MINERALS TECHNOLOGIES INC
Form 10-Q
April 30, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended April 4, 2010

or

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

Commission File Number 1-11430
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MINERALS TECHNOLOGIES INC.
(Exact name of registrant as specified in its charter)

DELAWARE	25-1190717
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

622 Third Avenue, New York, New York 10017-6707
(Address of principal executive offices, including zip code)

(212) 878-1800
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

YES X NO _____

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
YES 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.

Non- accelerated Filer [ ]

Large Accelerated Filer	Accelerated Filer	Smaller Reporting Company
[ ]	[X]	[ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO X

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at April 18 , 2010
Common Stock, $0.10 par value	18,796,680

Table of Contents

MINERALS TECHNOLOGIES INC.

INDEX TO FORM 10-Q

Table of Contents

PART 1. FINANCIAL INFORMATION

ITEM 1. Financial Statements

MINERALS TECHNOLOGIES INC. AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(in thousands, except per share data)	Three Months Ended April 4, 2010	March 29, 2009
Net sales	$ 253,457	$ 208,259
Cost of goods sold	202,089	175,015
Production margin	51,368	33,244
Marketing and administrative expenses	22,340	20,546
Research and development expenses	5,124	4,861
Restructuring and other costs	852	549
Income from operations	23,052	7,288
Non-operating deductions, net	(49)	(255)
Income from continuing operations before provision for taxes	23,003	7,033
Provision for taxes on income	6,901	1,952
Income from continuing operations, net of tax	16,102	5,081
Loss from discontinued operations, net of tax	--	(88)
Consolidated net income	16,102	4,993
Less: Net income attributable to non-controlling interests	733	836
Net income attributable to Minerals Technologies Inc. (MTI)	$ 15,369	$ 4,157
Earnings per share:		
Basic:		
Income from continuing operations attributable to MTI	$ 0.82	$ 0.23
Loss from discontinued operations attributable to MTI	--	(0.01)
Basic earnings per share attributable to MTI	$ 0.82	$ 0.22

Diluted:		
Income from continuing operations attributable to MTI	$ 0.82	$ 0.23
Loss from discontinued operations attributable to MTI	--	(0.01)
Diluted earnings per share attributable to MTI	$ 0.82	$ 0.22
Cash dividends declared per common share	$ 0.05	$ 0.05
Shares used in computation of earnings per share:		
Basic	18,766	18,703
Diluted	18,835	18,724

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

MINERALS TECHNOLOGIES INC. AND SUBSIDIARY COMPANIES
CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

(thousands of dollars)	April 4, 2010*	December 31, 2009**
Current assets:		
Cash and cash equivalents	$ 325,039	$ 310,946
Short-term investments, at cost which approximates market	10,683	8,940
Accounts receivable, net	179,625	173,665
Inventories	79,962	82,483
Prepaid expenses and other current assets	22,749	24,679
Total current assets	618,058	600,713

Our product candidates cannot be marketed unless we obtain and maintains regulatory approvals.

Our research, preclinical testing, clinical trials and manufacturing and marketing activities are subject to extensive regulation by numerous federal, state and local governmental authorities in the United States, including the FDA, and by foreign regulatory authorities, including the EC. In the United States, the FDA is of particular importance, as it administers

Table of Contents

requirements covering the testing, approval, safety, effectiveness, manufacturing, labeling and marketing of prescription pharmaceuticals. In many cases, FDA requirements increase the amount of time and money necessary to develop new products and bring them to market in the United States. Regulation outside the United States also is primarily focused on drug safety and effectiveness and, in some cases, cost reduction. The FDA and foreign regulatory authorities have substantial discretion to require additional testing, to delay or withhold registration and marketing approval and to mandate product withdrawals.

Even if we are successful in developing our product candidates, we will not be able to market any products unless and until we obtain all required regulatory approvals in each jurisdiction where we propose to market the new products. Once obtained, we must maintain approval as long as we plan to market our products in each jurisdiction where approval is required. Our failure to obtain approval, significant delays in the approval process, or our failure to maintain approval in any jurisdiction will prevent us from selling any new product in that jurisdiction until approval is obtained, if ever. We will not be able to generate revenues for any new products in any jurisdiction where we do not obtain regulatory approval.

We will be dependent on third-party manufacturers to produce our pharmaceutical drugs and diagnostics, and our inability to obtain qualified manufacturing sources or the inability of a manufacturer to fulfill our orders or to maintain the quality of our product candidates could adversely affect our ability to commercialize our products or result in product recalls.

We do not own or operate any manufacturing facilities and will depend on third parties for the manufacture of any of our product candidates for which we secure regulatory approvals. Even if we identify potential manufacturers from which we can secure drugs or diagnostics for which we have regulatory approval, we may not be able to obtain sufficient quantities of our products when needed, or the products manufacturing costs may adversely impact the pricing of our products in the market. If a manufacturer with which we contract was unable or unwilling to produce our products in a timely manner or to produce sufficient quantities to support our growth, if any, we would have to identify and qualify new manufacturers. Any shift in manufacturing sources could delay product deliveries or availability. Only a limited number of manufacturers may have the ability to produce a high volume of our pharmaceutical drugs and diagnostics, and it could take a significant period of time to qualify and contract alternative manufacturing sources. In addition, we may encounter difficulties or be unable to negotiate satisfactory pricing or other terms with new manufacturing sources. There can be no assurance that we would be able to identify and qualify new manufacturers in a timely manner or that such manufacturers could allocate sufficient capacity in order to meet our requirements, which could adversely affect our ability to make timely deliveries of product.

Any manufacturers we engage will be required to adhere to strict FDA and other regulatory mandates applicable to the production of pharmaceutical drugs and diagnostics, including quality, safety and efficacy requirements. In addition, manufacturers of pharmaceutical drugs and diagnostics are required to comply with all federal, state and local laws with respect to products designed for human consumption or use. There can be no assurance that any manufacturers with which we contract will produce products that are consistent with our standards or in compliance with applicable laws. The failure of any manufacturer to produce products that conform to our standards and in conformance with regulatory requirements could materially and adversely

affect our reputation in the marketplace and result in product recalls, product liability claims and severe economic losses.

Although our sponsored research relationship with Trauma Research LLC is an important component of our future operations, there can be no assurance this relationship will continue indefinitely.

We currently maintain a sponsored research agreement with Trauma Research LLC, or TRLLC, an entity owned by Dr. Bar-Or. Under the research agreement, TRLLC conducts research and development activities on our behalf using facilities provided by TRLLC. Although we believe our relationship with TRLLC will continue into the foreseeable future, we cannot assure you that this will be the case. The sponsored research agreement can be terminated by us or TRLLC on relatively short notice for cause, including any non-payment by us of monthly development costs. If the research agreement is terminated by either party for any reason, it would have a material adverse effect on our business and operations.

Adverse publicity or consumer concern regarding the safety and efficacy of any products we commercialize, or for pharmaceutical drugs or diagnostics marketed by others that are designed to treat or diagnose diseases also targeted by our products, may diminish the success of our commercialization efforts, if any.

We will be highly dependent upon consumers perception of the safety, quality and efficacy of our pharmaceutical drugs and diagnostics for which we obtain regulatory approvals, if any. As a result, substantial negative publicity

Table of Contents

concerning one or more of our commercialized products or similar drugs or diagnostics developed by others could lead to a loss of consumer confidence in our products, removal of our products from retailers shelves, or reduced sales and prices of our products. Any of these events could have a material adverse effect on our business, results of operations and financial condition.

If we conduct operations in a market segment that suffers a loss in consumer confidence as to the safety and efficacy of pharmaceutical drugs, our business could be adversely affected. The pharmaceutical industry has recently been subject to negative publicity concerning unexpected or unexplained side effects that may be attributable to market-approved pharmaceuticals. Developments in any of these areas including, but not limited to, a negative perception about our pharmaceutical drugs, could harm our sales and operating results, perhaps significantly.

We may be subject to significant liability should the consumption of any of drugs developed and marketed by us cause injury, illness or death, or should any diagnostics we develop and market prove ineffective. Regardless of whether such claims against us are valid, they may be expensive to defend and may generate negative publicity, both of which could adversely, significantly affect our operating results.

The sale of pharmaceutical products for human consumption involves the risk of injury to consumers. Such injuries may result from tampering by third parties, product contamination or spoilage, and unexpected side effects and adverse reactions. If the consumption of our commercialized products, if any, causes or is alleged to have caused an illness or death in the future, we may become subject to claims or lawsuits relating to such matters. Even if a product liability claim is unsuccessful or is not fully pursued, the negative publicity surrounding an illness, injury or death could adversely affect our reputation with potential customers, our corporate image, and our operating results. Moreover, claims or liabilities of this nature might not be covered by insurance or by any contractual rights of indemnity or contribution that we may secure from manufacturers of our products. We currently maintain no product liability insurance coverage. Although we intend to secure such coverage in amounts we believe to be adequate at the time we introduce any products we commercialize, we cannot be sure that claims or liabilities will be asserted for which adequate insurance will be available or that such claims or liabilities will not exceed the amount of insurance coverage we intend to obtain or any contractual indemnity rights from any manufacturer with which we contract. Furthermore, the cost of insurance coverage may inhibit our ability to obtain meaningful coverage, thus exposing us to greater financial risk if a claim is asserted that exceeds available coverage. Even if we have adequate insurance or contractual indemnification, product liabilities relating to defective products could have a material adverse effect on our business, results of operations, liquidity, financial condition and brand image.

Our pharmaceutical products may also experience product tampering, contamination or spoilage, or be mislabeled or otherwise damaged. Under certain circumstances a product recall could be initiated, leading to a material adverse effect on our reputation, operations and operating results. Even if a product recall is not mandated, we may as a practical matter be required to recall a product to avoid seizures or civil or criminal litigation. Even if such a situation does not necessitate a recall, product liability claims could be asserted against us. A products liability judgment or a product recall involving us could have a material adverse effect on our business, financial condition, results of operations or liquidity.

Regardless of whether any product liability claims against us are valid, or whether we are ultimately held liable, claims may be expensive to defend and may divert time and money away from our operations, which could have a detrimental effect on our performance. A judgment that is significantly in excess of our insurance coverage or contractual indemnification from a manufacturer could materially and adversely affect our financial condition or results of operations. Any adverse publicity resulting from these allegations may also materially and adversely affect our reputation, which could adversely affect our results.

If we are unable to compete successfully in the pharmaceutical drug or diagnostic markets, we may fail to generate meaningful revenues and the value of shares of our common stock may decline.

The market for pharmaceutical drugs and diagnostics is highly competitive. We face intense competition from other pharmaceutical and biotechnology companies, including many large domestic and international companies that have substantially greater financial, technical, marketing, distribution and other resources, broader product lines, lower cost structures, greater consumer recognition than we do. As a result, our competitors may be able to respond faster or more effectively in introducing pharmaceutical drugs or diagnostics designed to treat or diagnose those diseases targeted by our product candidates. Further, many of our competitors are in better financial and marketing positions from which to influence market acceptance of a particular pharmaceutical drug or diagnostic test than we are. Our competitors may also be able to devote greater resources to the development, promotion and sale of drug or diagnostic products, and may be able

Table of Contents

to deliver competitive products at a lower price. If our competitors develop new pharmaceutical drugs or diagnostics or enhancements to existing products that render our products or their clinical efficacy obsolete or uncompetitive, any commercial success we achieve could be harmed, perhaps substantially.

We expect to face competition from existing competitors and new and emerging pharmaceutical and biotechnology companies that may enter our intended markets with similar or alternative products which may be less costly or provide superior clinical results. Competition in these markets may intensify due to the development of cooperative relationships among our current and potential competitors or third parties with which we may seek co-development or collaborative relationships. Accordingly, it is possible that new competitors or alliances among competitors may emerge that adversely impacts our ability to commercialize our products and otherwise implement our business strategy.

We may be less competitive if we fail to develop or obtain rights to market new and enhanced pharmaceutical drugs or diagnostics, respond to market developments, and achieve market acceptance.

The pharmaceutical drug and diagnostic markets are subject to rapid technological change, product obsolescence, and frequent new product introductions and enhancements. Our ability to compete in these markets will depend in significant part upon our ability to successfully develop, obtain regulatory approvals, and commercialize new and enhanced pharmaceutical products on a timely and cost-effective basis, and to respond to competitive developments.

The development of pharmaceutical drugs and diagnostics is a lengthy process, and oftentimes involves unforeseen delays and unexpected clinical results. These delays could provide a competitor a first-to-market opportunity and allow a competitor to achieve market share at our expense. Our product development process is inherently risky because it is difficult to foresee developments in therapeutic and diagnostic technologies. Even if we are first to market with a drug or diagnostic test, we may not gain market acceptance for that product. Accordingly, there can be no assurance that our product development efforts will result in the generation of substantive revenues or market acceptance. Lack of market acceptance for any products we commercialize will jeopardize our ability to recoup research and development expenditures, hurt our reputation and harm our business, financial condition and results of operations.

We do not currently have a majority of independent directors serving on our board of directors, which could present potential conflicts of interest.

We do not currently have a majority of independent directors serving on our board of directors. In the absence of a majority of independent directors, our executive officers could establish policies and enter into transactions without independent review and approval of such transactions. This could present potential conflicts of interest between us and our stockholders, generally, and among our executive officers and directors, on the one hand, and our stockholders, on the other. We are not currently subject to the corporate governance requirements of any nationally recognized stock exchange. At such time as our securities qualify for listing on a nationally-recognized stock exchange, we intend to list our securities on such an exchange, at which time we will be required to adhere to the corporate governance requirements as a condition of initial and continued listing. Until that time, however, our board of directors may continue to lack a majority of independent directors.

We will be exposed to risks relating to the evaluations of internal control over financial reporting required by Section 404 of the Sarbanes-Oxley Act of 2002 and our failure to maintain effective internal control over financial reporting could result in a negative market reaction.

We have not yet begun the process of evaluating our internal controls systems after the Merger in order to allow management to assess, and our independent auditors to report on, our internal controls over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002. We will be required to completely document and test our internal control systems and procedures for financial reporting as part of this process. Ultimately, our management will be responsible for assessing the effectiveness of our internal control over financial reporting, and our independent registered public accounting firm will be requested to attest to that assessment. If legislative efforts to eliminate the attestation requirement are successful, it is possible that we may be exempt from the auditor attestation requirement until the value of our securities market float exceeds certain levels, if ever. We cannot be certain as to the timing of completion of our evaluation, testing and remediation actions or their impact on our operations, although we intend to complete such activities by December 31, 2010.

Our filing of our annual report on a timely basis will depend upon our timely completion of these tasks. A late filing of our annual report could have material adverse effects on us, both legally and with respect to the opinions of investors, analysts and other participants in the securities markets.

Table of Contents

Furthermore, upon completion of this process, we may identify control deficiencies of varying degrees of severity that are and remain unremediated, as a result of which our management may not be able to assert that our internal controls are effective under applicable SEC and Public Company Accounting Oversight Board rules and regulations. If we are unable to assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to attest that our management s assessment is fairly stated or they are unable to express an opinion on the effectiveness of our internal controls, it could result in a negative market reaction.

As a public company, we will be required to report, among other things, control deficiencies that constitute material weaknesses or changes in internal controls that, or are reasonably likely to, materially affect internal controls over financial reporting. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. If we fail to implement the requirements of Section 404 in a timely manner, we may be subject to sanctions or investigation by regulatory authorities such as the SEC or any stock exchange or automated quotation service on which our stock may then be listed. In addition, if any material weakness or significant deficiency is identified and is not remediated, investors may lose confidence in the accuracy of our reported financial information, and our stock price could be significantly adversely affected as a result.

We will incur increased costs as a result of being a public company with active operations.

We will incur significantly greater legal, accounting and other expenses in the future as compared to the level of those expenditures before the Merger was consummated. The Exchange Act requires us to file annual, quarterly and current reports with respect to our business and financial condition, which causes us to incur legal and accounting expenses. The Sarbanes-Oxley Act requires us to maintain effective disclosure controls and procedures and internal controls for financial reporting. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal controls over financial reporting, significant resources and management oversight will be required. We expect the compliance with the corporate governance rules and regulations of the SEC will increase our legal and financial reporting costs and make some activities more time consuming and costly. These requirements may place a strain on our systems and resources and may divert our management s attention from other business concerns, which could cause our operating results to suffer. In addition, we may need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge, which will increase our operating expenses in future periods. We also expect these rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage.

Our executive officers, directors, non-executive officers, and principal stockholders have substantial control over us, and could delay or prevent a change in our corporate control even if our other stockholders want it to occur.

Our executive officers, directors, non-executive officers, and principal stockholders hold approximately 79.9% of our outstanding common stock. Accordingly, these stockholders are able to control all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions. This could delay or prevent an outside party from acquiring or merging with us even if our other stockholders want this to occur.

Our common stock is currently subject to the SEC s penny stock rules, which may cause broker-dealers executing trades in our stock to experience difficulty in completing customer transactions and which may adversely affect the trading of our common stock after the exchange.

Because we have net tangible assets of less than $5.0 million and our common stock s market price per share is less than $5.00, transactions in our common stock are currently subject to the penny stock rules under the Exchange Act. Under these rules, broker-dealers who recommend such securities to persons other than institutional accredited investors must:

- make a special written suitability determination for the purchaser;
- receive the purchaser s written agreement to a transaction prior to sale;
- provide the purchaser with risk disclosure documents identifying certain risks of investing in penny stocks, a purchaser s legal remedies, and information about the market for penny stocks; and

Table of Contents

obtain a signed and dated acknowledgment from the purchaser that he, she or it actually received the required risk disclosure documents before a transaction in a penny stock is completed.

Broker-dealers may find it difficult to complete customer transactions in our stock as a result of our being subject to these rules, and trading activity in our common stock may continue to be adversely affected as a result. This may cause the market price of our common stock to be less than it might otherwise be, and you may find it more difficult to sell your shares of common stock if you desire to do so.

Our common stock is quoted on the OTC Bulletin Board, which limits the liquidity and price of our common stock more than if it was quoted or listed on a national exchange.

Our common stock is traded in the over-the-counter market and is quoted on the OTC Bulletin Board, a NASD-sponsored and operated inter-dealer automated quotation system for equity securities not included on The Nasdaq Stock Market. We believe that quotation of our common stock on the OTC Bulletin Board limits the liquidity and price of our common stock more than if our common stock were quoted or listed on The Nasdaq Stock Market or a national exchange. We cannot assure you, however, that our common stock will continue to be authorized for quotation by the OTC Bulletin Board or any other market in the future, in which event the liquidity and price of our securities would then be even more adversely impacted.

Our stock price is highly volatile, and you may not be able to resell your shares at or above recent public sale prices.

There has been, and continues to be, a limited public market for our common stock, and an active trading market for our common stock has not and may never develop or, if developed, be sustained. You may not be able to resell shares of our common stock at or above the price you paid. The market price of our common stock may fluctuate significantly in response to numerous factors, some of which are beyond our control, including the following:

actual or anticipated fluctuations in operating results;

the inability to obtain research coverage;

changes in market valuations of other companies in the pharmaceutical industry;

announcements by us or our competitors of significant advances in product candidate development, regulatory approval processes, strategic co-development or collaboration relationships, or capital infusions;

introduction of technologies or product enhancements that reduce expected or actual demand for our product candidates;

the loss or limitation of any regulatory approvals we obtain; and

departures of key personnel.

We cannot assure you that you will be able to liquidate your investment without considerable delay, if at all. The factors discussed above may have a significant impact on the market price of our common stock. It is also possible that the relatively low price of our common stock may keep many brokerage firms from engaging in transactions in our common stock.

We have not paid dividends in the past and do not expect to pay dividends in the future, and any return on investment may be limited to the value of our stock.

We have never paid any cash dividends on our common stock and do not anticipate paying any cash dividends on our common stock in the foreseeable future. Any return on your investment in us will be limited to the value of our common stock.

Substantial amounts of our common stock could be sold commencing six months after the Merger, which could depress our stock price.

We cannot predict the effect, if any, that market sales of shares of our common stock or the availability of shares of common stock for sale will have on the market price of our common stock. The common stock issued to the DMI

Table of Contents

shareholders on closing of the Merger were restricted securities under the Securities Act. These shares are eligible for future sale in the public market at prescribed times pursuant to Rule 144 under the Securities Act, or otherwise. Sales of a significant number of these shares of common stock in the public market could reduce the market price of our common stock.

MARKET PRICE OF AND DIVIDENDS ON THE REGISTRANT S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

There is no established public trading market for our common stock. However our common stock is quoted on the Over-the-Counter Bulletin Board under the symbol CHYE. The following table sets forth the high and low bid information for our common stock for the period from January 1, 2008 through March 1, 2010. The Over-the-Counter Bulletin Board quotations reflect inter-dealer prices, are without retail markup, markdowns or commissions, and may not represent actual transactions.

	Common Stock	
	High	**Low**
First quarter 2008	$	$
Second quarter 2008	$	$
Third quarter 2008	$ 1.75	$ 1.50
Fourth quarter 2008	$ 1.50	$ 1.50
First quarter 2009	$ 1,50	$ 1.50
Second quarter 2009	$ 1.50	$ 1.50
Third quarter 2009	$ 1.50	$ 1.50
Fourth quarter 2009	$ 1.50	$ 1.50
First quarter 2010 through March 1, 2010	$ 1.50	$ 1.50

Holders of Common Stock

As of December 31, 2009, there were of record 235 holders of our common stock.

Dividend Policy

We currently intend to retain all available funds and any future earnings for use in the operation and expansion of our business and do not anticipate paying any cash dividends on our common stock for the foreseeable future. Future cash dividends, if any, will be at the discretion of our board of directors and will depend upon our future operations and earnings, capital requirements, financial condition, contractual restrictions and other factors our board of directors may deem relevant.

Indemnification of Directors and Officers

Our officers and directors are indemnified as provided by the Colorado Business Corporation Act, or CBCA, and our bylaws.

Under the CBCA, director immunity from liability to a company or its shareholders for monetary liabilities applies automatically unless it is specifically limited by a company s articles of incorporation. Our articles of

incorporation contain no such provision. Excepted from that immunity are:

(1) a willful failure to deal fairly with the company or its shareholders in connection with a matter in which the director has a material conflict of interest;

(2) a violation of criminal law (unless the director had reasonable cause to believe that his or her conduct was lawful or no reasonable cause to believe that his or her conduct was unlawful);

(3) a transaction from which the director derived an improper personal profit; and

(4) willful misconduct.

Table of Contents

Our Articles of Incorporation permits us to indemnify our officers and directors to the fullest extent authorized or permitted by law in connection with any proceeding arising by reason of the fact any person is or was our officer or director. Notwithstanding this indemnity, a director shall be liable to the extent provided by law for any liability incurred by the director as a result of fraud or willful breach of duty.

Our bylaws provide that we will indemnify our directors and officers to the fullest extent permitted by Colorado law. Our bylaws provide that we will advance all expenses incurred to any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was our director or officer, or is or was serving at our request as a director or executive officer of another company, partnership, joint venture, trust or other enterprise, prior to the final disposition of the proceeding, promptly following request. This advance of expenses is to be made upon receipt of an undertaking by or on behalf of such person to repay said amounts should it be ultimately determined that the person was not entitled to be indemnified under our bylaws or otherwise.

Pending Reincorporation and Name Change

At the special meeting of our shareholders held March 1, 2010, our shareholders approved a resolution authorizing our reincorporation in the State of Delaware at such time as is determined to be appropriate by our board of directors. Upon our obtaining our new stock symbol from FINRA, we anticipate reincorporating in the State of Delaware and contemporaneously changing our name to Ampio Pharmaceuticals, Inc. We will at that time also update our certificate of incorporation to include indemnification and contribution, governance and other provisions that conform to Delaware law.

Securities Authorized for Issuance Under Equity Compensation Plans

At the special meeting of our shareholders on March 1, 2010, our shareholders approved the adoption of our Stock and Option Award Plan, under which 2,500,000 shares are reserved for future issuance under restricted stock awards, options, and other equity awards. The plan permits grants of equity awards to employees, directors and consultants. The following table displays equity compensation plan information as of March 2, 2010.

Equity Compensation Plan Information

	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	2,500,000	$	2,500,000

Equity compensation plans not approved by security holders			
Total	2,500,000	$	2,500,000

Table of Contents

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion contains information pertaining to DMI, as the operations of Chay are no longer those in which we are engaged. This discussion should be read in conjunction with DMI s historical financial statements and the pro forma financial statements filed with this report. DMI conducted no operations until it acquired assets from BioSciences in April 2009. As required by the SEC, we have included carve-out financial statements relating to periods prior to the date we acquired certain of the assets then owned by BioSciences . The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. Actual results could differ materially from those projected in the forward-looking statements. For additional information regarding these risks and uncertainties, please see Risk Factors.

Overview

DMI was incorporated in Delaware in December 2008 and did not conduct any business activity until April 16, 2009, at which time DMI purchased certain assigned intellectual property (including 107 patents and pending patent applications), business products and tangible property from DMI BioSciences, Inc., or BioSciences. DMI issued 3,500,000 shares of its common stock to BioSciences, and assumed certain liabilities, as consideration for the assets purchased from BioSciences. The assets we acquired from BioSciences had a carrying value of zero, as BioSciences had expensed all of the research and development costs it incurred with respect to the intellectual property we purchased. At the time of the asset purchase, DMI and BioSciences agreed to a non-compete prohibiting both companies from competing with one another anywhere in the world for a period of three years, and also agreed that DMI will receive 10% of royalty license revenues received by BioSciences from a drug developed by BioSciences (and as to which BioSciences retained ownership) to treat male sexual dysfunction, subject to DMI committing to additional funding.

DMI is a development stage company engaged in developing innovative, proprietary pharmaceutical drugs and diagnostic products to identify, treat and prevent a broad range of human diseases including metabolic disorders, cancer, and acute and chronic inflammation diseases. DMI intends to develop proprietary pharmaceutical drugs and diagnostic products which capitalize on DMI s intellectual property that includes assigned patents, pending patent applications, and trade secrets and know-how, some of which may be the subject of future patent applications. DMI s intellectual property is strategically focused on three primary areas: new uses for FDA-approved drugs, referred to as repurposed drugs, new molecular entities, or NMEs, and rapid point-of-care tests for diagnosis, monitoring and screening.

Known Trends or Future Events

We have not generated any revenues since our inception in December 2008. The assets we purchased from BioSciences in April 2009 did generate minimal revenues prior to their acquisition. Since purchasing specific assets from BioSciences including patents, pending patent applications, proprietary know-how and minimal fixed assets, we have engaged in organizational activities, conducted a private placement pursuant to which we raised $$1,457,387.00 in additional capital, added to our management team, and completed the Merger.

We expect to raise substantial additional capital in the near future in order to accelerate our development activities associated with several of our leading product candidates. We cannot assure you that we will secure such financing or that it will be adequate to execute our business strategy. Even if we obtain this financing, it may be costly and may require us to agree to covenants or other provisions that will favor new investors over our existing shareholders. Due to the time required to conduct clinical trials and obtain regulatory approval for any of our product candidates, we anticipate it will be some time before we generate substantial revenues, if ever. We expect to generate operating losses for the foreseeable future, but intend to limit the extent of these losses by entering into co-development or collaboration agreements with one or more strategic partners.

We expect our general and administrative expenses to increase substantially in 2010 as a result of our becoming a public company. Among other things, we expect expenses such as compliance and governance costs, legal and accounting fees, directors and officers liability insurance premiums, and directors fees will increase significantly. We will also incur investor relations expenses, listing fees, and other costs associated with being a public company.

Significant Accounting Policies and Estimates

This Management s Discussion and Analysis section discusses our financial statements, which have been prepared in accordance with accounting policies generally accepted in the United States of America. The preparation of the financial

Table of Contents

statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments, including those related to revenue recognition, recoverability of long-lived assets, and contingencies and litigation. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The methods, estimates, and judgments used by us in applying these most critical accounting policies have a significant impact on the results we report in our financial statements.

Cash and Cash Equivalents

We consider all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents consist primarily of money market investments. We maintain balances from time to time in excess of the federally insured limits.

Patents

Costs of establishing patents consisting of legal fees paid to third parties and related costs are currently expensed as incurred. We will continue this practice unless we can demonstrate that such costs add economic value to our business, in which case we will capitalize such costs as part of intangible assets. The primary consideration in making this determination is whether or not we can demonstrate that such costs have, in fact, increased the economic value of our intellectual property. Legal and related costs which do not meet the above criteria will be expensed as incurred.

Stock-Based Compensation

We account for share-based payments by recognizing compensation expense based upon the estimated fair value of the awards on the date of grant. We determine the estimated grant fair value using the Black-Scholes option pricing model and recognize compensation costs ratably over the vesting period using the straight-line method.

Income Taxes

In 2009, we adopted FIN 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 09*, which provides criteria for the recognition, measurement, presentation and disclosure of uncertain tax positions. A tax benefit from an uncertain position may be recognized only if it is more likely than not that the position is sustainable based on its technical merits. The adoption of FIN 48 did not have a material effect on our results of operations or financial condition.

Research and Development

Research and development costs are expensed as incurred.

Recently Issued Accounting Pronouncements

In June 2009, the, Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162* (SFAS 168). The FASB Accounting Standards Codification , (Codification or ASC) became the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of SFAS 168, the Codification superseded all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification became non-authoritative.

Following SFAS 168, the FASB will no longer issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts; instead, it will issue Accounting Standards Updates (ASUs). The FASB will not consider ASCs as authoritative in their own right; rather, these updates will serve only to update the Codification, provide background information about the guidance, and provide the bases for conclusions on the change(s) in the Codification. SFAS No. 168 is incorporated in ASC Topic 105, *Generally Accepted Accounting Principles*. The Company adopted SFAS No. 168 for the quarter ended September 30, 2009, and we will provide reference to both the Codification topic reference and the previously authoritative references related to Codification topics and subtopics, as appropriate.

Table of Contents

In May 2009, the FASB issued ASC Topic 855, *Subsequent Events (ASC 855)* (formerly SFAS No. 165, *Subsequent Events*) which establishes general standards for the evaluation, recognition and disclosure of events and transactions that occur after the balance sheet date. Although there is new terminology, the standard is based on the same principles as those that currently exist in auditing standards. The standard, which includes a new required disclosure of the date through which management has evaluated subsequent events, is effective for interim and annual periods ending after June 15, 2009. The adoption of ASC 855 had no effect on our financial statements.

Effective October 1, 2008, the Company adopted certain aspects of ASC Topic 825, *Financial Instruments* (formerly SFAS 159, The Fair Value Option for Financial Assets & Financial Liabilities including an amendment of SFAS No. 115.). The accounting guidance created a fair value option under which an entity may irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities on a contract by contract basis, with changes in fair values recognized in earnings as these changes occur. The adoption of ASC Topic 825 had no significant impact on our financial condition or results of operations.

In December 2007, the FASB issued ASC Topic 805, *Business Combinations (ASC 805)* (formerly SFAS 141R, *Business Combinations*), which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in an acquiree and the goodwill acquired. ASC 805 will apply prospectively to business combinations with an acquisition date on or after November 1, 2009. The adoption of ASC Topic 805 did not have a material impact on our financial condition or results of operations. We will apply ASC 805-10 to any business combination subsequent to its adoption.

New accounting pronouncements to be adopted

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)*, (codified by ASU No. 2009-17 issued in December 2009). The standard amends FIN No. 46(R) to require a company to analyze whether its interest in a variable interest entity (VIE) gives it a controlling financial interest. A company must assess whether it has an implicit financial responsibility to ensure that the VIE operates as designed when determining whether it has the power to direct the activities of the VIE that significantly impact its economic performance. Ongoing reassessments of whether a company is the primary beneficiary are also required by the standard. SFAS No. 167 amends the criteria to qualify as a primary beneficiary as well as how to determine the existence of a VIE. The standard also eliminates certain exceptions that were available under FIN No. 46(R). This statement will be effective as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009 (i.e. our fiscal year ending March 31, 2011). Earlier application is prohibited. Comparative disclosures will be required for periods after the effective date. It is expected that the adoption of this statement will have no material effect on our consolidated financial statements.

In October 2009, the FASB issued ASU No. 2009-15 Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing. ASU 2009-15 amends ASC 470-20, Debt with Conversion and Other Options, to provide accounting and reporting guidance for own-share lending arrangements issued in contemplation of convertible

debt issuance. ASU 2009-15 is effective for fiscal year beginning on or after December 15, 2009 with retrospective application required.

In January 2010, the FASB issued the following ASUs that may become applicable to us:

ASU No. 2010-02 *Consolidation* (Topic 810): *Accounting and Reporting for Decreases in Ownership of a Subsidiary*. This update amends Subtopic 810-10 and related guidance to clarify that the scope of the decrease in ownership provisions of the Subtopic and related guidance applies to (i) a subsidiary or group of assets that is a business or nonprofit activity; (ii) a subsidiary that is a business or nonprofit activity that is transferred to an equity method investee or joint venture; and (iii) an exchange of a group of assets that constitutes a business or nonprofit activity for a noncontrolling interest in an entity, but does not apply to: (i) sales of substantial real estate; and (ii) conveyances of oil and gas mineral rights. The amendments in this update are effective beginning the period that an entity adopts FAS 160 (now included in Subtopic 810-10).

ASU No. 2010-05 *Compensation Stock Compensation* (Topic 718): *Escrowed Share Arrangements and the Presumption of Compensation*. This update simply codifies EITF Topic D-110, Escrowed Share Arrangements and the Presumption of Compensation issued on June 18, 2009. In EITF Topic No. D-110, SEC staff clarified that entities should consider the substance of the transaction in evaluating whether the presumption of compensation may be overcome, including whether the transaction was entered into for a reason unrelated to employment, such as to facilitate a financing transaction. In that situation, the staff generally believes that the escrowed shares should be reflected as a discount in the allocation of proceeds.

Table of Contents

ASU No. 2010-06 *Fair Value Measurements and Disclosures* (Topic 820): *Improving Disclosures about Fair Value Measurements*. This update amends Subtopic 820-10 that requires new disclosures about transfers in and out of Levels 1 and 2 and activity in Level 3 fair value measurements. This update also amends Subtopic 820-10 to clarify certain existing disclosures. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements, which are effective for fiscal year beginning after December 15, 2010.

We expect that the adoption of the above updates issued in January 2010 will not have any significant impact on our financial position and results of operations.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on our consolidated financial statements upon adoption.

Results of Operations Year Ended December 31, 2009 and Predecessor Periods of Year Ended September 30, 2008 and Period From October 1, 2008 through April 15, 2009

Year Ended December 31, 2009

Revenue

We are a development stage enterprise and have not yet generated revenues.

Expenses

Research and Development

We are a development stage enterprise developing innovative, proprietary pharmaceutical drugs and diagnostic products to identify, treat and prevent a broad range of human diseases. Research and development costs for the year ended December 31, 2009 represents a full year s worth of costs related to the research and development of patents and intellectual property. We did not capitalize any of our research and development costs during the year ended December 31, 2009.

General and Administrative

General and administrative costs for the year ended December 31, 2009 represents a full year s worth of costs for our development stage enterprise.

Net Cash Used in Operating Activities

During the twelve months ended December 31, 2009, our operating activities used $1,372,000 of cash. This reflected a $1,512,000 net loss, an increase in accounts payables of $80,000, accrued salaries of $73,000 and accrued interest payable of $1,000, offset with increases in prepaid expenses of $7,000 and a related party receivable of $7,000. All of these changes relate to the assumption of assets and liabilities in the asset purchase transaction with BioSciences.

Net Cash from Financing Activities

Net cash provided by our financing activities was $1,444,000 for the twelve months ended December 31, 2009. During this period, we received $200,000 in proceeds from a related note payable and proceeds from the sale of common and preferred stock of $1,292,000, offset by payment of assumed liabilities of $48,000.

Table of Contents

Predecessor Periods of Year Ended September 30, 2008 and Period From October 1, 2008 through April 15, 2009 of the BioSciences Assets Sold

DMI was formed in December 2008 and had no activity prior to the acquisition of assets from BioSciences. DMI entered into an Asset Purchase Agreement during 2009 with BioSciences. Under the Asset Purchase Agreement, DMI acquired office and lab equipment, cell lines and intellectual property including patents and license agreements and assumed liabilities. This transaction was accounted for as a reverse merger and the assets acquired and liabilities assumed were recorded at predecessor cost. The assets had $0 carrying value on the predecessor financial statements and liabilities totaled $252,015. The carve out financial statements of the predecessor have been included in order to provide for two years of operations of the assets acquired. As the assets acquired represented a discrete activity within BioSciences and management of BioSciences was able to provide a reasonable allocation of the activities within BioSciences related to the assets acquired, the carve out financial statements of BioSciences Assets Sold have been included herein. The acquisition occurred on April 16, 2009, therefore the carve out financial information includes the periods prior to the acquisition for its most recent fiscal year end, September 30, 2008, and the period from October 1, 2008 through April 15, 2009. The financial statements of DMI BioSciences Assets Sold represent the activities of all assets transferred to DMI for the period ended April 15, 2009 and the year ended September 30, 2008. These financial statements include all costs of doing business related to the assets acquired and liabilities assumed, including the development and research of proprietary pharmaceutical drugs and diagnostic products that inured to the benefit of DMI, regardless of whether the research was successful or not. The activities of BioSciences performed by TRLLC under a research agreement with BioSciences that related to the BioSciences Assets Sold have also been included.

Off Balance Sheet Arrangements

We do not have off-balance sheet arrangements, financings, or other relationships with unconsolidated entities or other persons, also known as variable interest entities.

Contractual Obligations

The following table summarizes contractual obligations and borrowings as of December 31, 2009 and the timing and effect that such commitments are expected to have on our liquidity and capital requirements in future periods. We expect to fund other commitments primarily with operating cash flows generated in the normal course of business.

Contractual Obligations

	Total	Due in Less than 1 Year	Due 1 3 Years	Due 3 5 Years	More than 5 years
Sponsored Research Agreement with Related Party[1]	$ 1,285,467	$ 350,582	$ 701,164	$ 233,721	
Related Party Debt Obligations[2]	200,000	200,000			

	$ 1,485,467	$ 550,582	$ 701,164	$ 233,721	$

(1) Represents amounts due under our sponsored research agreement with Trauma Research LLC, or TRLLC. This commitment may increase if our board of directors requests TRLLC to perform additional research and development activities. Such a request is expected to be made only in conjunction with our receipt of additional financing. This is agreement may be terminated without cause by either party with 180 days written notice.

(2) For more information on our debt obligations, see Related Party Transactions located elsewhere in this report.

Quantitative and Qualitative Disclosures About Market Risk

Our business is not currently subject to material market risk related to financial instruments, equity or commodities. Our outstanding indebtedness is limited currently to fixed rate instruments.

Impact of Inflation

In general, we believe that, over time, we are able to increase prices to counteract the majority of the inflationary effects of increasing costs.

Table of Contents

DESCRIPTION OF SECURITIES

The following description summarizes the material terms of our capital stock. Because it is only a summary, it may not contain all the information that is important to you. For a complete description you should refer to our articles of incorporation and bylaws which were filed as exhibits to the registration statement we filed at the time of our initial public offering, and to the applicable provisions of the Colorado Business Corporation Law. As described under Market Price of and Dividends on the Registrant s Common Equity and Related Stockholder Matters, in this report, our shareholders approved a resolution at our special meeting on March 1, 2010 that authorized our reincorporation in the State of Delaware in conjunction with a change in our corporate name to Ampio Pharmaceuticals, Inc. Our name change will take effect upon FINRA approving a change in our stock trading symbol. For further information concerning anti-takeover provisions of Delaware law, and provisions in our certificate of incorporation and bylaws that will take effect on our reincorporation, see Certain Anti-takeover Provisions of Delaware Law and our Certificate of Incorporation and By-Laws Upon Our Reincorporation in Delaware below.

Authorized and Issued Capital Stock

Our authorized capital stock consists of 100,000,000 shares of common stock, no par value per share, of which 17,061,752 shares are issued and outstanding, and 10,000,000 shares of undesignated preferred stock, $0.0001 par value, of which no shares are issued or outstanding.

Common Stock

As of the date of this report, there were 17,061,752 shares of our common stock outstanding held by approximately 250 shareholders of record. Holders of common stock will have voting rights for the election of our directors and all other matters requiring stockholder action, except with respect to amendments to our certificate of incorporation that alter or change the powers, preferences, rights or other terms of any outstanding preferred stock if the holders of such affected series of preferred stock are entitled to vote on such an amendment. There is no cumulative voting with respect to the election of directors, with the result that the holders of more than 50% of the shares voted for the election of directors can elect all of the directors. Holders of common stock will be entitled to one vote per share on matters to be voted on by stockholders and also will be entitled to receive such dividends, if any, as may be declared from time to time by our board of directors in its discretion out of funds legally available therefor. The payment of dividends, if ever, on the common stock will be subject to the prior payment of dividends on any outstanding preferred stock, of which there is currently none. Upon our liquidation or dissolution, the holders of common stock will be entitled to receive *pro rata* all assets remaining available for distribution to stockholders after payment of all liabilities and provision for the liquidation of any shares of preferred stock at the time outstanding. Our stockholders have no conversion, preemptive or other subscription rights and there are no sinking fund or redemption provisions applicable to the common stock.

Preferred Stock

Our articles of incorporation provides that shares of preferred stock may be issued from time to time in one or more series. Our board of directors will be authorized to fix the voting rights, if any, designations, powers, preferences,

the relative, participating, optional or other special rights and any qualifications, limitations and restrictions thereof, applicable to the shares of each series. Our board of directors will be able to, without stockholder approval, issue preferred stock with voting and other rights that could adversely affect the voting power and other rights of the holders of the common stock and could have anti-takeover effects. The ability of our board of directors to issue preferred stock without stockholder approval could have the effect of delaying, deferring or preventing a change of control of us or the removal of existing management. We have no preferred stock outstanding at the date hereof. Although we do not currently intend to issue any shares of preferred stock, we cannot assure you that we will not do so in the future.

Dividends

We have not paid any dividends on our common stock to date. It is the present intention of our board of directors to retain any earnings for use in our business operations and, accordingly, we do not anticipate the board declaring any dividends in the foreseeable future.

Table of Contents

Our Transfer Agent

The transfer agent for our securities is Corporate Stock Transfer, Inc., 3200 Cherry Creek Drive South, Suite 430, Denver, Colorado 80209.

Certain Anti-takeover Provisions of Delaware Law and our Certificate of Incorporation and By-Laws Upon Our Reincorporation in Delaware

Upon our reincorporation in Delaware, we will be governed by the provisions of Section 203 of the Delaware General Corporation Law, which generally has an anti-takeover effect for transactions not approved in advance by our board of directors. This may discourage takeover attempts that might result in payment of a premium over the market price for the shares of common stock held by stockholders. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a business combination with an interested stockholder for a three-year period following the time that such stockholder becomes an interested stockholder, unless the business combination is approved in a prescribed manner. A business combination includes, among other things, a merger, asset or stock sale or other transaction resulting in a financial benefit to the interested stockholder. An interested stockholder is a person who, together with affiliates and associates, owns, or did own within three years prior to the determination of interested stockholder status, 15% or more of the corporation s voting stock.

Under Section 203, a business combination between a corporation and an interested stockholder is prohibited unless it satisfies one of the following conditions:

- before the stockholder became interested, the board of directors approved either the business combination or the transaction which resulted in the stockholder becoming an interested stockholder; or
- upon consummation of the transaction which resulted in the stockholder becoming an interested outstanding, shares owned by:
  - persons who are directors and also officers, and
  - employee stock plans, in some instances; or
- at or after the time the stockholder became interested, the business combination was approved by the board of directors of the corporation and authorized at an annual or special meeting of the stockholders by the affirmative vote of at least two-thirds of the outstanding voting stock which is not owned by the interested stockholder.

Staggered board of directors

Our Delaware certificate of incorporation and by-laws will provide that our board of directors will be classified into three classes of directors of

approximately equal size. As a result, in most circumstances, a person can gain control of our board only by successfully engaging in a proxy contest at two or more annual meetings.

Stockholder action; special meeting of stockholders

Our Delaware certificate of incorporation will provide that our stockholders may not take any action by written consent, but only take action at duly called annual or special meetings of stockholders. Our by-laws will further provide that special meetings of our stockholders may be only called by our board of directors with a majority vote of our board of directors, by our chief executive officer or our chairman.

Advance notice requirements for stockholder proposals and director nominations

Our Delaware by-laws will provide that stockholders seeking to bring business before our annual meeting of stockholders, or to nominate candidates for election as directors at our annual meeting of stockholders, must provide timely notice of their intent in writing. To be timely, a stockholder s notice will need to be delivered to our principal executive offices not later than the close of business on the 90th day nor earlier than the close of business on the 120th day prior to the first anniversary of the preceding year s annual meeting of stockholders. For the first annual meeting of stockholders after our reincorporation in Delaware, a stockholder s notice shall be timely if delivered to our principal executive offices not later than the 90th day prior to the scheduled date of the annual meeting of stockholders or the 10th day following the day on which public announcement of the date of our annual meeting of stockholders is first made or sent by us. Our by-laws also specify certain requirements as to the form and content of a stockholders meeting. These provisions may preclude our stockholders from bringing matters before our annual meeting of stockholders or from making nominations for directors at our annual meeting of stockholders.

Table of Contents

Authorized but unissued shares

Our authorized but unissued shares of common stock and preferred stock are available for future issuances without stockholder approval and could be utilized for a variety of corporate purposes, including future offerings to raise additional capital, acquisitions and employee benefit plans. Our authorized common stock and preferred stock will remain unchanged by our reincorporation in Delaware. The existence of authorized but unissued and unreserved common stock and preferred stock could render more difficult or discourage an attempt to obtain control of us by means of a proxy contest, tender offer, merger or otherwise.

Removal of directors

Our Delaware certificate of incorporation will provide that a director on our board of directors may be removed from office only for cause and only by the affirmative vote of the holders of 75% or more of the shares then entitled to vote at an election of our directors.

Limitation on Liability and Indemnification of Directors and Officers

Our Delaware certificate of incorporation and by-laws will provide that our directors and officers will be indemnified by us to the fullest extent authorized by Delaware law as it now exists or may in the future be amended, against all expenses and liabilities reasonably incurred in connection with their service for or on our behalf. In addition, our certificate of incorporation provides that our directors will not be personally liable for monetary damages to us for breaches of their fiduciary duty as directors, unless they violated their duty of loyalty to us or our stockholders, acted in bad faith, knowingly or intentionally violated the law, authorized unlawful payments of dividends, unlawful stock purchases or unlawful redemptions, or derived an improper personal benefit from their actions as directors.

We also will enter into agreements with our directors to provide contractual indemnification in addition to the indemnification provided in our certificate of incorporation and proposed by-laws. We believe that these provisions and agreements are necessary to attract qualified directors. Our by-laws also will permit us to secure insurance on behalf of any officer, director or employee for any liability arising out of his or her actions, regardless of whether Delaware law would permit indemnification. We intend to purchase a policy of directors and officers liability insurance that insures our directors and officers against the cost of defense, settlement or payment of a judgment in some circumstances and insures us against our obligations to indemnify the directors and officers.

These provisions may discourage stockholders from bringing a lawsuit against our directors for breach of their fiduciary duty. These provisions also may have the effect of reducing the likelihood of derivative litigation against directors and officers, even though such an action, if successful, might otherwise benefit us and our stockholders. Furthermore, a stockholder s investment may be adversely affected to the extent we pay the costs of settlement and damage awards against directors and officers pursuant to these indemnification provisions. We believe that these provisions, the insurance and the indemnity agreements are necessary to attract and retain talented and experienced directors and officers.

There is no pending litigation or proceeding involving any of our directors or officers where indemnification by us would be required or permitted. We are not aware of any threatened litigation or proceeding that might result in a claim for such indemnification. Insofar as indemnification for liabilities arising under the Securities Act of 1933 (the Act) may be permitted to our directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable.

Shares Eligible for Future Sale

As of our filing of this report, we have 17,061,752 shares of common stock outstanding. Of these shares, 666,095 shares will be freely tradable without restriction or further registration under the Securities Act, except for any shares purchased by one of our affiliates within the meaning of Rule 144 under the Securities Act. All of the remaining 16,395,657 shares are restricted securities under Rule 144, in that they were issued in private transactions not involving a public offering. None of those shares will be eligible for sale under Rule 144 prior to September 1, 2010.

Table of Contents

Rule 144

In general, under Rule 144 as currently in effect, a person who has beneficially owned restricted shares of our common stock for at least six months would be entitled to sell within any three-month period a number of shares that does not exceed the greater of either of the following:

- 1% of the total number of shares of common stock then outstanding, which will then equal 163,957 shares; or
- the average weekly trading volume of the common stock during the four calendar weeks preceding the filing of a notice on Form 144 with respect to the sale.

Sales under Rule 144 are also limited by manner of sale provisions and notice requirements and to the availability of current public information about us.

Rule 144(k)

Under Rule 144(k), a person who is not deemed to have been one of our affiliates at the time of or at any time during the three months preceding a sale, and who has beneficially owned the restricted shares proposed to be sold for at least one year, including the holding period of any prior owner other than an affiliate, is entitled to sell their shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144.

Registration rights

Redwood Consultants, LLC, which owns 815,000 shares of our common stock. has certain piggy-back registration rights on registration statements filed after the Merger. We will bear the expenses incurred in connection with the filing of any such registration statement.

Listing

We intend to apply to have our common stock listed on The Nasdaq Stock Market or another national stock exchange at such time as our common stock qualifies for a listing. Our common stock is traded in the over-the-counter market and is now quoted on the OTC Bulletin Board, an NASD-sponsored and operated inter-dealer automated quotation system for equity securities not included on The Nasdaq Stock Market.

PRINCIPAL STOCKHOLDERS

The following table sets forth certain information regarding beneficial ownership of our common stock as of March 2, 2010, after giving effect to the Merger and the related share issuances, by (i) each person or group of affiliated persons who is known by us to own more than five percent of the outstanding shares of our common stock, (ii) each director and executive officer, and (iii) all of our directors and executive officers as a group. As of March 2, 2010, we had 17,061,752 shares of common stock issued and outstanding.

Beneficial ownership is determined in accordance with SEC rules and generally includes voting or investment power with respect to securities. Unless otherwise noted, the principal address of each of the stockholders, directors and officers listed below is 8400 East Crescent Parkway, Suite 600, Greenwood Village, Colorado 80111.

Name of Executive Officer or Director	Amount & Nature of Beneficial Ownership [1]	Percent of Class[1]
David Bar-Or	2,700,000	15.8%
Donald B. Wingerter, Jr.	325,000	1.9%
Bruce G. Miller	1,500,000	8.8%
Michael Macaluso	1,899,672	11.1%

Table of Contents

Other Beneficial Owners[2]	Amount & Nature of Beneficial Ownership [1]	Percent of Class[1]
Raphael Bar-Or	1,025,000	6.0%
Vaughan Clift[3]	575,000	3.4%
James V. Winkler	1,025,000	6.0%
Wannell M. Crook	1,100,000	6.4%
DMI BioSciences, Inc.	3,500,000	20.5%
All executive officers and directors as a group (4 persons)	6,424,672	37.6%

(1) Pursuant to Rule 13d-3 under the Exchange Act, a person has beneficial ownership of any securities as to which such person, directly or indirectly, through any contract, arrangement, undertaking, relationship or otherwise has or shares voting power and/or investment power or as to which such person has the right to acquire such voting and/or investment power within 60 days. Unless otherwise stated, each beneficial owner has sole power to vote and dispose of the shares.

(2) Raphael Bar-Or, Dr. Clift, Dr. Winkler, and Ms. Crook are each a non-executive officer.

(3) Such shares are owned of record by Dr. Clift s spouse.

Item 3.02 Unregistered Sales of Equity Securities

In connection with the Merger, on March 2, 2010, we issued an aggregate of 15,736,752 shares of our common stock to the DMI shareholders contemporaneously with the merger of our wholly-owned subsidiary into DMI. As a result of the Merger, DMI became our wholly-owned subsidiary. Immediately prior to the Merger, DMI issued an additional 1,230,000 shares of its common stock to the following persons or entities, who received our shares at the time of the Merger:

Aloha Property Management	100,000
David Brenman	100,000
Eric Weidner	15,000
Redwood Consultants, LLC	815,000
Sunrise Capital, LLC	200,000

We also issued an aggregate of 1,325,000 shares of our common stock to the following persons at the time of the Merger, each of whom was an affiliate of DMI at the time of such issuance. These issuances occurred on March 2, 2010, after our shareholders approved the Merger.

Dr. Daniel Navot	200,000
Donald B. Wingerter, Jr.	325,000
Kristin Clift	575,000
Gregory Thomas	75,000
Kristin Salottolo	75,000
Leonard Rael	75,000

The issuance of such securities was exempt from registration pursuant to Section 4(2) of, and Regulation D promulgated under the Securities Act.

Item 4.01 Changes in Registrant s Certifying Accountant

As of December 31, 2009, Schumacher & Associates, Inc., (Schumacher), is our independent registered public accounting firm. The reports of Schumacher on our financial statements for each of the past two fiscal years contained no adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles, except as that the reports of Schumacher for the fiscal years ended December 31, 2009 and 2008 indicated conditions which raised substantial doubt about the Company s ability to continue as a going concern.

During our two most recent fiscal years and through the date of this report, we have had no disagreements with Schumacher on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or

Table of Contents

procedure, which disagreements, if not resolved to the satisfaction of Schumacher, would have caused it to make reference to the subject matter of such disagreements in its report on our financial statements for such periods. During our two most recent fiscal years and through the date of this report on Form 8-K, there have been no reportable events as defined under Item 304(a)(1)(v) of Regulation S-K adopted by the SEC.

New Independent Accountants

Our board of directors anticipates appointing Ehrhardt Keefe Steiner & Hottman PC, or EKS&H, as our new independent registered public accounting firm effective as of March 15, 2010. The engagement of EKS&H to audit our financial statements for the year ending December 31, 2010 was approved by our shareholders at the special meeting held March 1, 2010. During the two most recent fiscal years and through the date of EKS&H s engagement, we did not consult with EKS&H regarding either (1) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our financial statements, or (2) any matter that was either the subject of a disagreement (as defined in Regulation S-K Item 304(a)(1)(v)), during the two most recent fiscal years. Prior to engaging EKS&H, EKS&H did not provide our company with either written or oral advice that was an important factor considered by us in reaching a decision to change our independent registered public accounting firm from Schumacher to EKS&H.

Item 5.01 Changes In Control of the Registrant

On the Closing Date, we consummated the Merger and the shareholder of DMI became our controlling shareholders. The description of the Merger and the issuance of our common stock to the former shareholders of DMI is incorporated by reference herein from Item 1.01 and Item 2.01 above.

Other than the transactions and agreements disclosed in this Form 8-K, we know of no other arrangements which may result in our change in control.

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

(a) Resignation of Sole Director and Officer

Effective March 2, 2010, Philip J. Davis resigned as the sole member of our board of directors, and as our chief executive officer and chief financial officer. There were no disagreements between Mr. Davis and us which led to his resignation, and Mr. Davis did not request disclosure of any such matter in his resignation letter.

(b) Appointment of Directors

Effective March 2, 2010, the following persons were appointed as members of the Board of Directors:

Name	Age	Position
David Bar-Or	61	Chairman
Michael Macaluso	58	Director
Donald B. Wingerter, Jr.	59	Director
Bruce G. Miller	65	Director

The business background descriptions of the newly appointed directors are as follows:

David Bar-Or, M.D., has been chairman of the board, chief scientific officer, and director of research of DMI since April 2009. Dr. Bar-Or is currently the director of Trauma Research at Swedish Medical Center, Englewood, Colorado, and St. Anthony s Hospital, Denver, Colorado. Dr. Bar-Or is principally responsible for the patented and proprietary technologies acquired by us from BioSciences in April 2009, having been issued over 50 patents and having filed or co-filed almost 120 patent applications. Dr. Bar-Or has authored or co-authored over 80 peer-reviewed journal articles and is the recipient of the Gustav Levi Award from the Hadassah/Mount Sinai Hospital, New York, New York, the Kornfield Award for an outstanding MD Thesis, the Outstanding Resident Research Award from the Denver General Hospital, and the Outstanding Clinician Award for the Denver General Medical Emergency Resident Program. Dr. Bar-Or received his medical degree from The Hebrew University, Hadassah Medical School, Jerusalem, Israel, and undertook post-graduate work at Denver Health Medical Center, specializing in emergency medicine, a discipline in which he is board certified.

Table of Contents

Michael Macaluso founded DMI and has been a member of the board of directors since DMI s inception. Mr. Macaluso was appointed president of Isolagen, Inc. (AMEX: ILE) and served in that position from June 2001 to August 2001, when he was appointed chief executive officer. In June 2003, Mr. Macaluso was re-appointed as president of Isolagen and served as both chief executive officer and president until September 2004. Mr. Macaluso also served on the board of directors of Isolagen from June 2001 until April 2005. For information concerning Isolagen litigation in which Mr. Macaluso was named as a co-defendant with a number of other current and former officers and directors of Isolagen, see Legal Proceedings under Business above. From October 1998 until June 2001, Mr. Macaluso was the owner of Page International Communications, a manufacturing business. Mr. Macaluso was a founder and principal of International Printing and Publishing, a position Mr. Macaluso held from 1989 until 1997, when he sold that business to a private equity firm.

Donald B. Wingerter, Jr. has served as our Chief Executive Officer since December 2009 and a member of the board since March 2010. From 2006 until 2009, Mr. Wingerter has served as a member of the board of directors of several private companies in which he holds personal investments. From June 2002 until 2006, Mr. Wingerter served as chief executive officer of Sound Surgical Technologies, Inc., a specialty medical device company that developed and marketed proprietary ultrasonic-based products to break up and remove fat deposits from the human body. Mr. Wingerter was engaged in managing his personal investments from 2001 until June 2002. From 1995 to 2001, Mr. Wingerter was chairman of the board and chief executive officer of ClearVision Laser Centers, a company he founded in 1995 that operated centers providing laser vision correction services to consumers. ClearVision had operations in 14 states consisting of 10 centers utilizing fixed excimer lasers and 42 centers serviced by mobile lasers. In 2001, ClearVision was acquired by affiliates of two private equity firms. Before founding ClearVision, Mr. Wingerter served as chief executive officer and president, respectively, of Western Imaging Technologies and Accel Holdings, medical imaging companies that sold and leased magnetic resonance imaging (MRI), positron emission tomography (PET), and computer tomography (CT) imaging equipment. He also spent 11 years in various sales positions with General Electric Medical Systems, the last of which was National Sales Manager for Digital Products. Mr. Wingerter holds a B.S. degree in biology from Lafayette College and a M.S. degree in physiology from Rutgers University.

Bruce G. Miller has served as our president and chief operating officer since December 2009. He also served as our chief executive officer from April 2009 until December 2009. Mr. Miller is the chief executive officer of BioSciences, having joined BioSciences as an officer in 1992 and having been named chief executive officer in 1992. Mr. Miller was instrumental in BioSciences securing a license agreement for a drug designed to treat male sexual dysfunction that generated significant revenues for BioSciences. Prior to joining BioSciences, Mr. Miller was a practicing attorney for over 24 years with experience in diverse aspects of business law ranging from start-ups to acquisitions. While practicing law, he was a shareholder for six years in the Denver office of Popham, Haik, Schonbrich & Kaufman. Mr. Miller holds a J.D. degree from the University of Denver and a B.A. degree from Duke University,

Family Relationships

There are no family relationships between any of our directors or executive officers. Raphael Bar-Or, a non-executive officer, is the son of David Bar-Or, our chairman and chief scientific officer.

Employment Agreements

We have entered into employment agreements with Dr. Bar-Or, Bruce G. Miller, Dr. Clift, Dr. Winkler, Raphael Bar-Or, and Ms. Crook.

(c) Appointment of Officers

Effective March 2, 2010, the newly appointed directors described above in Item 5.02(b) appointed the following persons as our executive officers, with the respective titles as set forth opposite his name below:

Name	Age	Position
David Bar-Or	61	Chief Scientific Officer
Donald B. Wingerter, Jr.	59	Chief Executive Officer
Bruce G. Miller	65	Chief Operating Officer

Please see Section 5.02(b) of this current report for the background and experience of our executive officers, which we incorporate by reference herein.

Table of Contents

Executive Compensation

The following table sets forth all cash compensation paid by us, as well as certain other compensation paid or accrued in 2009 to each of the following named executive officers.

Summary Compensation of Named Executive Officers

cipal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)	Option Awards ($)[1]	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings[2] ($)	All Other Compensation ($)	Total ($)
CSO	2009	$ 227,500							$ 227,500
gerter, Jr. cember 2009	2009								
r from April ber 2009	2009	$ 180,000							180,000

Our executive officers will be reimbursed by us for any out-of-pocket expenses incurred in connection with activities conducted on our behalf.

Director Compensation

Our directors are reimbursed for expenses incurred by them in connection with attending board of directors meetings, but they do not receive any other compensation for serving on the board of directors.

Director Independence

None of the current members of our board of directors is independent. We intend to add independent members to our board of directors prior to, or simultaneously with, our expected listing on Nasdaq or another national securities exchange. Our board of directors does not have any committees, as companies whose securities are traded on the OTC Bulletin Board are not required to have board committees. However, at such time in the future that we appoint independent directors to the board, we expect to establish all appropriate board committees we are required to maintain.

Related Party Transactions

In April 2009, DMI issued 3,500,000 shares of its common stock to BioSciences, an entity under common control, in connection with DMI s purchase of certain of BioSciences assets. Under the terms of the agreement, DMI acquired office and lab equipment, cell lines and intellectual property including patents and license agreements. In conjunction with the asset purchase, DMI recorded a distribution of $252,015 to reflect liabilities assumed. Included in the assumed liabilities was a $200,000 note payable to DMI s founder, Michael Macaluso. The note payable was subsequently

converted by Mr. Macaluso into 163,934 shares of Series A preferred stock at a conversion price of $1.22 per share.

As of December 31, 2009, DMI had $100,000 in notes payable to Mike Macaluso, DMI s founder, and $100,000 payable to BioSciences. The related party notes payable are unsecured, bear interest at 6% and mature on April 30, 2010.

BioSciences paid operating expenses on behalf of DMI, and funds have been advanced and repaid between DMI and BioSciences, during 2009. Disbursements to BioSciences during 2009, including prepayment of liabilities assumed under the asset purchase agreement, totaled $111,943. BioSciences owed $7,261 to DMI in a short-term non-interest bearing advance at December 31, 2009.

In April 2009, DMI issued 7,350,000 shares of restricted common stock to its directors, officers and employees in exchange for $7,350 in cash. One third of the restricted shares vested on the date of grant. The remaining two thirds vest on a monthly basis between the second and fourth anniversaries of the date of grant. Vesting is subject to acceleration upon achieving certain milestones.

DMI issued 913,930 shares of its Series A preferred stock in April and May 2009 in exchange for $1,115,020 in cash. Mr. Macaluso purchased 819.672 of such shares of preferred stock.

DMI has a sponsored research agreement with Trauma Research LLC, or TRLLC, an entity owned by Dr. Bar-Or. Under the terms of the research agreement, DMI is to provide personnel and equipment with an equivalent value of $263,750 per year and to make monthly equipment rental payments of $7,236 on behalf of TRLLC. In exchange, TRLLC will assign any intellectual property rights it develops under the research agreement. The research agreement expires in 2014 and may be terminated by either party on six months notice or immediately if either party determines that the other is not fulfilling its obligations under the agreement. DMI was current in its financial obligations under the research agreement at December 31, 2009.

DMI has license agreements with the Institute for Molecular Medicine, Inc. a nonprofit research organization founded by Dr. Bar-Or, who also serves as its executive director. The license agreements were assigned to DMI as a part of the asset purchase from BioSciences. Under the license agreements, DMI pays the costs associated with maintaining intellectual property subject to the license agreements. In return, DMI is entitled to deduct twice the amounts it has paid to maintain the intellectual property from any amounts that may become due to the Institute for Molecular Medicine, Inc. under the license agreements, if and when the intellectual property becomes commercially viable and generates revenue. DMI paid $53,000 during 2009 in legal and patent fees to maintain the intellectual property of the Institute for Molecular Medicine, Inc.

Immediately prior to the Closing, Chay accepted subscriptions for an aggregate of 1,325,000 shares of common stock from six officers and employees of DMI, for a purchase price of $150,000. Mr. Wingerter, our chief executive officer, purchased 325,000 of such shares for a purchase price of approximately $36,800 which was advanced on his behalf by DMI. DMI made advances to the other five non-executive officers and employees in the additional amount of $113,200 to facilitate these share purchases. These shares were issued immediately before the Closing of the Merger but after the shareholders of Chay had approved the Merger.

Item 5.03 Amendments to Articles of Incorporation or Bylaws; Change in Fiscal Year

At such time as we reincorporate in Delaware, we will file a new certificate of incorporation and adopt new bylaws, as described under Market Price of and Dividends on the Registrant s Common Equity and Related Stockholder Matters and Description of Securities in Item 2.01 above. The descriptions of our Delaware certificate of incorporation and bylaws are incorporated by reference herein from Item 2.01 above. We will also file a copy of the certificate of incorporation and bylaws under cover of a Form 8-K at the time we reincorporate in Delaware, which will occur on our receipt of approval from FINRA to change our stock trading symbol.

Item 5.06 Change in Shell Company Status.

As described in Item 1.01 of this Form 8-K, on March 2, 2010 we entered into the Agreement and Plan of Merger with DMI and our wholly-owned subsidiary and consummated the Merger. As a result, DMI became our wholly-owned subsidiary and the former shareholders of DMI received common stock representing approximately 95.6% of our issued and outstanding common stock. As the result of the consummation of the Merger, we are no longer a shell company as that term is defined in Rule 12b-2 of the Securities Exchange Act of 1934, as amended.

Table of Contents

Item 9.01 Financial Statements and Exhibits.

(a) DMI Life Sciences, Inc., and Subsidiary Consolidated Financial Statements

Filed herewith are audited consolidated financial statements of DMI Life Sciences, Inc., and subsidiary for the fiscal years ended December 31, 2009 and 2008.

(b) DMI BioSciences Assets Sold Financial Statements

Filed herewith are audited financial statements of DMI BioSciences Assets Sold for the periods ended April 15, 2009 and December 31, 2008.

(c) Selected Unaudited Pro Forma Consolidated Financial Data

Filed herewith is the unaudited pro forma financial information of DMI Life Sciences, Inc.

(d) Shell Company Transactions

Reference is made to Items 9.01(a), 9.01(b) and 9.01(c) above and exhibits referred to therein, which are incorporated herein by reference.

Exhibit No.	Description
2.1	Agreement and Plan of Merger dated March 2, 2010
3.1	Securities Put and Guarantee Agreement dated March 2, 2010
99.1	DMI Life Sciences, Inc., and Subsidiary Consolidated Financial Statements
99.2	DMI BioSciences Assets Sold Financial Statements
99.3	Selected Unaudited Pro Forma Consolidated Financial Data

Table of Contents

SIGNATURES

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

CHAY ENTERPRISES, INC.

By: /s/ DONALD B. WINGERTER, JR.
Name: **Donald B. Wingerter, Jr.**
Title: **Chief Executive Officer**

Dated: March 8, 2010

Table of Contents

DMI LIFE SCIENCES, INC. AND SUBSIDIARY

(A Development Stage Company)

Consolidated Financial Statements

and

Independent Auditors Report

December 31, 2009 and 2008

Table of Contents

DMI LIFE SCIENCES, INC. AND SUBSIDIARY

(A Development Stage Company)

Table of Contents

Table of Contents

INDEPENDENT AUDITORS REPORT

Board of Directors and Stockholders

DMI Life Sciences, Inc.

Greenwood Village, CO

We have audited the accompanying balance sheets of DMI Life Sciences, Inc. (a development stage company) as of December 30, 2008 and 2009, and the related statements of operations, changes in stockholders equity and cash flows for the years then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of DMI Life Sciences, Inc. as of December 31, 2008 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ehrhardt Keefe Steiner & Hottman PC

March 8, 2010

Denver, Colorado

Table of Contents

DMI LIFE SCIENCES, INC. AND SUBSIDIARY

(A Development Stage Company)

Consolidated Balance Sheets

	December 31, 2009	2008
Assets		
Current assets		
Cash and cash equivalents	$ 71,983	$
Prepaid expenses	7,036	
Related party receivable	7,261	
Total current assets	86,280	
Total assets	$ 86,280	$
Liabilities and Stockholders Equity (Deficit)		
Current liabilities		
Accounts payable	$ 79,445	$
Accrued salaries	73,391	
Accrued interest	1,414	
Related party notes payable	200,000	
Total current liabilities	354,250	
Total liabilities	354,250	
Stockholder equity		
Common Stock, $.001 par value; 15,000,000 shares authorized, shares issued and outstanding - 11,930,000 in 2009 and 1,080,000 in 2008	11,930	1,080
Series A Preferred Stock, $.001 par value; 2,000,000 shares authorized, shares issued and outstanding - 1,077,864 in 2009 and none in 2008 (liquidation preference of $1,314,942)	1,078	
Common stock subscribed	170,003	
Additional paid in capital	1,313,942	
Deficit accumulated in the development stage	(1,764,923)	(1,080)
Total stockholders equity (deficit)	(267,970)	
Total liabilities and stockholders equity (deficit)	$ 86,280	$

See notes to financial statements.

Table of Contents

DMI LIFE SCIENCES, INC. AND SUBSIDIARY

(A Development Stage Company)

Consolidated Statements of Operations

	Year ended December 31, 2009	December 18, 2008 (inception) through December 31, 2008	December 18, 2008 (inception) through December 31, 2009
Expenses			
Research and development	$ 1,070,370	$	$ 1,070,370
General and administrative	441,135	1,080	442,215
Total operating expenses	1,511,505	1,080	1,512,585
Other income (expense)			
Interest income	1,091		1,091
Interest expense	(1,414)		(1,414)
Total other income (expense)	(323)		(323)
Net loss	$ (1,511,828)	$ (1,080)	$ (1,512,908)

See notes to financial statements.

Table of Contents

DMI LIFE SCIENCES INC. AND SUBSIDIARY

(A Development Stage Company)

Consolidated Statements of Stockholders Equity

	Series A Preferred Stock		Common Stock		Additional Paid in Capital	Deficit Accumulated During the Development Stage	Total Stockholders' Equity
	Shares	Amount	Shares	Amount			
alance - ecember 8, 2008 date of ception)		$		$	$	$	$
suance of ommon ock to ounder in ecember 008			1,080,000	1,080			1,080
et loss						(1,080)	(1,080)
alance - ecember 1, 2008			1,080,000	1,080		(1,080)	
suance of ommon ock and ssumption f liabilities asset cquisition			3,500,000	3,500		(252,015)	(248,515)
suance of eries A referred tock in xchange for ancellation f a note ayable in pril 2009	163,934	164			199,836		200,000
suance of stricted ommon tock in xchange for ash in April 009			7,350,000	7,350			7,350
suance of eries A	913,930	914			1,114,106		1,115,020

referred tock in xchange for sh in April d May 009							
et loss						(1,511,828)	(1,511,828)
alance - ecember 1, 2009	1,077,864	$ 1,078	11,930,000	$ 11,930	$ 1,313,942	$ (1,764,923)	$ (437,973)

See notes to financial statements.

Table of Contents

DMI LIFE SCIENCES, INC. AND SUBSIDIARY

(A Development Stage Company)

Consolidated Statements of Cash Flows

	Year ended December 31, 2009	December 18, 2008 (inception) through December 31, 2008	December 18, 2008 (inception) through December 31, 2009
Cash flows from operating activities:			
Net loss	$ (1,511,828)	$ (1,080)	$ (1,511,828)
Adjustments to reconcile net loss to cash used in operating activities:			
(Increase) in prepaid expenses	(7,036)		(7,036)
(Increase) in related party receivable	(7,261)		(7,261)
Increase in accounts payable	79,445		79,445
Increase in accrued salaries	73,391		73,391
Increase in accrued interest payable	1,414		1,414
Net cash used in operating activities	(1,371,875)	(1,080)	(1,371,875)
Cash used in financing activities:			
Proceeds from related party notes payable	200,000		200,000
Proceeds from sale of common stock	7,350	1,080	7,350
Proceeds from sale of Series A preferred stock	1,115,020		1,115,020
Proceeds from common stock subscribed	170,003		
Payment of liabilities assumed in asset purchase	(48,515)		(48,515)
Net cash provided by financing activities	1,443,858	1,080	1,273,855
Net change in cash and cash equivalents	71,983		71,983
Cash and cash equivalents at beginning of period			
Cash and cash equivalents at end of period	$ 71,983	$	$ 71,983

Supplementary cash flow information:						
Interest paid	$		$		$	
Income taxes paid	$		$		$	
Interest received	$	1,091	$		$	1,091
Non cash transactions:						
Note payable assumed in asset purchase, recorded as a distribution	$	200,000	$		$	200,000
Accounts payable assumed in asset purchase, recorded as a distribution	$	48,515	$		$	48,515
Conversion of notes payable to Series A preferred stock	$	200,000	$		$	200,000

See notes to financial statements.

Table of Contents

DMI LIFE SCIENCES, INC. AND SUBSIDIARY

(A Development Stage Company)

Notes to Consolidated Financial Statements

Note 1 Description of Business and Summary of Significant Accounting Policies

Nature of Operation

DMI Life Sciences, Inc. (DMI) is a development stage company incorporated in the state of Delaware on December 18, 2008. DMI is in the business of developing biopharmaceuticals. As DMI s activities to date have been primarily research and development and raising capital, and DMI does not yet have revenue, DMI is considered to be in the development stage.

Principals of Consolidation

These financial statements include the accounts of DMI and its wholly owned subsidiary DMI Acquisition Corp. All material intercompany transactions and balances have been eliminated.

Cash and Cash Equivalents

DMI considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. Cash equivalents consist primarily of money market investments. DMI maintains balances from time to time in excess of the federally insured limits.

Patents

Costs of establishing patents consisting of legal fees paid to third parties are expensed as incurred.

Use of Estimates

The preparation of financial statements in accordance with Generally Accepted Accounting Principals in the United States (GAAP) requires management to make estimates and assumptions that affect the reported amounts assets and liabilities, disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

Income Taxes

DMI uses the liability method for accounting for income taxes. Under this method, DMI recognizes deferred assets and liabilities based on the differences between the tax basis of assets and liabilities and their reported amounts in the financial statements that will result in taxable or deductible amounts in future years. DMI establishes a valuation allowance for all deferred tax assets for which there is uncertainty regarding realization.

6

Table of Contents

DMI LIFE SCIENCES, INC. AND SUBSIDIARY

(A Development Stage Company)

Notes to Consolidated Financial Statements

Note 1 Description of Business and Summary of Significant Accounting Policies

Net Loss per Common Share

GAAP provides for the calculation of Basic and Diluted earnings per share. Basic earnings per share include no dilution and are computed by dividing income available to common stockholders by the weighted-average number of shares outstanding during the period. Diluted earnings per share reflect the potential of securities that could share in the earnings of the Company, similar to fully diluted earnings per share. Basic and diluted loss per share was the same in 2009 and 2008. Although there were common stock equivalents of 1,227,864 shares and zero shares outstanding at December 31, 2009 and 2008, respectively, consisting of stock options and convertible Series A Preferred Stock; they were not included in the calculation of earnings per share because they would have been anti-dilutive.

Stock-Based Compensation

DMI accounts for share based payments by recognizing compensation expense based upon the estimated fair value of the awards on the date of grant. DMI determines the estimated grant fair value using the Black-Scholes option pricing model and recognizes compensation costs ratably over the vesting period using the straight-line method.

Research and Development

Research and development costs are expensed as incurred and totaled $1,070,370 and $0 for 2009 and 2008.

Fair Value of Financial Instruments

GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy established by GAAP prioritizes the inputs into valuation techniques used to measure fair value. Accordingly, the Company uses valuation techniques that maximize the use of observable inputs when determining fair value. The three levels of the hierarchy are as follows:

Level 1: Inputs that reflect unadjusted quoted prices in active markets that are accessible to us for identical assets or liabilities;

Level 2: Inputs include quoted prices for similar assets and liabilities in active or inactive markets or that are observable for the asset or liability either directly or indirectly; and

Level 3: Unobservable inputs that are supported by little or no market activity.

DMI has no assets or liabilities that were measured using quoted prices for similar assets and liabilities or significant unobservable inputs (Level 2 and Level 3 assets and liabilities) as of December 31, 2009. DMI s financial instruments include cash and cash equivalents, prepaid expenses, accounts payable, accrued salaries and accrued interest payable. The carrying amounts of these financial instruments approximate their fair value due to their short maturities. The carrying value of cash held in money market funds totaling $69,357 as of December 31, 2009 is included in cash and cash equivalents on the Balance Sheet and approximates market values based on quoted market prices, or Level 1 Inputs.

Table of Contents

DMI LIFE SCIENCES, INC. AND SUBSIDIARY

(A Development Stage Company)

Notes to Consolidated Financial Statements

Note 2 Income Taxes

DMI s effective tax rate differs from the U.S. federal corporate income tax rate for 2009 of 34% as follows:

Statutory rate	(34.0)%
State income taxes, net of federal income tax impact	(3.3)
Research and development credits	4.5
Increase in valuation allowance	32.8
Effective tax rate	0.0%

As of December 31, 2009, DMI provided a full valuation allowance against the deferred tax asset based on the weight of available evidence, both positive and negative, including the DMI s operating loss, which indicated that it is more likely than not that such benefits will not be realized.

Deferred tax assets comprised of the following:

Deferred tax assets	
Net operating loss and credit carryforwards	$ 494,000
Research and development credits	67,748
Accrued liabilities	22,000
Total deferred tax asset	583,748
Valuation allowance	(583,748)
Net deferred tax asset	$

As of December 31, 2009, DMI had an available net operating loss (NOL) carry forward of approximately $1,422,000 for federal and state purposes, expiring in 2029, and research and development credit carryforwards of approximately $67,000. Under the provisions of the Internal Revenue Code, certain substantial changes in the Company s ownership may result in limitations on the amount of the NOL carryforwards which can be utilized in future years.

The Company classifies penalty and interest expense related to income tax liabilities as general and administrative expense and therefore is recognized in the statement of operations.

The Company files tax returns in the United States and in the state of Colorado. The tax years since inception remain open to examinations by the major taxing jurisdictions to which the Company is subject.

Income taxes for 2008 were immaterial.

Table of Contents

DMI LIFE SCIENCES, INC. AND SUBSIDIARY

(A Development Stage Company)

Notes to Consolidated Financial Statements

Note 3 Related Party Notes Payable

As of December 31, 2009, DMI had $100,000 in notes payable to DMI s founder and $100,000 payable to DMI BioSciences, Inc (BioSciences). The related party notes payable are unsecured, bear interest at 6% and mature on April 30, 2010. The Company accrued interest on these notes of $1,414 and $0 in 2009 and 2008, respectively.

Note 4 Equity

Capital Transactions

DMI issued 1,080,000 shares of Common Stock to its founder in December 2008 at a value of $.001 per share.

DMI issued 3,500,000 shares of Common Stock to BioSciences, an entity under common control, in April 2009 in connection with an Asset Purchase Agreement. Under the terms of the agreement, DMI acquired office and lab equipment, cell lines and intellectual property including patents and license agreements, while the Company valued those assets in excess of $300,000, for financial reporting purposes the assets and liabilities have been recorded at predecessor cost. In conjunction with the asset purchase, DMI recorded a distribution of $252,015 to reflect liabilities assumed. Included in the assumed liabilities was a $200,000 note payable to DMI s founder. The note payable was converted into 163,934 shares of Series A preferred stock at a value of $1.22 per share.

DMI issued 7,350,000 shares of restricted Common Stock to its directors, officers and employees in exchange for $7,350 in cash in April 2009. The restricted common stock is subject to vesting as set forth below.

DMI issued 913,930 shares of Series A Preferred Stock in April and May 2009 in exchange for $1,115,020 in cash.

DMI received $170,002 in December 2009 in connection with a private placement for the purchase of 97,144 shares of common stock. DMI had not issued the shares as of December 31, 2009 and has therefore recorded the proceeds as a liability. The shares are expected to be issued subsequent to December 31, 2009.

Restricted Common Stock

Total shares of 7,350,000 sold to DMI s employees are restricted. One third of the restricted shares vested on the date of grant, April 17, 2009. The remaining two thirds vest on a monthly basis between the second and fourth anniversaries of the date of grant. Vesting is subject to acceleration upon achieving certain milestones.

Series A Preferred Stock

The holders of the Series A Preferred Stock have rights and preferences summarized as follows. See also subsequent events (Note 7).

Table of Contents

DMI LIFE SCIENCES, INC. AND SUBSIDIARY

(A Development Stage Company)

Notes to Consolidated Financial Statements

Note 4 Equity (continued)

Series A Preferred Stock (continued)

Dividends

The Series A Preferred Stock carries an 8% non-cumulative dividend.

Conversion

The Series A Preferred Stock is convertible to Common Stock on a 1 for 1 basis at the option of the Series A Preferred Shareholders. The Series A Preferred Stock automatically converts to Common Stock on any public offering, any merger with a publicly traded shell corporation, or with the consent of holders of a majority of the Series A Preferred Stock.

Liquidation Preference

The Series A Preferred Stockholders are entitle to receive $1.22 per share (as adjusted for stock splits) plus declared but unpaid dividends prior to any distribution to the holders of the Common Stock.

Voting

The Series A Preferred Stockholders are entitled to vote on an as-if converted to Common Stock basis.

Protective Provisions

As long as 20% of the Series A Preferred Stock remains outstanding, the consent of the holders of a majority of the Series A Preferred Stock will be required to amend the certificate of incorporation or bylaws, declare any dividend or redeem any shares, or sell the company.

Equity Incentive Plan

DMI adopted the 2009 Equity Incentive Plan (the Plan) during 2009. Under the Plan, DMI may issue stock awards to employees, directors and consultants. DMI is authorized to grant up to 550,000 shares of stock awards. Pricing and vesting are determined by the board of directors and, and awards are evidenced by an award agreement extended to the recipient. Stock options generally vest over four years and terminate 10 years from the date of grant. See Subsequent Events (Note 6).

10

Table of Contents

DMI LIFE SCIENCES, INC. AND SUBSIDIARY

(A Development Stage Company)

Notes to Consolidated Financial Statements

Note 5 Related Party Transactions

DMI entered into as Asset Purchase Agreement during 2009 with BioSciences. Under the Asset Purchase Agreement, DMI acquired office and lab equipment, cell lines and intellectual property including patents and license agreements and assumed liabilities as set forth in Note 5 Equity. This transaction was accounted for as a reverse merger and the assets acquired and liabilities assumed were recorded at predecessor cost. The assets had $0 carrying value on the predecessor financial statements and liabilities totaled $252,015. In conjunction with the Asset Purchase Agreement, the parties entered into a Royalty Agreement which granted DMI with a 10% revenue royalty based upon license revenue that BioSciences receives, subject to DMI committing to additional funding.

BioSciences paid operating expenses on behalf of DMI, and funds have been advanced and repaid between DMI and BioSciences during 2009. Disbursements to BioSciences during 2009, including prepayment of liabilities assumed under the Asset Purchase Agreement totaled $111,943. BioSciences owed $7,261 to DMI in a short-term non-interest bearing advance at December 31, 2009.

DMI entered into a number of financing transactions with related parties as set forth in Note 3 Related Party Notes Payable and Note 5 Equity.

DMI has a Sponsored Research Agreement with Trauma Research LLC (TRLLC), a related for-profit research organization. Under the terms of the Sponsored Research Agreement, DMI is to provide personnel and equipment with an equivalent value of $263,750 per year and to make monthly equipment rental payments of $7,236 on behalf of TRLLC. In exchange, TRLLC will assign any intellectual property rights it develops under the Sponsored Research Agreement. The Sponsored Research Agreement expires in 2014 and may be terminated by either party on six months notice or immediately if either party determines that the other is not fulfilling its obligations under the agreement. There were no outstanding liabilities related to the Sponsored Research Agreement at December 31, 2009.

DMI has license agreements with the Institute for Molecular Medicine, Inc. a related nonprofit research organization. The license agreements were assigned to DMI as a part of the Asset Purchase Agreement with BioSciences. Under the license agreements, DMI pays the costs associated with maintaining intellectual property subject to the license agreements. In return, DMI is entitled to deduct twice the amounts it has paid to maintain the intellectual property from any amounts that may become due to the Institute for Molecular Medicine, Inc. under the license agreements, if and when the intellectual property becomes commercially viable and generates revenue. DMI paid $53,000 during 2009 in legal and patent fees to maintain the intellectual property of the Institute for Molecular Medicine, Inc.

Note 6 Subsequent Events

On January 12, 2010, DMI entered into a consulting agreement with Redwood Consultants, LLC for a term of twelve months, pursuant to which DMI issued 815,000 restricted shares of common stock as consideration for advisory and consulting services to be provided.

Table of Contents

DMI LIFE SCIENCES, INC. AND SUBSIDIARY

(A Development Stage Company)

Notes to Consolidated Financial Statements

Note 6 Subsequent Events (continued)

During January 2010, DMI received $1,457,387 in proceeds from the sale of common stock under a private placement memorandum. DMI will issue 832,793 shares of common stock in exchange for these proceeds and in satisfaction of $170,002 in common stock liability outstanding at December 31, 2009 upon completion of the offering. The shares have par value of $.001 per share and are valued at $1.75 per share.

On March 2, 2010, we entered into an Agreement and Plan of Merger, or the Merger Agreement, with Chay Acquisitions, Inc., a public company. Chay Acquisitions was merged into DMI and DMI, as the Surviving Corporation, became a wholly-owned subsidiary of Chay. We issued 15,070,657 shares of our common stock to acquire DMI, which resulted in the stockholders of DMI owning approximately 95.7% of our outstanding common stock after the consummation of the Merger and before taking into account the issuance of 1,325,000 additional shares of our common stock described below.

Under the terms of the Merger Agreement, as a condition precedent to closing, DMI entered into a share purchase agreement. The share purchase agreement called for DMI to purchase a total of 263,624 shares of Chay s common stock from the Chay Control Shareholders for a purchase price of $184,000.

As a further condition to Closing and pursuant to the Merger Agreement, we and the Chay Control Shareholders entered into a Securities Put and Guarantee Agreement, or the Put Agreement. The Put Agreement provides that if DMI is not successful in obtaining a minimum of $5.0 million in financing, by a date which is 150 days after the Closing, the Chay Control Shareholders will have the right to put back to DMI all of the Chay common stock then owned by the Chay Control Shareholders for a put price of $250,000, subject to adjustment. Under the Put Agreement, the Guarantors agreed to jointly guarantee the payment of the put price by DMI if the put right becomes exercisable in accordance with its terms. In addition, DMI agreed to place in escrow a cash deposit of $125,000 that will be paid to the Chay Control Shareholders in the event the put right becomes exercisable by its terms. If paid to the Chay Control Shareholders in accordance with the escrow agreement, such payment will reduce the amount then owed by the Guarantors to the Chay Control Shareholders.

Immediately prior to the Closing, Chay accepted subscriptions for an aggregate of 1,325,000 shares of common stock from six officers and employees of DMI, for a purchase price of $150,000. DMI made advances to the six officers and employees in the aggregate amount of $150,000 to facilitate the share purchases by the six purchasers. These shares were issued immediately before the Closing.

At the time of merger, the Stockholders adopted a stock plan, which reserves up to 2,500,000 shares of common stock for issuance to their officers,

directors, employees and consultants through various means, including incentive stock options, not-qualified stock options, restricted stock grants, and other forms of equity equivalents.

Table of Contents

DMI BIOSCIENCES ASSETS SOLD

Financial Statements

and

Independent Auditors Report

April 15, 2009 and September 30, 2008

Table of Contents

DMI BIOSCIENCES ASSETS SOLD

Table of Contents

Table of Contents

INDEPENDENT AUDITORS REPORT

Board of Directors and Stockholders

DMI BioSciences Assets Sold

Denver, Colorado

We have audited the accompanying balance sheets of DMI BioSciences Assets Sold. (BioSciences) as of April 15, 2009 and September 30, 2008, and the related statement of operations, statements of parents investment, and cash flows for the periods then ended. These financial statements are the responsibility of BioSciences management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of DMI BioSciences Assets Sold as of April 15, 2009 and September 30, 2008, and the results of its operations and its cash flows for the periods then ended in conformity with accounting principles generally accepted in the United States of America.

Ehrhardt Keefe Steiner & Hottman PC

March 8, 2010

Denver, Colorado

Table of Contents

DMI BIOSCIENCES ASSETS SOLD

Balance Sheets

	April 15, 2009	September 30, 2008
Assets		
Assets		
Property and equipment, net	$	$ 19,296
Total assets	$	$ 19,296
Liabilities and Contribution from Parent		
Current liabilities		
Accrued liabilities	$ 48,515	$
Accrued interest	3,740	534
Notes payable	200,000	75,000
Total current liabilities	252,255	75,534
Contribution from Parent		
Contribution from parent	1,160,648	897,978
Deficit accumulated	(1,572,891)	(954,216)
Net contribution from Parent	(252,255)	(56,238)
Total liabilities and contribution from Parent	$	$ 19,296

See notes to financial statements.

Table of Contents

DMI BIOSCIENCES ASSETS SOLD

Statement of Operations

	Period from September 30, 2008 through April 15, 2009	Year Ended September 30, 2008
Revenue	$ 53,750	$ 50,000
Expenses		
Research and development	499,246	879,844
General and administrative	9,451	123,838
Total operating expenses	508,697	1,003,682
Other income (expense)		
Interest income		
Interest expense	3,740	534
Total other income (expense)	3,740	534
Net loss	$ (458,687)	$ (954,216)

See notes to financial statements.

Table of Contents

DMI BIOSCIENCES ASSETS SOLD

Statement of Contribution from Parent

	Contribution from Parent	Accumulated Deficit	Total Net Assets
Balance September 30, 2007	$ 194,880	$	$ 194,880
Contribution from parent	703,098		703,098
Net loss		(954,216)	(954,216)
Balance September 30, 2008	897,978	(954,216)	(56,238)
Contribution from parent	262,670		262,670
Net loss		(458,687)	(458,687)
Balance April 15, 2009	$ 1,160,648	$ (1,412,903)	$ (252,255)

See notes to financial statements.

Table of Contents

DMI BIOSCIENCES ASSETS SOLD

Statements of Cash Flows

	Period from September 30, 2009 to April 15, 2009	Year Ended September 30, 2008
Cash flows from operating activities		
Net loss	$ (458,687)	$ (954,216)
Adjustments to reconcile net loss to cash used in operating activities		
Loss on disposal of assets		140,680
Depreciation	19,296	34,904
Increase in accounts payable	48,515	
Increase in accrued interest	3,206	534
Net cash used in operating activities	(387,670)	(778,098)
Cash used in financing activities		
Proceeds from note	125,000	75,000
Net cash provided by financing activities	125,000	75,000
Cash used in investing activities		
Contribution from parent	262,670	703,098
Net cash used in investing activities	262,670	703,098
Net change in cash and cash equivalents		
Cash and cash equivalents at beginning of period		
Cash and cash equivalents at end of period	$	$

See notes to financial statements.

Table of Contents

DMI BIOSCIENCES ASSETS SOLD

Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies

Business and Basis of Financial Statement Presentation

On April 16, 2009, DMI Life Sciences, Inc. (Life Sciences) entered into an Asset Purchase Agreement with DMI BioSciences (BioSciences) to purchase certain assets and assume certain liabilities (Assets sold). Under the Asset Purchase Agreement, BioSciences sold office and lab equipment, cell lines and intellectual property, including patents and license agreements, and relinquished certain liabilities to Life Sciences in exchange for 3,500,000 shares of common stock of Life Sciences. In conjunction with the Asset Purchase Agreement, the parties entered into a Royalty Agreement which granted Life Sciences with a 10% revenue royalty based upon license revenue that BioSciences receives, subject to Life Sciences committing to additional funding.

Basis of Presentation

The accompanying financial statements contain financial information related to the Assets sold, which closed on April 16, 2009. Historically, financial statements have not been prepared for the Assets sold, as they were not held in a separate legal entity nor segregated within BioSciences as a division. The accompanying carve-out financial statements present the statements of financial position of the Assets sold and the statement of operations and cash flows of the Assets sold for inclusion in Life Sciences Form 8-K filing for purposes of complying with the rules and regulations of the Securities and Exchange Commission. These statements include only those assets, liabilities and related operations of the Assets sold and exclude all other assets, liabilities and operations of BioSciences. The accompanying carve-out financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America using allocations and estimates where data is not maintained on a specific basis within the books and records. Allocations were based primarily on the percentage of expenses related to the research and development of the intellectual property transferred as compared to the expenses incurred for BioSciences other activities, adjusted when needed based on facts and circumstances where a more specific allocation was deemed more appropriate. Due to the significant amount of allocations and estimates used to prepare these carve-out financial statements, they may not reflect the financial position, cash flows or results of operations of the Assets sold in the future or what its operations, cash flows and financial positions would have been had the Assets sold been operated on a stand-alone basis during the periods presented. These financial statements do not include a carve-out for cash as the operations have historically been funded by BioSciences.

Use of Estimates

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

6

Table of Contents

DMI BIOSCIENCES ASSETS SOLD

Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment is recorded at cost. Depreciation is calculated using the straight-line method over the estimated useful lives for owned assets, ranging from five to seven years or, for leasehold improvements, the term of the related lease.

Patents and Patent Applications

Costs of establishing patents consisting of legal fees paid to third parties are expensed as incurred until such time as the patent is deemed viable and will produce a source of revenue.

Research and Development

Research and development cost are expensed as incurred.

Impairment of Long-Lived Assets and Assets to Be Disposed Of

Long-lived assets and certain identifiable intangibles are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Recoverability of assets to be held and used is generally measured by a comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amounts of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. There has been no impairment loss recognized during the periods ended September 30, 2008 or April 15, 2009.

Revenue Recognition

Revenues from royalties are recognized when all of the following criteria have been met: (a) persuasive evidence of an arrangement exists, (b) delivery has occurred or services have been rendered, (c) the price is fixed or determinable, and (d) collectability is reasonably assured.

Table of Contents

DMI BIOSCIENCES ASSETS SOLD

Notes to Financial Statements

Note 2 - Debt

In September of 2008, a note demand was made to BioSciences, with no set maturity date from an unrelated third party for $75,000 bearing interest at 10%. This obligation increased to $200,000 as of April 16, 2009 and was transferred as part of the Assets sold.

Note 3 - Related Party Transactions

BioSciences has a Sponsored Research Agreement with Trauma Research LLC (TRLLC), a related it research organization. Under the terms of the Sponsored Research Agreement, BioSciences was to provide personnel and equipment with an equivalent value of $600,000 per year and to make monthly equipment rental payments of $7,236 on behalf of TRLLC. In exchange, TRLLC will assign any intellectual property rights it develops. The Sponsored Research Agreement expires in 2014 and may be terminated by either party on six months notice or immediately if either party determines that the other is not fulfilling its obligations under the agreement. There were no outstanding liabilities related to the Sponsored Research Agreement at September 30, 2008 and the seven months ended April 15, 2009. The obligations under this agreement were transferred through issuance of a new agreement between TRLLC and Life Sciences.

BioSciences has license agreements with the Institute for Molecular Medicine, Inc. a related nonprofit research organization. Under the license agreements, BioSciences paid the costs associated with maintaining intellectual property subject to the license agreements. In return, BioSciences was entitled to deduct twice the amounts it has paid to maintain the intellectual property from any amounts that may become due to the Institute for Molecular Medicine, Inc. under the license agreements, if and when the intellectual property becomes commercially viable and generates revenue. BioSciences paid $0 and $15,227 during the seven months ended April 15, 2009 and twelve months ended September 20, 2008, respectively, in legal and patent fees to maintain the intellectual property of the Institute of Molecular Medicine, Inc. These costs are included in the accompanying financial statements as this contract was assumed by Life Sciences as part of the Assets sold.

Note 4 - Subsequent Events

Operating expenses were paid on behalf of DMI, and funds have been advanced and repaid between Life Sciences and the Company during 2009. Receipts from Life Sciences during 2009, including prepayment of liabilities assumed under the Asset Purchase Agreement totaled $111,943. Life Sciences owed $7,261 to the Company in a short-term non-interest bearing advance at December 31, 2009.

Table of Contents

Pro Forma Unaudited Consolidated statement of Operations

For the Year ended December 31, 2009

	Chay Year Ended December 31, 2009 (unaudited)	Adjustments for the Sale of Assets		DMI Year Ended December 31, 2009	Pro Forma Combined
Expenses					
Research and development				1,070,370	1,070,370
General and administrative	21,872	(21,872)	(1)	441,135	441,135
Total operating expenses	21,872	(21,872)		1,511,505	1,511,505
Other income (expense)					
Interst income				1,091	1,091
Interst expense	(4,179)	4,179	(1)	(1,414)	(1,414)
Total other income (expense)	(4,179)	4,179		(323)	(323)
Net Loss	$ 26,051	$ (26,051)		$ 1,511,828	$ 1,511,828
Weighted average number of common shares outstanding	929,718			8,787,650	17,061,752
Basic and diluted net loss per common share	$ 0.03			$ 0.17	$ 0.09

Table of Contents

Pro Forma Consolidated Balance sheet Data as of December 31, 2009

	Chay	DMI LifeSciences	Adjustments for Assets and Liabilities not acquired		Pro forma Adjustments		Pro Forma Combined
Current Assets							
Cash	$ 527	$ 71,983	$ (527)	(1)	$ 150,183	(2)	$ 1,050,551
					1,287,385	(3)	
					(184,000)	(6)	
					(150,000)	(2)	
					(125,000)	(2)	
Restricted Cash					125,000	(2)	$ 125,000
Prepaid expenses		7,036					7,036
Related party receivable		7,261					7,261
Total current assets	527	86,280	(527)		1,103,568		1,189,848
Investments in real estate Fall River County	30,154		(30,154)	(1)			
Total non-current assets	30,154		(30,154)				
Total assets	$ 30,681	$ 86,280	$ (30,681)		$ 1,103,568		$ 1,189,848
Current liabilities							
Accounts payable	4,602	79,446	(4,602)	(1)			79,446
Accrued salaries		73,391					73,391
Accrued real estate taxes	1,201		(1,201)	(1)			
Accrued interest payable, related parties	7,628	1,414	(7,628)	(1)			1,414
Advances payable, related parties	9,078		(9,078)	(1)			
	78,087	200,000	(78,087)	(1)			200,000

Related parties notes payable							
Common stock put option					250,000	(7)	250,000
Total current liabilities	100,596	354,251	(100,596)		250,000		604,251
Total liabilities	100,596	354,251	(100,596)		250,000		604,251
Stockholder' equity							
Common stock subscribed		170,002			(170,002)	(5)	
Note receivable, stockholders					(150,000)	(2)	(150,000)
Preferred stock, no par value							
Series A Preferred stock, $.001 par value		1,078			(1,078)	(4)	
Common stock, no par value	30,418		(30,418)	(1)	150,183	(2)	2,500,520
					2,600,337	(5)	
					(250,000)	(7)	
Common stock, $.001 par value		11,930			1,078	(4)	
					1,457	(3)	
					(14,465)	(5)	
Additional paid in capital		1,313,942			1,285,928	(3)	
					(2,415,870)	(5)	
					(184,000)	(6)	
Accumulated deficit to July 31, 2001	(1,790)		1,790	(1)			
Deficit accumulated during the development stage	(98,543)	(1,764,923)	98,543	(1)			(1,764,923)
Total shareholders' equity (deficit)	(69,915)	(267,971)	69,915		853,568		585,597
Total liabilities and	$ 30,681	$ 86,280	$ (30,681)		$ 1,103,568		$ 1,189,848

shareholders' equity (deficit)

Table of Contents

Notes to Pro Forma Consolidated Financial Information

(1) to remove the assets and liabilities not assumed in the merger
(2) to reflect the sale of 1,325,000 shares common stock in Chay Enterprises between December 31, 2009 and March 2, 2010 for $150,183 which was funded by a note from DMI Life Sciences. In addition DMI Life Sciences put $125,000 into escrow as a condition of the merger agreement.
(3) to reflect the sale of 735,649 shares of common stock in DMI Life Sciences for $1,287,385 in cash between January 1, 2010 and March 2, 2010, and the issuance of shares for common stock subscribed prior to December 31, 2009.
(4) to convert the Preferred stock to common stock based upon the automatic conversion feature triggered due to the merger of Chay and DMI Life Sciences
(5) to reflect the merger of Chay and DMI Life sciences through the issuance of 15,070,657 shares of common stock of Chay
(6) to reflect the payment of $184,000 to Chay shareholders for the merger transaction for the redemption of DMI acquiring 263,624 shares of common stock
(7) to reflect the $250,000 put option held by the Chay shareholders which was a condition of the merger transaction

Table of Contents

CHAY ENTERPRISES, INC. AND

DMI LIFE SCIENCES, INC.

SELECTED UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL DATA

Explanatory Notes

The unaudited pro forma financial data set forth below at and for the year ended December 31, 2009 is based upon Chay s historical financial statements, adjusted to give effect to:

- The transaction with DMI Life Sciences, Inc. and
- The contemporaneous sale of the corporation to the purchasing corporation.

On March 2, 2010, we entered into an Agreement and Plan of Merger with Chay Acquisitions, Inc., a public company. Chay Acquisitions was merged into DMI and DMI, as the Surviving Corporation, became a wholly-owned subsidiary of Chay. We issued 15,070,657 shares of our common stock to acquire DMI, which resulted in the stockholders of DMI owning approximately 95.7% of our outstanding common stock after the consummation of the Merger and before taking into account the issuance of 1,325,000 additional shares of our common stock sold to management of DMI.

Under the terms of the Merger Agreement, as a condition precedent to closing, DMI entered into a share purchase agreement which called for DMI to purchase a total of 263,624 shares of Chay s common stock from the Chay Control Shareholders for a purchase price of $184,000 which represents the cost and efforts the Control Shareholders incurred in establishing and maintaining Chay.

As a further condition to Closing and pursuant to the Merger Agreement, we and the Chay Control Shareholders entered into a Securities Put and Guarantee Agreement, or the Put Agreement. The Put Agreement provides that if DMI is not successful in obtaining a minimum of $5.0 million in financing, by a date which is 150 days after the Closing, the Chay Control Shareholders will have the right to put back to DMI all of the Chay common stock then owned by the Chay Control Shareholders for a put price of $250,000, subject to adjustment. Under the Put Agreement, the Guarantors agreed to jointly guarantee the payment of the put price by DMI if the put right becomes exercisable in accordance with its terms. In addition, DMI agreed to place in escrow a cash deposit of $125,000 that will be paid to the Chay Control Shareholders in the event the put right becomes exercisable by its terms. If paid to the Chay Control Shareholders in accordance with the escrow agreement, such payment will reduce the amount then owed by the Guarantors to the Chay Control Shareholders.

Immediately prior to the Closing, Chay accepted subscriptions for an aggregate of 1,325,000 shares of common stock from six officers and employees of DMI, for a purchase price of approximately $150,000. DMI made advances to the six officers and employees in the aggregate amount of $150,000 to facilitate the

share purchases by the six purchasers.

The pro forma financial information at and for the year ended December 31, 2009 has been developed from Chay s audited financial statements and DMI Life Sciences, Inc. audited financial statements, and the notes to those financial statements, which are included elsewhere in this document.

The unaudited pro forma consolidated financial data is provided for illustrative purposes only and does not purport to represent what Chay s actual consolidated results of operations or Chay s financial position would have been had the transaction and corporation sale occurred on the dates assumed, nor is it necessarily indicative of future consolidated results of operations or financial position.

Table of Contents

The unaudited pro forma combined financial data is based on preliminary estimates and various assumptions that DMI Life Sciences, Inc., and Chay believe are reasonable in these circumstances. Because the former stockholders of DMI Life Sciences, Inc., will own approximately 96% of the combined company on completion of the exchange, calculated on a fully diluted basis and Chay is selling its existing operations in conjunction with the transaction, the transaction and corporation sale will be accounted for as a recapitalization through a reverse acquisition, with no goodwill or other intangibles recorded. As such, the pro forma financial information reflects the historical financial information of DMI Life Sciences, Inc. and the remaining assets of Chay brought over at historical cost. Costs of the transaction will be charged to operations. Chay does not anticipate that any cost savings, revenue enhancements or synergies will be realized in connection with the transaction and corporation sale. The unaudited pro forma financial statements reflect the DMI Life Sciences, Inc. accounting policies, as those accounting policies will govern DMI Life Sciences Inc. s accounting after the transaction and corporation sale.

The summary consolidated statement of operations data for the year ended December 30, 2009 gives effect to the transaction and corporation sale as if each had occurred on January 1, 2008.