50.95%
Other (income)/expense:				
Gain on Nordic Settlement	-	-	-	N/A
Change in fair value of derivative liability	2,232,000	(2,809,000)	5,041,000	-179.46%
Loss on early extinguishment of debt	-	159,000	(159,000)	N/A
Interest expense	428,000	351,000	77,000	21.94%
Interest and other (income)/expense	-	(77,000)	77,000	-100.00%
Total other (income)/expense	2,660,000	(2,376,000)	5,036,000	-211.95%
Net income/(loss)	\$ (2,983,000)	\$ 1,850,000	\$ (4,833,000)	-261.24%

During each of the three month periods ended June 30, 2011 and 2010, we did not recognize any revenues. We are considered a development stage company and do not expect to have revenues relating to our products candidates prior to June 30, 2012, if at all.

For the three months ended June 30, 2011 research and development expense was \$90,000 as compared to \$51,000 for the three months ended June 30, 2010. This increase of \$39,000, or 76%, is primarily due to development activities on the products acquired in the Ariston Merger during the 2011 period and limited product development activity during the 2010 period.

For the three months ended June 30, 2011 general and administrative expense was \$233,000 as compared to \$475,000 for the three months ended June 30, 2010. This decrease of \$242,000, or 51%, is primarily due to a reduction in staff and other cost cutting measures.

For the three months ended June 30, 2011 other (income)/expense was \$2,660,000 as compared to \$(2,376,000) for the three months ended June 30, 2010. This change of \$5,036,000, or 212%, is primarily due to a change in fair value of derivative liability of \$5,041,000, to an increase in interest expense of \$77,000 and a change in other (income)/expense of \$(77,000) offset by a change in loss on early extinguishment of debt of \$159,000.

Net loss for the three months ended June 30, 2011 was \$2,983,000 as compared to net income of \$1,850,000 for the three months ended June 30, 2010. This change of \$(4,833,000), or 261%, is primarily due to a change in other (income)/expense of \$5,036,000 and a decrease in expenses of \$203,000.

Liquidity and Capital Resources

From inception to June 30, 2011, we incurred a deficit during the development stage of \$60,459,946 primarily as a result of our net losses, and we expect to continue to incur additional losses through at least June 30, 2012 and for the foreseeable future. These losses have been incurred through a combination of research and development activities related to the various technologies under our control and expenses supporting those activities.

We have financed our operations since inception primarily through equity and debt financings and a joint venture transaction. During the six months ended June 30, 2011, we had a negligible net increase in cash and cash equivalents. This increase resulted largely from net cash provided by operating activities of \$0.1 million offset by net cash used in financing activities of \$0.1 million. Total liquid resources as of June 30, 2011 were \$0.5 million compared to \$0.5 million at December 31, 2010.

Our current liabilities as of March 31, 2011 were \$3,783,000 compared to \$3,294,000 at December 31, 2010, an increase of \$489,000. As of June 30, 2011, we had working capital deficit of \$3,173,000 compared to working capital deficit of \$2,424,000 at December 31, 2010.

During the six months ended June 30, 2011, the Company received \$500,000 from the Nordic settlement, \$244,000 from a grant receivable and repaid \$100,000 of debt.

During the six months ended June 30, 2010, the Company received net proceeds of approximately \$2,200,000 from the 2010 Equity Financing. In addition \$400,000 principal amount of debt converted into the 2010 Equity Financing. The Company also acquired \$519,000 of cash in the merger with Ariston and repaid \$27,000 of debt, net.

Our available working capital and capital requirements will depend upon numerous factors, including progress of our research and development programs, our progress in and the cost of ongoing and planned nonclinical and clinical testing, the timing and cost of obtaining regulatory approvals, the cost of filing, prosecuting, defending, and enforcing patent claims and other intellectual property rights, in-licensing activities, competing technological and market developments, changes in our existing collaborative and licensing relationships, the resources that we devote to developing manufacturing and commercializing capabilities, the status of our competitors, our ability to establish collaborative arrangements with other organizations and our need to purchase additional capital equipment.

Our continued operations will depend on whether we are able to raise additional funds through various potential sources, such as equity and debt financing, other collaborative agreements, strategic alliances, and our ability to realize the full potential of our technology in development. Such additional funds may not become available on acceptable terms and there can be no assurance that any additional funding that we do obtain will be sufficient to meet our needs in the long term. Through June 30, 2011, a significant portion of our financing has been through private placements of debt, common stock and warrants and the Hedrin JV. Unless our operations generate significant revenues and cash flows from operating activities, we will continue to fund operations from cash on hand and through the similar sources of capital previously described. We can give no assurances that any additional capital that we are able to obtain will be sufficient to meet our needs. We believe that we will continue to incur net losses and negative cash flows from operating activities for the foreseeable future.

Based on the resources of the Company available at June 30, 2011, management believes that the Company has sufficient capital to fund its operations through 2011. Management believes that the Company will need additional equity or debt financing or generate revenues through licensing of its products or entering into strategic alliances to be able to sustain its operations into 2012. Furthermore, the Company will need additional financing thereafter to complete development and commercialization of its products. There can be no assurances that we can successfully complete development and commercialization of our products. In addition, \$250,000 of debt matures in November and \$1,725,000 principal amount of debt plus interest thereon matures in December 2011. The Company intends to convert the \$1,725,000 of debt plus interest thereon into equity.

The Company does not have the financial resources necessary to conduct the pivotal trial of AST-726 and will have to raise funds or secure a partner for that purpose.

These matters raise substantial doubt about the Company's ability to continue as a going concern. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

We have reported net income of \$850,000 for the six month period ended June 30, 2011 and net income of \$217,000 for the six month period ended June 30, 2010. The net income for the six month period in 2011 resulted primarily from a gain on the Nordic Settlement offset by a change in fair value of derivative liability. Without the effect of these items, the Company would have reported a loss during the 2011 period. The net loss attributable to common shares from date of inception, including preferred stock dividends, August 6, 2001 to June 30, 2011, amounts to \$60,460,000. Management believes that we will continue to incur net losses through at least June 30, 2012.

Joint Venture Agreement

In February 2008, the Company and Nordic Biotech Advisors ApS through its investment fund Nordic Biotech Venture Fund II K/S ("Nordic") entered into a joint venture agreement (the "Hedrin JV Agreement") to develop and commercialize the Company's North American rights (under license) to its Hedrin product.

Pursuant to the Hedrin JV Agreement, Nordic formed a new Danish limited partnership, H Pharmaceuticals K/S, (the "Hedrin JV") and provided it with \$5.5 million funding in several tranches through January of 2010 and the Company assigned and transferred its North American rights in Hedrin to the Hedrin JV in return for a \$3.5 million cash payment from the Hedrin JV, paid in several tranches, and equity in the Hedrin JV representing 47.62% of the nominal equity interests in the Hedrin JV. Through January 2010 the Company recognized an investment in the Hedrin JV of \$0.75 million and an exchange obligation of \$3.95 million. The exchange obligation represents the Company's obligation to Nordic to issue the Company's common stock in exchange for all or a portion of Nordic's equity interest in the Hedrin JV upon the exercise by Nordic of the put issued to Nordic in the Hedrin JV Agreement transaction. The put is described below.

Nordic had an option to put all or a portion of its equity interest in the Hedrin JV to the Company in exchange for the Company's common stock (the "Nordic Put"). The Company had an option to, under certain conditions, call all or a portion of Nordic's equity interest in the Hedrin JV in exchange for the Company's common stock (the "Nordic Call"). The Nordic Put and the Nordic Call terminated upon the execution, on January 4, 2011, of a settlement and release agreement between Nordic and the Company. The settlement and release agreement is discussed below.

Nordic paid the Company a non-refundable fee of \$150,000 in February 2008 for the right to receive a warrant covering shares of the Company's common stock. The warrant (the "Nordic Warrant") was issued in 2008. The Nordic Warrant terminated upon the execution, on January 4, 2011, of a settlement and release agreement between Nordic and the Company. The settlement and release agreement is discussed below.

The Hedrin JV is responsible for the development and commercialization of Hedrin for the North American market and all associated costs including clinical trials, regulatory costs, patent costs, and future milestone payments owed to Thornton & Ross, Ltd. ("T&R") the licensor of Hedrin.

The Hedrin JV engaged the Company to provide management services to the Hedrin JV in exchange for a management fee. For the six months ended June 30, 2011 and 2010, the Company has recognized \$0 and \$150,000, respectively, of management fees earned from the Hedrin JV which is included in the Company's consolidated statements of operations as a component of interest and other income. The management services agreement terminated upon the execution, on January 4, 2011, of a settlement and release agreement between Nordic and the Company. The settlement and release agreement is discussed below.

As previously reported, the Company and Nordic have had various disputes relating to the Hedrin JV, to the Nordic Put and the Nordic Warrant. On January 4, 2011 the Company entered into a settlement and release agreement (the "Nordic Settlement") with Nordic and the Hedrin JV that resolves all disputes between and among the Company, Nordic and the Hedrin JV.

The principal terms of the Nordic Settlement are:

- The Nordic Put has been terminated. The Company believed the Nordic Put permitted Nordic to become the owner, upon exercise of the Nordic Put, of 71,428,571 shares (pre-Reverse Split basis) of the Company's common stock. Nordic asserted that the Nordic Put would have permitted Nordic to become the owner of 183,333,333 (pre-Reverse Split basis) shares of the Company's common stock.
- The Nordic Warrant has been terminated. The Company believed the Nordic Warrant covered 14,285,714 (pre-Reverse Split basis) shares of the Company's common stock. Nordic asserted that the Nordic Warrant covered 33,333,333 (pre-Reverse Split basis) shares of the Company's common stock.
- Nordic was required to make an additional, non-dilutive capital contribution to the Hedrin JV of \$1,500,000, which includes \$300,000 contributed to the Hedrin JV by Nordic on December 15, 2010.
- The Hedrin JV has paid to the Company a settlement amount of \$500,000, less any "Excess Payment" (defined below). An "Excess Payment" is the amount by which Nordic's and the Hedrin JV's reasonable out-of-pocket legal and other costs incurred with respect to the Settlement and Release Agreement exceed \$70,000. To date there have been no Excess Payments.

- Our equity interest in the Hedrin JV was reduced to 15%, and further reductions in our equity interest are possible if and when Nordic makes additional capital contributions to the Hedrin JV. In no event shall the capital contributions by Nordic reduce our ownership in the Hedrin JV below 5%.
- The Hedrin JV has paid \$75,000 to the Company under the Services Agreement, dated February 21, 2008, and that Services Agreement is terminated as of December 31, 2010.
- The Hedrin JV Agreement, dated January 31, 2008, as amended on February 18, 2008, and as further amended by an Omnibus Amendment on June 9, 2008, between the Company and Nordic; the Shareholders' Agreement, dated February 21, 2008, as amended by an Omnibus Amendment on June 9, 2008, with respect to the Hedrin JV, and the Registration Rights Agreement, dated February 25, 2009, are terminated.

At December 31, 2010 the Company had unrecognized equity in its share of the losses of the Hedrin JV of approximately \$560,000. In conjunction with the Nordic Settlement the Company recognized this \$560,000 of its share of equity in the losses of the Hedrin JV during the six months ended June 30, 2011. The Company also recognized a gain on the Nordic Settlement of approximately \$5.0 million during the six months ended June 30, 2011. The components of the gain on the Nordic Settlement are as follows:

	<u>Total</u>	<u>Cash portion</u>	<u>Non cash portion</u>
Exchange obligation, termination of the Nordic Put	\$ 3,949,176	\$ -	\$ 3,949,176
Termination of the Nordic Warrant	71,429	-	71,429
Payment of settlement amount	500,000	500,000	-
Other	(3,117)	-	(3,117)
Totals	<u>\$ 4,517,488</u>	<u>\$ 500,000</u>	<u>\$ 4,017,488</u>

On April 19, 2011 H Pharmaceuticals K/S (the "Hedrin JV"), of which the Company is a 15% limited partner, filed a demand for arbitration against Thornton & Ross, LTD. ("T&R") with respect to alleged breaches by T&R of an Exclusive License Agreement (the "Hedrin License") dated June 28, 2007, which was originally entered into between the Company and T&R, and which the Company assigned in 2008 to the Hedrin JV, with T&R's consent. The Hedrin JV is seeking damages from T&R in the amount of approximately \$7,000,000. The Company was not a party to the initial arbitration demand.

On May 20, 2011 T&R filed an answer to the arbitration demand in which T&R asserted counterclaims against the Hedrin JV for alleged breaches by the Hedrin JV of the Hedrin License and for declaratory relief that the Hedrin License was properly terminated by T&R. In addition, T&R has impleaded an individual (who is not associated with the Company), Nordic Biotech Venture Fund II K/S (an investment fund) and the Company, demanding arbitration against them based on alleged breaches of the Hedrin License and other related claims. T&R is seeking damages of approximately \$20,000,000.

The Company has not yet responded to the arbitration demand against it, but believes that T&R's claims against the Registrant are without merit.

2010 Equity Financing

On March and April 2010, we raised aggregate gross proceeds of approximately \$2.6 million pursuant to a private placement of our securities (the "2010 Equity Financing"). We sold an aggregate of 104.3 Units for a purchase price of \$25,000 per Unit. We issued to each Investor units (the "Units") consisting of 7,143 shares of common stock, \$0.001 par value per share of the Company and 85,714 warrants, each of which will entitle the holder to purchase one additional share of Common Stock for a period of five years at an exercise price of \$0.50 per share. In addition, in April 2010, the holder of the 12% Convertible Note with a stated value of \$400,000 and \$22,000 of accrued interest, exercised its option to convert its Debenture (including all accrued interest thereon) into 16.88 Units. The conversion price was equal to the per Unit purchase price paid by the investors in the private placement.

Convertible 12% Note Payable

In October 2009, we sold a 12% Original Issue Discount Senior Subordinated Convertible Debenture with a stated value of \$400,000 and a warrant to purchase 488,889 shares of the Company's common stock, par value \$.50 per share for a purchase price of \$200,000. The Convertible 12% Note was convertible into shares of Common Stock at an initial conversion price of \$4.50 per share, subject to adjustment, or, in the event the Company issues new securities in connection with a financing, the Convertible 12% Note may be converted into such new securities at a conversion price equal to the purchase price paid by the purchasers of such new securities. The Convertible 12% Note was converted into the 2010 Equity Financing in April 2010, as described above.

Secured 12% Notes Payable

On February 3, 2009, we completed a private placement of 345 units, with each unit consisting of Secured 12% Notes in the principal amount of \$5,000 and a warrant to purchase up to 3,333 shares of our common stock at an exercise price of \$4.50 per share which expires on December 31, 2013, for aggregate gross proceeds of \$1,725,000. The private placement was completed in three closings which occurred on November 19, 2008 with respect to 207 units, December 23, 2008 with respect to 56 units and February 3, 2009 with respect to 82 units.

To secure our obligations under the notes, we entered into a security agreement and a default agreement with the investors. The security agreement provides that the notes will be secured by a pledge of our assets other than (i) our interest in the Hedrin joint venture, including, without limitation, our interest in H Pharmaceuticals K/S and H Pharmaceuticals General Partner ApS, (ii) our rent deposit for our former office space, (iii) our refund of a prepayment and (iv) our tax refund for the 2007 fiscal year from the State of New York and City of New York. In addition, to provide additional security for our obligations under the notes, we entered into a default agreement, which provides that upon an event of default under the notes, we shall, at the request of the holders of the notes, use our reasonable commercial efforts to either (i) sell a part or all of our interests in the Hedrin JV or (ii) transfer all or part of our interest in the Hedrin JV to the holders of the notes, as necessary, in order to fulfill our obligations under the notes, to the extent required and to the extent permitted by the applicable Hedrin JV agreements.

On February 9, 2011, the Company entered into a waiver and forbearance agreement (the "Extension Agreement") with the requisite holders of the Secured 12% Notes whereby the holders of the notes (the "Noteholders") agreed to forbear the exercise of their rights under the Notes and waive the default thereof until December 31, 2011. As part of the Extension Agreement, the Company has agreed to take and has taken prompt steps to seek to reduce its outstanding indebtedness by permitting the Noteholders to convert the Secured 12% Notes into shares of the Company's common stock at a conversion price of \$0.50 per share and to amend the terms of the warrants issued with the Secured 12 % Notes to include a full-ratchet anti-dilution feature and an exercise price of \$0.50 per share. The Company obtained stockholder approval to, among other things, increase the number of its authorized common stock. The Company has increased its authorized shares of common stock through the Reverse Split. As a result of the Reverse Split the Secured 12% Notes now convert into common stock at a conversion price of \$0.50, this triggered the anti-dilution rights of the warrants issued with Secured 12% Notes, the warrants issued with the Convertible 12% Note and the warrants issued in the 2010 Equity Pipe.

The closing market price of the Company's common stock on February 9, 2011 was greater than the conversion price, therefore the Company recognized a beneficial conversion feature of \$1,725,000 on the Secured 12% Notes and \$502,949 on interest payable on the Secured 12% Notes. The closing market price of the Company's common stock on March 31, 2011 was greater than the conversion price, therefore the Company recognized an additional beneficial conversion feature of \$17,647 on interest payable on the Secured 12% Notes. The beneficial conversion feature has been recorded as a discount on the Secured 12% Notes and on the interest payable on the Secured 12% Notes. The conversion of the Secured 12% Notes became convertible upon the execution of the Reverse Split, June 20, 2011. The beneficial conversion feature is being amortized on a straight-line basis over the remaining term of the Secured 12% Notes (June 20, 2011 through December 31, 2011). The Company amortized \$137,485 of the beneficial conversion feature for the six months ended June 30, 2011, which is reflected in the accompanying Statement of Operations for the six months ended June 20, 2011 as a component of interest expense.

Commitments

Development Commitments

At present the Company has no development commitments.

Research and Development Projects

AST-726

Current Status - the Company has reached an agreement with the U.S. Food and Drug Administration (FDA) on a special protocol assessment (SPA) for the design of a Phase 3 clinical trial of AST-726 in patients with a confirmed medical history of vitamin B₁₂ deficiency. Manhattan has designed an open label, multicenter study for investigating the maintenance of trough serum cobalamin levels after monthly administration of AST-726, with a goal of enrolling approximately 75 subjects and a goal of having 53 evaluable subjects complete the study.

An SPA is a written agreement with the FDA that the study design and planned analysis of the sponsor's Phase 3 clinical trial adequately addresses the objectives necessary to support a regulatory submission.

The Company will need to either secure a development partner or raise additional funds in order to initiate the Phase 3 clinical study.

AST-726 is a nasally delivered form of hydroxocobalamin for the treatment of Vitamin B₁₂ deficiency. We acquired global rights to AST-726 as part of the Ariston acquisition. AST-726 has demonstrated pharmacokinetic equivalence to a marketed intramuscular injection product for Vitamin B₁₂ remediation. We believe that AST-726 may enable both a single, once-monthly treatment for maintenance of normal Vitamin B₁₂ levels in deficient patients, and more frequent administration to restore normal levels in newly diagnosed B₁₂ deficiency. Further, we believe that AST-726 could offer a convenient, painless, safe and cost-effective treatment for Vitamin B₁₂ deficiency, eliminating the need for intramuscular injections.

Product Development

AST-726, a commercial nasal spray formulation of hydroxocobalamin, has satisfactorily completed preclinical toxicology, and an Investigational New Drug ("IND") Application has been filed with the FDA. This product candidate is being developed utilizing the 505(b)(2) regulatory pathway. AST-726 has also successfully completed a safety and pharmacokinetic study in healthy volunteers and an end of Phase II meeting with FDA has been completed.

AST-915

Current Status - In May 2011 the Company entered into an amendment of a Cooperative Research and Development Agreement ("CRADA") with the National Institute of Health ("NIH") for the conduct of two efficacy studies utilizing the Company's AST-915 product candidate. The Company's commitment under the CRADA is the payment of \$50,000 to the NIH and to provide a neurologist to assist the NIH in the conduct of these two efficacy studies.

AST-915 is an orally delivered treatment for essential tremor. Manhattan Pharmaceuticals acquired global rights to AST-915 as part of the Ariston acquisition. This product candidate was studied under a Cooperative Research and Development Agreement (CRADA) with the National Institute of Neurological Disorders and Stroke (NINDS), a division of the National Institutes of Health (NIH).

In December 2010, Manhattan Pharmaceuticals announced the achievement of human proof-of concept with AST-915 with the release of preliminary results from a Phase 1/2 study conducted by the NIH of AST-915 for the treatment of essential tremor. Data from this single dose study showed that AST-915 was well tolerated and demonstrated a clear effect on tremor power.

In this randomized, double-blind, placebo-controlled, crossover design study, 18 subjects with essential tremor received single oral doses of AST-915. Primary and secondary outcome measures included the effect on tremor power using accelerometry to test the central tremor component at various time points after treatment. Safety, pharmacokinetic data, and other efficacy measures were also evaluated. AST-915 was well tolerated with non-serious adverse events being evenly distributed between active and placebo treatments, and two observed serious events being unrelated to study drug.

Statistically significant reductions in tremor power were evident at several time points between 80 and 300 minutes. 300 minutes was the latest timepoint measured following administration of AST-915. Further analysis, conducted using each subject as its own control, demonstrated statistically significant lower tremor amplitudes in favor of AST-915 compared to placebo. Additional analysis continues to examine other secondary endpoints. Statistically significant effect on tremor power was not evident 80 minutes after administration of AST-915 (defined as the primary endpoint timeframe),

AST-915 was formerly referred to as "AST-914 metabolite".

Hedrin

Current Status - The Hedrin JV is currently working to complete development and secure commercialization and marketing partners for Hedrin in the U.S. and Canada.

Hedrin is a novel, non-insecticide, one hour treatment for pediculosis (head lice) and is currently being developed in the United States as a prescription medical device. Hedrin is the top selling head lice product in Europe. It is currently marketed in over 27 countries.

In June 2007, the Company entered into an exclusive license agreement with Thornton & Ross Ltd (“T&R”) and Kerris, S.A. (“Kerris”) for Hedrin (the “Hedrin License Agreement”). We acquired an exclusive North American license to certain patent rights and other intellectual property relating to the product. In addition, and at the same time, we also entered into a Supply Agreement with T&R pursuant to which T&R will be the Company’s exclusive supplier of Hedrin product (the “Hedrin Supply Agreement”).

In February 2008, the Company entered into a joint venture agreement with Nordic Biotech Advisors ApS (“Nordic”) to develop and commercialize Hedrin for the North American market. The joint venture entity, H Pharmaceuticals (the “Hedrin JV”), now owns, is developing, and is working to secure commercialization partners for Hedrin in both the United States and Canada. The Hedrin JV is independently funded and is responsible for all costs associated with the Hedrin project, including any necessary United States (“U.S.”) clinical trials, patent costs, and future milestones owed to the original licensor, T&R. The Company currently owns 15% of the Hedrin JV.

Topical GEL for Psoriasis

This topical GEL was used as the vehicle (placebo) in a prior clinical study versus a discontinued product candidate, topical PTH (1-34), and showed evidence of psoriasis improving properties. In that Phase 2a study 15% of study subjects achieved a clear or almost clear state at the end of week 2. At the end of week 4, 20% of subjects treated with the GEL had achieved a clear or almost clear state, and at the end of week 8, 25% of subjects treated with the GEL had achieved a clear or almost clear state. The Company owns global rights to this topical GEL, has exploring the possibility of developing it as an OTC product for mild psoriasis and, based on feedback received from a panel of dermatologists, has decided to terminate the project.

Summary of Contractual Commitments

Employment Agreement

None.

Off-Balance Sheet Arrangements

We have not entered into any off-balance sheet arrangements.

Critical Accounting Policies

In December 2001, the SEC requested that all registrants discuss their most “critical accounting policies” in management’s discussion and analysis of financial condition and results of operations. The SEC indicated that a “critical accounting policy” is one which is both important to the portrayal of the company’s financial condition and results and requires management’s most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Use of Estimates

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

Research and Development Expenses

All research and development costs are expensed as incurred and include costs of consultants who conduct research and development on behalf of the Company and its subsidiaries. Costs related to the acquisition of technology rights and patents for which development work is still in process are expensed as incurred and considered a component of research and development costs.

The Company often contracts with third parties to facilitate, coordinate and perform agreed upon research and development of a new drug. To ensure that research and development costs are expensed as incurred, the Company records monthly accruals for clinical trials and preclinical testing costs based on the work performed under the contracts.

These contracts typically call for the payment of fees for services at the initiation of the contract and/or upon the achievement of certain milestones. This method of payment often does not match the related expense recognition resulting in either a prepayment, when the amounts paid are greater than the related research and development costs expensed, or an accrued liability, when the amounts paid are less than the related research and development costs expensed.

In-process Research and Development

All acquired research and development projects are recorded at their fair value as of the date of acquisition. The fair values are assessed as of the balance sheet date to ascertain if there has been any impairment of the recorded value. If there is an impairment, the asset is written down to its current fair value by the recording of an expense.

Share-Based Compensation

We have stockholder-approved stock incentive plans for employees, directors, officers and consultants. Prior to January 1, 2006, we accounted for the employee, director and officer plans using the intrinsic value method. Effective January 1, 2006, we adopted the share-based payment method for employee options using the modified prospective transition method. We use a Black-Scholes model to estimate the value.

Derivative Liability

We evaluate whether warrants or convertible instruments to acquire stock of the Company contain provisions that protect holders from declines in the stock price or otherwise could result in modification of the exercise price under the respective agreements. Down-round provisions reduce the exercise price of a warrant or convertible instrument if a company either issues equity shares for a price that is lower than the exercise price, and such instruments are recorded as derivative liabilities. We use a Black-Scholes model to estimate the fair value of our convertible notes and warrants.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Our exposure to market risk is confined to our cash and cash equivalents. We have attempted to minimize risk by investing in high-quality financial instruments, primarily money market funds with no security having an effective duration longer than 90 days. If the market interest rate decreases by 100 basis points or 1%, the fair value of our cash and cash equivalents portfolio would have minimal to no impact on the carrying value of our portfolio. We did not hold any derivative instruments as of March 31, 2011, and we have never held such instruments in the past.

Item 4. Controls and Procedures**Evaluation of Disclosure Controls and Procedures**

As of June 30, 2011, we carried out an evaluation, under the supervision and with the participation of our Principal Executive and Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based upon that evaluation, our Chief Operating and Financial Officer concluded since all financial and accounting duties are now performed by one person our disclosure controls and procedures were not effective as of that date to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and to ensure that information required to be disclosed by us in such reports is accumulated and communicated to the our management, including our Chief Operating and Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Our disclosure controls or internal controls over financial reporting were designed to provide only reasonable assurance that such disclosure controls or internal control over financial reporting will prevent all errors or all instances of fraud, even as the same are improved to address any deficiencies. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be only reasonable, not absolute assurance that any design will succeed in achieving its stated goals under all potential future conditions. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs.

Because of the inherent limitation of a cost-effective control system, misstatements due to error or fraud may occur and not be detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls.

Changes in Internal Control

During the quarter ended June 30, 2011, there was a change in internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. That change is that all financial and accounting duties are now performed by one person with oversight by our Board of Directors.

Part II – Other Information

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

There have been no material changes with respect to Risk Factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2010.

We are controlled by current officers, directors and principal stockholders.

Our directors, executive officers and principal stockholders beneficially own approximately 20 percent of our outstanding voting stock and, including shares underlying outstanding options and warrants. Our directors, officers and principal stockholders, taken as a whole, have the ability to exert substantial influence over the election of our Board of Directors and the outcome of issues submitted to our stockholders. Any dispute with Nordic, including the dispute concerning the appropriate valuation methodology for the antidilution calculation, may adversely affect the Company's operations and the Company's ability to raise additional capital in the future, and may divert the Company's limited management time and attention,

Item 6. Exhibits

<u>Exhibit No.</u>	<u>Description</u>
31.1	Certification of Principal Executive and Financial Officer
32.1	Certifications of Principal Executive and Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

In accordance with the requirements of the Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MANHATTAN PHARMACEUTICALS, INC.

Date: August 15, 2011

By: /s/ Michael G. McGuinness

Michael G. McGuinness
Principal Executive Officer

Index to Exhibits Filed with this Report

Exhibit No.	Description
31.1	Certification of Principal Executive and Financial Officer.
32.1	Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

CERTIFICATIONS

I, Michael G. McGuinness, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Manhattan Pharmaceuticals, Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: August 15, 2011

/s/ Michael G. McGuinness
Michael G. McGuinness
Principal Executive and Financial Officer

**CERTIFICATIONS
OF
PRINCIPAL EXECUTIVE OFFICER**

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Manhattan Pharmaceuticals, Inc. does hereby certify that, to the best of his knowledge:

(a) the Quarterly Report on Form 10-Q of Manhattan Pharmaceuticals, Inc. for the quarter ended June 30, 2011 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(b) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Manhattan Pharmaceuticals, Inc.

Dated: August 15, 2011

/s/ Michael G. McGuinness

Michael G. McGuinness

Principal Executive and Financial Officer
