

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

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported): July 7, 2006

Manhattan Pharmaceuticals, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation)

000-27282
(Commission File Number)

36-3898269
(IRS Employer
Identification No.)

810 Seventh Avenue, 4th Floor
(Address of principal executive offices)

10019
(Zip Code)

(212) 582-3950
(Registrant's telephone number, including area code)

Not applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 1.01. Entry into Material Definitive Agreement.

(a) Employment Agreement with Michael G. McGuinness

Manhattan Pharmaceuticals, Inc. (the “Company”) and Michael G. McGuinness entered into an employment agreement dated July 7, 2006, which provides the terms of Mr. McGuinness’ employment as the Company’s chief financial officer. The agreement provides for an initial three-year term of employment commencing July 10, 2006. The initial term may be renewed for additional one-year periods upon the mutual agreement of the parties. Pursuant to the agreement, Mr. McGuinness is entitled to an annual base salary of \$205,000 and an annual bonus, payable in the discretion of the Company’s Board of Directors, of up to 30 percent of the base salary. Mr. McGuinness is also entitled to certain other fringe benefits that are made available to the Company’s senior executives from time to time, which include medical and dental insurance and participation in the Company’s 401(k) plan.

In addition, in accordance with the terms of the employment agreement, the Company issued to Mr. McGuinness two stock options pursuant to the Company’s 2003 Stock Option Plan. The first option relates to 220,000 shares of the Company’s common stock and is exercisable at a price of \$0.70, the closing price of the Company’s common stock on July 7, 2006. The second option relates to 60,000 shares and is exercisable at a price of \$1.35 per share. Both options have a term of 10 years and vest in three annual installments commencing July 10, 2007. To the extent Mr. McGuinness’ employment with the Company is terminated prior to the end of such 10-year term, the options shall remain exercisable for a period of 90 days following such termination.

The employment agreement further provides that in the event the Company terminates Mr. McGuinness’ employment with the Company other than as a result of death, for “cause,” “disability” or upon a “change of control” (as those terms are defined in the agreement), then (1) Mr. McGuinness will continue receiving his base salary and fringe benefits for a period of six months following such termination, provided, that the Company’s obligation to pay such compensation shall be offset by any amounts received by Mr. McGuinness from subsequent employment during such 6-month period, and (2) the vesting of the stock options issued to Mr. McGuinness in accordance with the employment agreement will accelerate and be deemed vested as of the date of termination and will remain exercisable for a period of 90 days following such termination. In the event Mr. McGuinness’ employment is terminated during the term of the employment agreement upon a “change of control” and, if at the time of such termination, the aggregate value of the Company’s outstanding common stock is less than \$80 million, then (i) Mr. McGuinness will continue receiving his base salary and fringe benefits for a period of six months following such termination and (ii) the portions of the stock options issued in accordance with the employment agreement that have vested as of the date of such termination or that are scheduled to vest in the calendar year of such termination will be deemed vested and will remain exercisable for a period of 90 days following such termination.

The employment agreement, a copy of which is attached to this Report as Exhibit 10.1, is incorporated by reference herein.

(b) Separation Agreement with Nicholas J. Rossettos

On July 7, 2006, the Company entered into a Separation Agreement with Nicholas J. Rossettos, its former chief financial officer, pursuant to which the parties agreed that Mr. Rossettos’ employment with the Company would end effective as of July 10, 2006. The separation agreement, a copy of which is attached to this Report as Exhibit 10.2, is incorporated by reference herein.

Item 5.02. Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers.

On July 7, 2006, the Company and Nicholas J. Rossettos, its former chief financial officer, chief operating officer, treasurer and secretary agreed that Mr. Rossettos' employment with the Company would terminate, effective July 10, 2006.

Effective as of July 10, 2006, the Company appointed Michael McGuinness as its chief financial officer and secretary. Prior to joining the Company, Mr. McGuinness served as chief financial officer of Vyteris Holdings (Nevada), Inc. (OTCBB: VYHN), a product-based drug delivery company, from September 2001 to April 2006, and from 1998 to 2001 he was chief financial officer of EpiGenesis Pharmaceuticals, a privately-held biotechnology company. Mr. McGuinness received a BBA in public accounting from Hofstra University.

The discussion of the terms of Mr. McGuinness' employment agreement contained under Item 1.01 of this Report is incorporated herein by reference.

Item 9.01. Financial Statements and Exhibits

(d) Exhibits. The following exhibits are filed herewith.

Exhibit No.	Description
10.1	Employment Agreement dated July 7, 2006 by and between the Company and Michael G. McGuinness.
10.2	Separation Agreement dated July 7, 2006 by and between the Company and Nicholas J. Rossettos.

SIGNATURE

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

Manhattan Pharmaceuticals, Inc.

Date: July 11, 2006

By: /s/ Douglas Abel

Douglas Abel
President & Chief Executive Officer

EXHIBIT INDEX

Exhibit No.

Description

10.1	Employment Agreement dated July 7, 2006 by and between the Company and Michael G. McGuinness.
10.2	Separation Agreement dated July 7, 2006 by and between the Company and Nicholas J. Rossettos.

EMPLOYMENT AGREEMENT

This Agreement (the "**Agreement**") is entered into as of July 7, 2006 (the "**Effective Date**") by and between MANHATTAN PHARMACEUTICALS, INC., a Delaware corporation with an office at 810 Seventh Avenue, 4th Floor, New York, NY 10019 (the "**Company**"), and **Michael G. McGuinness**, residing 36 Aldom Circle, West Caldwell, NJ 07006 (the "**Executive**").

W I T N E S S E T H:

WHEREAS, the Company desires to employ the Executive as Chief Financial Officer of the Company and the Executive desires to serve the Company in that capacity, all upon the terms and subject to the conditions contained in this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, the parties hereto hereby agree as follows:

1. Employment.

(a) Services. The Executive will be employed by the Company and shall serve as Chief Financial Officer of the Company and shall perform, subject to the direction of the Chief Executive Officer of the Company, such services and duties as are customarily performed by the Chief Financial Officer (the "**Services**"). The Executive shall also have such other powers and duties as may be from time to time prescribed by the Chief Executive Officer or the Board of Directors of the Company (the "**Board**"), provided that the nature of the Executive's powers and duties so prescribed shall not be inconsistent with the Executive's position and duties hereunder.

(b) Acceptance. The Executive hereby accepts such employment and agrees to render the Services.

2. Term. The Executive's employment under this Agreement shall commence as of July 10, 2006 (the "**Commencement Date**") and shall continue for a term of three (3) years (the "**Initial Term**"), unless sooner terminated pursuant to Section 8 of this Agreement. Notwithstanding anything to the contrary contained herein, the provisions of this Agreement governing protection of the Company's Confidential and Proprietary Information (as defined in Section 5(a) hereof) shall continue in effect as specified in Section 5 hereof and survive the expiration or termination hereof. This Agreement may be renewed for one or more additional one year periods (each, an "**Additional Term**" and, together with the Initial Term, the "**Term**") if the Company and the Executive agree in writing on the terms of such renewal not less than 30 days prior to the end of the then current Term. If the Company and the Executive have not agreed on the terms of such renewal prior to such date, this Agreement shall terminate at the end of the then current term (a "**Non-Renewal Event**").

3. Best Efforts; Place of Performance.

(a) During the Term, the Executive shall devote substantially all of his business time, attention and energies to the business and affairs of the Company and shall use his best efforts to advance the best interests of the Company and shall not during the Term be actively engaged in any other business activity, whether or not such business activity is pursued for gain, profit or other pecuniary advantage. Notwithstanding the foregoing, Executive may fulfill his obligation to provide consulting services pursuant to that certain Separation Agreement dated March 16, 2006 between Executive and Vyteris Holdings (Nevada) Inc., and with the prior written consent of the Company, Executive may serve as a member of boards of directors of other organizations not affiliated with the Company or serve as an adjunct professor or similar position at an academic institution; provided, however, that the business or activities of any organization on which Executive proposes to serve as a director shall not compete with, or be likely to compete with, the Company's business and activities; and provided further, however, that such service by Executive shall not interfere, or be likely to interfere, with the performance by Executive of the Services to be performed hereunder.

(b) The duties to be performed by the Executive hereunder shall be performed primarily at the principal office of the Company in New York, New York, subject to reasonable travel requirements on behalf of the Company, or such other place as the Board may reasonably designate. Notwithstanding the foregoing, Executive acknowledges that the Company may be relocated to another city within the United States with the consent and approval of the Board.

4. Compensation. As full compensation for the performance by the Executive of his duties under this Agreement, the Company shall pay the Executive as follows:

(a) Base Salary. During the Term, the Company shall pay the Executive an annual base salary (the "**Base Salary**"), which shall initially be equal to \$205,000 per year. The Base Salary shall be paid in accordance with the Company's normal payroll practices. The Base Salary will be reviewed by the Board no less frequently than annually and may be increased (but not decreased).

(b) Discretionary Bonus. At the sole discretion of the Board, the Executive may receive an additional annual bonus (the "**Discretionary Bonus**") in an amount up to 30% of his then current Base Salary, based upon his performance on behalf of the Company during the prior year. The Discretionary Bonus shall be payable either as a lump-sum payment or installments as determined by the Board in its sole discretion. In addition, the Board shall annually review the Discretionary Bonus to determine whether an increase in the amount thereof is warranted.

(c) Withholding. The Company shall withhold all applicable federal, state and local taxes and social security and such other amounts as may be required by law from all amounts payable to the Executive under this Section 4.

(d) Equity Compensation.

(i) Options. The Company shall grant the Executive a stock option to purchase 220,000 shares of the common stock, par value \$0.001 per share (the “**Common Stock**”) of the Company at a price per share equal to the last closing sale price of the Common Stock as reported on the American Stock Exchange on the last trading day immediately preceding the Commencement Date (the “**First Option**”). The Company shall also grant the Executive a stock option to purchase 60,000 shares of Common Stock at a price equal to the greater of (i) \$1.35 per share or (ii) the last closing sale price of the Common Stock as reported on the American Stock Exchange on the last trading day immediately preceding the Commencement Date (the “**Second Option**,” and together with the First Option, the “**Options**”). The Options shall be governed by the Company’s 2003 Stock Option Plan (the “**Plan**”). For so long as the Executive is an employee of the Company, the Options shall vest, if at all, in three equal and annual installments on the first, second and third anniversaries of the Commencement Date, respectively. The Options shall have a term of 10 years from date of grant and, subject to the provisions of Section 9 hereof, the vested Options shall remain exercisable for 90 days from the date that the Executive is no longer an employee of the Company. In connection with such grant, the Executive shall enter into the Company’s standard stock option agreement which will incorporate the foregoing vesting schedule and the provisions contained in Section 9 hereof. The Board shall review the aggregate number of stock options granted to the Executive not less frequently than annually in order to determine whether an increase in the number thereof is warranted.

(e) Expenses. The Company shall reimburse the Executive for all normal, usual and necessary expenses incurred by the Executive in furtherance of the business and affairs of the Company, including reasonable travel and entertainment, upon timely receipt by the Company of appropriate vouchers or other proof of the Executive’s expenditures and otherwise in accordance with any expense reimbursement policy as may from time to time be adopted by the Company.

(f) Other Benefits. The Executive shall be entitled to all rights and benefits for which he shall be eligible under any benefit or other plans (including, without limitation, dental, medical, medical reimbursement and hospital plans, pension plans, employee stock purchase plans, profit sharing plans, bonus plans and other so-called “fringe” benefits) as the Company shall make available to its senior executives from time to time (collectively, the “**Fringe Benefits**”).

(g) Vacation. The Executive shall, during the Term, be entitled to vacation of three non-consecutive weeks per annum, in addition to public holidays observed by the Company. The Executive shall not be entitled to carry any vacation forward to the next year of employment.

(h) Indemnification. The Company will indemnify the Executive to the extent permitted by its charter and by-laws and by applicable law against all costs, charges and expenses, including, without limitation, attorneys’ fees, incurred or sustained by the Executive in connection with any action, suit or proceeding to which the Executive may be made a party by reason of being an officer, director or employee of the Company. In connection with the foregoing, the Executive will be covered under any liability insurance policy that protects other officers of the Company.

5. Confidential Information and Inventions.

(a) The Executive recognizes and acknowledges that in the course of his duties he is likely to receive confidential or proprietary information owned by the Company, its affiliates or third parties with whom the Company or any such affiliates has an obligation of confidentiality. Accordingly, during and after the Term, the Executive agrees to keep confidential and not disclose or make accessible to any other person or use for any other purpose other than in connection with the fulfillment of his duties under this Agreement, any Confidential and Proprietary Information (as defined below) owned by, or received by or on behalf of, the Company or any of its affiliates. “**Confidential and Proprietary Information**” shall include, but shall not be limited to, confidential or proprietary scientific or technical information, data, formulas and related concepts, business plans (both current and under development), client lists, promotion and marketing programs, trade secrets, or any other confidential or proprietary business information relating to development programs, costs, revenues, marketing, investments, sales activities, promotions, credit and financial data, manufacturing processes, financing methods, plans or the business and affairs of the Company or of any affiliate or client of the Company. The Executive expressly acknowledges the trade secret status of the Confidential and Proprietary Information and that the Confidential and Proprietary Information constitutes a protectable business interest of the Company. The Executive agrees (i) not to use any such Confidential and Proprietary Information for himself or others and (ii) not to take any Company material or reproductions (including but not limited to writings, correspondence, notes, drafts, records, invoices, technical and business policies, computer programs or disks) thereof from the Company’s offices at any time during his employment by the Company, except as required in the execution of the Executive’s duties to the Company. The Executive agrees to return immediately all Company material and reproductions (including but not limited, to writings, correspondence, notes, drafts, records, invoices, technical and business policies, computer programs or disks) thereof in his possession to the Company upon request and in any event immediately upon termination of employment.

(b) Except with prior written authorization by the Company, the Executive agrees not to disclose or publish any of the Confidential and Proprietary Information, or any confidential, scientific, technical or business information of any other party to whom the Company or any of its affiliates owes an obligation of confidence, at any time during or after his employment with the Company.

(c) The Executive agrees that all inventions, discoveries, improvements and patentable or copyrightable works (“**Inventions**”) initiated, conceived or made by him, either alone or in conjunction with others, during the Term shall be the sole property of the Company to the maximum extent permitted by applicable law and, to the extent permitted by law, shall be “works made for hire” as that term is defined in the United States Copyright Act (17 U.S.C.A., Section 101). The Company shall be the sole owner of all patents, copyrights, trade secret rights, and other intellectual property or other rights in connection therewith. The Executive hereby assigns to the Company all right, title and interest he may have or acquire in all such Inventions; provided, however, that the Chief Executive Officer may in its sole discretion agree to waive the Company’s rights pursuant to this Section 5(c) with respect to any Invention that is not directly or indirectly related to the Company’s business. The Executive further agrees to assist the Company in every proper way (but at the Company’s expense) to obtain and from time to time enforce patents, copyrights or other rights on such Inventions in any and all countries, and to that end the Executive will execute all documents necessary:

(i) To apply for, obtain and vest in the name of the Company alone (unless the Company otherwise directs) letters patent, copyrights or other analogous protection in any country throughout the world and when so obtained or vested to renew and restore the same; and

(ii) To defend any opposition proceedings in respect of such applications and any opposition proceedings or petitions or applications for revocation of such letters patent, copyright or other analogous protection.

(d) The Executive acknowledges that while performing the services under this Agreement the Executive may locate, identify and/or evaluate patented or patentable inventions having commercial potential in the fields of pharmacy, pharmaceutical, biotechnology, healthcare, technology and other fields which may be of potential interest to the Company or one of its affiliates (the “**Third Party Inventions**”). The Executive understands, acknowledges and agrees that all rights to, interests in or opportunities regarding, all Third-Party Inventions identified by the Company, any of its affiliates or either of the foregoing persons’ officers, directors, employees (including the Executive), agents or consultants during the Employment Term shall be and remain the sole and exclusive property of the Company or such affiliate and the Executive shall have no rights whatsoever to such Third-Party Inventions and will not pursue for himself or for others any transaction relating to the Third-Party Inventions which is not on behalf of the Company.

(e) Executive agrees that he will promptly disclose to the Company, or any persons designated by the Company, all improvements, Inventions made or conceived or reduced to practice or learned by him, either alone or jointly with others, during the Term.

(f) The provisions of this Section 5 shall survive any termination of this Agreement.

6. Non-Competition, Non-Solicitation and Non-Disparagement.

(a) The Executive understands and recognizes that his services to the Company are special and unique and that in the course of performing such services the Executive will have access to and knowledge of Confidential and Proprietary Information (as defined in Section 5) and the Executive agrees that, during the Term and for a period of 12 months thereafter, he shall not in any manner, directly or indirectly, on behalf of himself or any person, firm, partnership, joint venture, corporation or other business entity (“**Person**”), enter into or engage in any business which is engaged in any business directly or indirectly competitive with the Company in the Business (as defined below) (each, a “**Restricted Activity**”) within the geographic area of the Company’s business, which is deemed by the parties hereto to be worldwide. The Executive acknowledges that, due to the unique nature of the Business, the loss of any of its clients or business flow or the improper use of its Confidential and Proprietary Information could create significant instability and cause substantial damage to the Company and its affiliates and therefore the Company has a strong legitimate business interest in protecting the continuity of its business interests and the restriction herein agreed to by the Executive narrowly and fairly serves such an important and critical business interest of the Company. For purposes of this Agreement, the “**Business**” means the development and commercialization of drugs and other biomedical technologies in which the Company is actively engaged (1) for the treatment, detection or prevention of dermatologic diseases, disorders, and conditions and (2) the treatment, detection or prevention of any other diseases, disorders, and conditions. Notwithstanding the foregoing, nothing contained in this Section 6(a) shall be deemed to prohibit the Executive from (i) engaging in a Restricted Activity for or with respect to any subsidiary, division or affiliate or unit (each, a “**Unit**”) of a Person if that Unit is not engaged in any business which is competitive with the Business of the Company, irrespective of whether some other Unit of such Person engages in such competition (as long as the Executive does not engage in a Restricted Activity for such other Unit), or (ii) acquiring or holding, solely for investment, publicly traded securities of any corporation, some or all of the activities of which are competitive with the business of the Company so long as such securities do not, in the aggregate, constitute more than 4% of any class or series of outstanding securities of such corporation.

(b) During the Term and for a period of 12 months thereafter, the Executive shall not, directly or indirectly, without the prior written consent of the Company:

(i) Solicit or induce any employee of the Company or any of its affiliates to leave the employ of the Company or any such affiliate; or hire for any purpose any employee of the Company or any affiliate or any employee who has left the employment of the Company or any affiliate within one year of the termination of such employee's employment with the Company or any such affiliate or at any time in violation of such employee's non-competition agreement with the Company or any such affiliate;

(ii) Solicit or accept employment or be retained by any Person who, at any time during the term of this Agreement, was an agent, client or customer of the Company or any of its affiliates where his position will be related to the business of the Company or any such affiliate; or

(iii) Solicit or accept the business of any agent, client or customer of the Company or any of its affiliates with respect to products, services or investments similar to those provided or supplied by the Company or any of its affiliates.

(c) The Company and the Executive each agree that both prior to and during the Term and at all times thereafter, neither party shall willfully or intentionally, directly or indirectly disparage, whether or not true, the name or reputation of the other party or any of its affiliates, including but not limited to, any officer, director, employee or shareholder of the Company or any of its affiliates.

(d) The Executive hereby acknowledges that any breach or threatened breach of any of the terms of Section 5 or 6 of hereof will result in substantial, continuing and irreparable injury to the Company. Therefore, in addition to any other remedy that may be available to the Company, the Company will be entitled to seek injunctive or other equitable relief by a court of appropriate jurisdiction, without posting of a bond, in the event of any breach or threatened breach of the terms of Section 5 or 6 hereof. The Company and the Executive agree that any such action for injunctive or equitable relief shall be heard in a state or federal court located in the State of New York and each of the parties hereto agrees to accept service of process by registered or certified mail and to otherwise consent to the jurisdiction of such courts.

(e) The rights and remedies of the Company enumerated in Section 6(d) shall be in addition to and not in lieu of any other rights and remedies available to the Company at law or in equity. If any of the covenants contained in this Section 6, or any part of any of them, is hereafter construed or adjudicated to be invalid or unenforceable, the same shall not affect the remainder of the covenant or covenants or rights or remedies which shall be given full effect without regard to the invalid portions. If any of the covenants contained in this Section 6 is held to be invalid or unenforceable because of the duration of such provision or the area covered thereby, the parties agree that the court making such determination shall have the power to reduce the duration and/or area of such provision and in its reduced form such provision shall then be enforceable. No such holding of invalidity or unenforceability in one jurisdiction shall bar or in any way affect the Company's right to the relief provided in this Section 6 or otherwise in the courts of any other state or jurisdiction within the geographical scope of such covenants as to breaches of such covenants in such other respective states or jurisdictions, such covenants being, for this purpose, severable into diverse and independent covenants.

(f) In the event that an actual proceeding is brought in equity to enforce the provisions of Section 5 or this Section 6, the Executive shall not urge as a defense that there is an adequate remedy at law nor shall the Company be prevented from seeking any other remedies which may be available.

(g) The provisions of this Section 6 shall survive any termination of this Agreement.

7. Representations and Warranties.

(a) The Executive hereby represents and warrants to the Company as follows:

(i) Neither the execution or delivery of this Agreement nor the performance by the Executive of his duties and other obligations hereunder violate or will violate any statute, law, determination or award, or conflict with or constitute a default or breach of any covenant or obligation under (whether immediately, upon the giving of notice or lapse of time or both) any prior employment agreement, contract, or other instrument to which the Executive is a party or by which he is bound; and

(ii) The Executive has the full right, power and legal capacity to enter and deliver this Agreement and to perform his duties and other obligations hereunder. This Agreement constitutes the legal, valid and binding obligation of the Executive enforceable against him in accordance with its terms. No approvals or consents of any persons or entities are required for the Executive to execute and deliver this Agreement or perform his duties and other obligations hereunder.

(b) The Company hereby represents and warrants to the Executive that this Agreement, the employment of the Executive hereunder and the grant of the Options have been duly authorized by and on behalf of the Company, including, without limitation, by all required action by the Board.

8. Termination. The Executive's employment hereunder shall be terminated upon the Executive's death and may also be terminated as follows:

(a) The Executive's employment hereunder may be terminated by written notice to the Executive from the Chief Executive Officer or the Board for Cause, effective the date of delivery of such notice. Any of the following actions by the Executive shall constitute "**Cause**":

(i) The willful and repeated failure, disregard or refusal by the Executive to perform his duties hereunder;

(ii) Any willful, intentional or grossly negligent act by the Executive having the effect of injuring, in a material way (whether financial or otherwise), the business or reputation of the Company or any of its affiliates, including but not limited to, any officer, director, executive or shareholder of the Company or any of its affiliates;

(iii) Willful misconduct by the Executive in respect of the duties or obligations of the Executive under this Agreement, including, without limitation, insubordination with respect to directions received by the Executive from the Chief Executive Officer, unless such direction was contrary to directions given by the Board;

(iv) The Executive's conviction of any felony or a misdemeanor involving moral turpitude (including entry of a nolo contendere plea);

(v) The determination by the Company based upon clear and convincing evidence, after a reasonable and good-faith investigation by the Company following a written allegation by another employee of the Company, that the Executive engaged in material harassment prohibited by law (including, without limitation, age, sex or race discrimination);

(vi) Any misappropriation or embezzlement of the property of the Company or its affiliates (whether or not a misdemeanor or felony);

(vii) A breach by the Executive of any of the provisions of Sections 5 or 6 hereof; or

(viii) A material breach by the Executive of any material provision of this Agreement (other than those contained in Sections 5 or 6 hereof, which are governed by clause (viii) above) that is not cured by the Executive within 30 days after written notice thereof is given to the Executive by the Company.

Any determination of Cause under this Section 8(a) will be made by the Board. With respect to any such determination, the Board will act fairly and in utmost good faith and will give the Executive and his counsel an opportunity to appear and be heard at a meeting with the Board and present evidence on the Executive's behalf.

(b) The Executive's employment hereunder may be terminated by the Chief Executive Officer as a result of the Executive's Disability. For purposes of this Agreement, a termination for "**Disability**" shall occur (i) when the Chief Executive Officer has provided a written termination notice to the Executive supported by a written statement from a reputable independent physician to the effect that the Executive shall have become so physically or mentally incapacitated as to be unable to resume, within the ensuing 6 months, his employment hereunder by reason of physical or mental illness or injury, or (ii) upon delivery of a written termination notice to the Executive by the Chief Executive Officer after the Executive has been unable to substantially perform his duties hereunder for 60 or more consecutive days, or more than 90 days in any consecutive 12 month period, by reason of any physical or mental illness or injury. For purposes of this Section 8(b), the Executive agrees to make himself available and to cooperate in any reasonable examination by a reputable independent physician selected by the Company and reasonably satisfactory to the Executive.

(c) The Executive's employment hereunder may be terminated by the Company (or an entity that is a successor to the Company) by written notice to the Executive upon the occurrence of a Change of Control. For purposes of this Agreement, "**Change of Control**" means (i) the acquisition, directly or indirectly, following the date hereof by any person (as such term is defined in Section 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended), in one transaction or a series of related transactions, of securities of the Company representing in excess of fifty percent (50%) of the combined voting power of the Company's then outstanding securities if such person or his or its affiliate(s) do not own in excess of 50% of such voting power on the date of this Agreement, or (ii) the sale or transfer by the Company (whether direct or indirect, by sale of assets or stock, merger, consolidation or otherwise) of all or substantially all of its business and/or assets in one transaction or series of related transactions (other than a merger effected exclusively for the purpose of changing the domicile of the Company).

(d) The Executive's employment hereunder may be terminated by the Executive by written notice to the Company for Good Reason, effective the date of delivery of such notice. For purposes of this Agreement, "**Good Reason**" shall mean the occurrence of any of the following:

(i) A material breach by the Company of Section 4, Section 6(c) or Section 7b) of this Agreement which is not cured by the Company within 30 days after written notice thereof is given to the Company by the Executive;

(ii) A change in the lines of reporting such that the Executive no longer reports to either the Chief Executive Officer or to the Board;

(iii) A reduction in the Executive's compensation or other benefits except such a reduction in connection with a general reduction in compensation or other benefits of all senior executives of the Company; or

(e) The Executive's employment may be terminated by the Company for any reason or no reason by delivery of written notice to the Executive effective thirty (30) days after the date of delivery of such notice.

(f) The Executive's employment may be terminated by the Executive in the absence of a Good Reason by delivery of written notice to the Company effective thirty (30) days after the date of delivery of such notice.

9. Compensation Following Termination.

(a) If the Executive's employment is terminated during the Term as a result of his death or Disability, the Company shall promptly pay to the Executive or to the Executive's estate, as applicable, his then current Base Salary and any accrued but unpaid Discretionary Bonus, the value of his accrued unused vacation days and expense reimbursement amounts through the date of death or Disability. Any portion of the Options that are scheduled to vest by the end of the calendar year in which such termination occurs shall be accelerated and vested as of the termination date. All Options that have not vested (or been vested pursuant to the immediately preceding sentence to have vested) as of the date of termination shall be deemed to have expired as of such date.

(b) If the Executive's employment is terminated during the Term (i) by the Company for Cause or (ii) by the Executive in the absence of a Good Reason, the Company shall continue paying to the Executive through the date of termination his then current Base Salary, the value of his accrued unused vacation days and expense reimbursement amounts (collectively, the "**Accrued Compensation**"), and the Executive shall have no further entitlement to any other compensation or benefits from the Company. Any portion of the Options that have not vested as of the date of termination shall be deemed to have expired as of such date. Any portion of Options that have vested as of the date of termination shall remain exercisable for a period of 90 days following the date of such termination.

(c) If the Executive's employment is terminated during the Term by the Company (or its successor) upon the occurrence of a Change of Control and on the date of termination pursuant to this Section 9(c) the Fair Market Value (as defined herein) of the Company's outstanding Common Stock, in the aggregate, is less than \$80,000,000, then the Company (or its successor, as applicable) shall (i) pay the Executive the Accrued Compensation through the date of such termination and (ii) continue to pay to the Executive his then current annualized Base Salary and provide him with the Fringe Benefits for a period of six months following the date of such termination. All Options that are scheduled to vest by the end of the calendar year in which such termination occurs shall be accelerated and deemed to have vested as of the termination date. Any Options that have vested (or been deemed pursuant to the immediately preceding sentence to have vested) as of the date of the Executive's termination shall remain exercisable for a period of 90 days following the date of such termination. All Options that have not vested (or been deemed pursuant to the immediately preceding sentence to have vested) as of the date of termination shall be deemed to have expired as of such date. "Fair Market Value" shall mean the average closing sale price of the Common Stock for the ten (10) business days preceding the Change of Control, as quoted on a national securities exchange, the Nasdaq Stock Market or the Over-the-Counter Bulletin Board, as applicable, or if the Common Stock is not then traded or quoted on any such stock exchange or stock market, then such price as determined in good faith by the Board on the date of such Change of Control.

(d) If the Executive's employment is terminated during the Term either (1) by the Company other than as a result of the Executive's death or Disability and other than for one of the reasons specified in Sections 9(a), 9(b) or 9(c), or (2) by the Executive for a Good Reason, then the Company shall (i) pay the Executive the Accrued Compensation through the date of such termination, and (ii) continue to pay to the Executive his then current annualized Base Salary and provide him with the Fringe Benefits for a period of six (6) months following the date of such termination. The Company's obligation under clause (ii) in the preceding sentence shall be subject to offset by any amounts otherwise received by the Executive from any employment during the 6-month period following the termination of his employment. All Options shall be accelerated and deemed to have vested as of the termination date. Any Options that have vested (or been deemed pursuant to the immediately preceding sentence to have vested) as of the date of the Executive's termination shall remain exercisable for a period of 90 days following the date of such termination.

(e) This Section 9 sets forth the only obligations of the Company with respect to the termination of the Executive's employment with the Company, and the Executive acknowledges that, upon the termination of his employment, he shall not be entitled to any payments or benefits which are not explicitly provided in this Section 9.

(f) Unless otherwise expressly agreed to in writing by the Company and Executive, upon termination of the Executive's employment with the Company for any reason, the Executive shall be deemed to have resigned as an officer of the Company and, if applicable, as a director and officer of any subsidiary of the Company, effective as of the date of such termination.

(g) Notwithstanding anything to the contrary contained in this Section 9, other than the Accrued Compensation, the Company shall have no obligation to pay, and Executive shall have no obligation to receive, any compensation or other consideration (including without limitation the acceleration of any unvested Options) upon termination of Executive's employment unless Executive executes a separate agreement releasing the Company from any and all liability in connection with the termination of Executive's employment.

(h) The provisions of this Section 9 shall survive any termination of this Agreement.

10. Miscellaneous.

(a) This Agreement shall be governed by, and construed and interpreted in accordance with, the laws of the State of New York, without giving effect to its principles of conflicts of laws.

(b) Any dispute arising out of, or relating to, this Agreement or the breach thereof (other than Sections 5 or 6 hereof), or regarding the interpretation thereof, shall be finally settled by arbitration conducted in New York, New York in accordance with the commercial arbitration rules of the American Arbitration Association then in effect before a single arbitrator appointed in accordance with such rules. Judgment upon any award rendered therein may be entered and enforcement obtained thereon in any court having jurisdiction. The arbitrator shall have authority to grant any form of appropriate relief, whether legal or equitable in nature, including specific performance. For the purpose of any judicial proceeding to enforce such award or incidental to such arbitration or to compel arbitration and for purposes of Sections 5 and 6 hereof, the parties hereby submit to the exclusive jurisdiction of the courts of the State of New York or the United States District Court for the Southern District of New York and agree that service of process in such arbitration or court proceedings shall be satisfactorily made upon it if sent by registered mail addressed to it at the address referred to in paragraph (g) below. The costs of such arbitration shall be borne proportionate to the finding of fault as determined by the arbitrator. Judgment on the arbitration award may be entered by any court of competent jurisdiction.

(c) This Agreement shall be binding upon and inure to the benefit of the parties hereto, and their respective heirs, legal representatives, successors and permitted assigns.

(d) This Agreement, and the Executive's rights and obligations hereunder, may not be assigned by the Executive. The Company may assign its rights, together with its obligations, hereunder in connection with any sale, transfer or other disposition of all or substantially all of its business or assets.

(e) This Agreement cannot be amended orally, or by any course of conduct or dealing, but only by a written agreement signed by the parties hereto.

(f) The failure of either party to insist upon the strict performance of any of the terms, conditions and provisions of this Agreement shall not be construed as a waiver or relinquishment of future compliance therewith, and such terms, conditions and provisions shall remain in full force and effect. No waiver of any term or condition of this Agreement on the part of either party shall be effective for any purpose whatsoever unless such waiver is in writing and signed by such party.

(g) All notices, requests, consents and other communications, required or permitted to be given hereunder, shall be in writing and shall be delivered personally or by an overnight courier service or sent by registered or certified mail, postage prepaid, return receipt requested, to the parties at the addresses set forth on the first page of this Agreement, and shall be deemed given when so delivered personally or by overnight courier, or, if mailed, five days after the date of deposit in the United States mail. Either party may designate another address, for receipt of notices hereunder by giving notice to the other party in accordance with this paragraph (g).

(h) This Agreement, together with the stock option agreements evidencing the Options, sets forth the entire agreement and understanding of the parties relating to the subject matter hereof, and supersedes all prior agreements, arrangements and understandings, written or oral, relating to the subject matter hereof. No representation, promise or inducement has been made by either party that is not embodied in this Agreement, and neither party shall be bound by or liable for any alleged representation, promise or inducement not so set forth.

(i) As used in this Agreement, "affiliate" of a specified Person shall mean and include any Person controlling, controlled by or under common control with the specified Person.

(j) The section headings contained herein are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement.

(k) This Agreement may be executed in any number of counterparts, each of which shall constitute an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as an instrument under seal as of the date first above written.

MANHATTAN PHARMACEUTICALS, INC..

By: /s/ Douglas Abel
Name: Douglas Abel
Title: President & Chief Executive Officer

EXECUTIVE

/s/ Michael G. McGuinness
Michael G. McGuinness

Manhattan Pharmaceuticals, Inc.
810 Seventh Avenue, 4th Floor
New York, NY 10019

July 7, 2006

Nicholas J. Rossettos
449 West 56th Street
Apartment 7D
New York, NY 10019

Dear Nick:

As we have discussed, this letter agreement (the "Agreement") sets forth the substance of the terms of your separation from Manhattan Pharmaceuticals, Inc. (the "Company").

1. **Separation from Employment.** You and the Company mutually agree that the final date of your employment with the Company will be July 10, 2006 (the "Separation Date"). This further confirms that, effective as of the Separation Date, you have resigned all of your offices of the Company and its subsidiaries.
2. **Post-Termination Date Compensation.** This further confirms that, consistent with Section 9(d)(i) of your Employment Agreement dated January 3, 2005 (the "Employment Agreement"), the Company will continue to pay your annualized Base Salary (as that term is defined in the Employment Agreement) stated in such agreement until January 3, 2007. These payments will be made in equal installments at the times of the Company's regular paydays and will be subject to applicable income tax withholdings and other legally required deductions. As provided in the Employment Agreement, however, such compensation may be offset against any amounts otherwise received by you from any employment from the Separation Date to January 3, 2007; provided, however, that in no event shall the Company have the right to recover or offset any amounts paid to you pursuant to this paragraph for any period prior to the commencement of new employment or for the period following January 3, 2007. As a condition to the Company paying the compensation described in this paragraph for the period following the Separation Date, you agree to send monthly correspondence (by email transmission to the attention of Douglas Abel, or such other representative as the Company may hereafter indicate) attesting to the Company your then-current employment status and all amounts earned from any such employment.
3. **Accrued Salary and Vacation.** On the Separation Date, the Company will pay you all accrued salary, and all accrued and unused vacation, earned through the Separation Date, subject to standard payroll deductions and withholdings.
4. **Benefits.** After the Separation Date and continuing through January 3, 2007, you will be entitled to continue receiving from the Company the employee benefits for which you are currently eligible on the same terms as such benefits are currently being provided to you. However, the Company shall have no obligation to continue providing benefits to you to the extent you are eligible to receive comparable benefits from a subsequent employer. Except as expressly provided in this Agreement or your Employment Agreement, you will not receive any additional benefits after the Separation Date, with the sole exception: a) of any benefit to which you have a vested right under the terms of a written, ERISA-qualified benefit plan (e.g., 401(k) plan, stock option plan), b) any and all rights to indemnification pursuant to Delaware law and the Company's Certificate of Incorporation and Bylaws, and c) rights as an insured under any Company insurance policy, including but not limited to, Directors and Officers liability insurance policy.

5. **Employment-Related Expense Reimbursements.** Within ten (10) days after the Separation Date, you shall submit your final, documented expense reimbursement statement reflecting all business expenses you incurred in connection with your employment through the Separation Date for which you seek reimbursement. The Company will reimburse you for these expenses pursuant to its regular business practice.
6. **Return of Company Property.** You agree to return to the Company, on or before the end of the Separation Date, all documents of the Company (and all copies or reproductions thereof) and all other Company property in your possession or control, including, but not limited to, all files, notes, memoranda, correspondence, agreements, drawings, records, plans, forecasts, reports, proposals, studies, analyses, financial information, operational information, personnel information, investor information, research and development information, computer-recorded information, tangible property and equipment (including, but not limited to, computers and cellular phones), credit cards, entry cards, identification badges and keys; and any materials or medium of any kind which contain or embody any proprietary or confidential information of any Company (and all reproductions thereof, in whole or in part).
7. **Proprietary Information Obligations.** You acknowledge that Section 5 (relating to confidentiality and inventions) and Section 6 (non-competition and non-solicitation) of your Employment Agreement will survive the Separation Date and continue in full force and effect.
8. **Nondisparagement.** You agree not to disparage the Company and its officers, directors, members, partners, managers, employees, shareholders, affiliates, and agents, in any manner likely to be harmful to them or their business, business reputation or personal reputation. The Company agrees not to disparage you in any manner likely to be harmful to you or your business reputation. Notwithstanding the foregoing, both you and the Company may respond accurately and fully to any question, inquiry or request for information when required by legal process.
9. **Acts Necessary To Effect This Agreement.** You and the Company agree to execute any instruments or agreements (or amendments thereto), or perform any other acts that are or may become, necessary to effect and carry out the transactions contemplated by this Agreement.
10. **No Admissions.** You understand and agree that the promises and payments in consideration of this Agreement shall not be construed to be an admission of any liability or obligation by any Company Affiliate to you or to any other person, and that the Company make no such admission.
11. **Miscellaneous.**

(a) **Severability.** Whenever possible, each provision of this Agreement will be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be invalid, illegal or unenforceable in any respect, in whole or in part, such invalidity, illegality or unenforceability will not affect any other provision, and such invalid, illegal or unenforceable provision will be reformed, construed and enforced so as to render it valid, legal, and enforceable consistent with the intent of the parties insofar as possible under applicable law.

(b) **Waiver.** Any waiver of any breach of any provision of this Agreement shall be in writing, and the waiving party shall not thereby be deemed to have waived any preceding or succeeding breach of the same or any other provision of this Agreement.

(c) **Entire Agreement.** This Agreement and the Employment Agreement, including their respective exhibits, constitutes the final, complete, and exclusive embodiment of the entire agreement between you and the Company regarding the subject matter hereof and it supersedes any prior agreement, promise, or representation, written or otherwise, between you and any of the Company with regard to this subject matter. To the extent that the provisions of this Agreement are inconsistent with the provisions of the Employment Agreement, this Agreement shall govern; *provided, however*, that to the extent not inconsistent with this Agreement, the Employment Agreement shall continue in full force and effect. This Agreement is entered into without reliance on any agreement, promise, or representation, written or oral, other than those expressly contained or incorporated herein, and it cannot be modified or amended except in a written agreement signed by you and me.

(d) **Counterparts.** This Agreement may be executed in separate counterparts, any one of which need not contain signatures of more than one party, but all of which taken together shall constitute one and the same Agreement. Signatures transmitted via facsimile shall be deemed the equivalent of originals.

(e) **Headings and Construction.** The headings of the paragraphs hereof are inserted for convenience only and shall not be deemed to constitute a part hereof or to affect the meaning thereof. For purposes of construction of this Agreement, any ambiguities shall not be construed against either party as the drafter.

(f) **Successors and Assigns.** This Agreement is intended to bind and inure to the benefit of and be enforceable by you, the Company and your and its respective successors, assigns, heirs, executors and administrators, except that you may not assign any of your duties or rights hereunder without the written consent of the Company, which shall not be unreasonably withheld.

(g) **Governing Law.** All questions concerning the construction, validity and interpretation of this Agreement shall be governed by the law of the State of New York as applied to contracts made and to be performed entirely within the State of New York.

If this Agreement is acceptable to you, please sign this Agreement and return the originals to me.

I wish you the best in your future endeavors.

Sincerely,

Manhattan Pharmaceuticals, Inc.

By: /s/ Douglas Abel
Douglas Abel
President & Chief Executive Officer

Accepted And Agreed:

/s/ Nicholas J. Rossettos
Nicholas J. Rossettos

Date: July 7, 2006