

CHELSEA THERAPEUTICS INTERNATIONAL, LTD.

FORM 10-Q (Quarterly Report)

Filed 11/01/10 for the Period Ending 09/30/10

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

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2010

or

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

For the transition period from _____ to _____.

Commission file number: 000-51462

**CHELSEA THERAPEUTICS INTERNATIONAL,
LTD.**

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

20-3174202
(I.R.S. Employer
Identification No.)

3530 Toringdon Way, Suite 200, Charlotte, North Carolina 28277
(Address of principal executive offices, including zip code)

(704) 341-1516
(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 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 definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer (Do not check if smaller reporting company)

Smaller Reporting Company

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

As of October 29, 2010 there were 49,125,545 shares of registrant's Common Stock outstanding.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

CHELSEA THERAPEUTICS INTERNATIONAL, LTD. AND SUBSIDIARY
(A Development Stage Company)
CONDENSED CONSOLIDATED BALANCE SHEETS

	<u>September 30, 2010</u> (unaudited)	<u>December 31, 2009</u> (Note 1)
Assets		
Current assets:		
Cash and cash equivalents	\$ 18,189,529	\$ 22,294,649
Short-term investments	—	11,450,000
Prepaid contract research and manufacturing	53,824	293,886
Other prepaid expenses and other current assets	277,928	129,687
Total current assets	<u>18,521,281</u>	<u>34,168,222</u>
Property and equipment, net	68,482	103,795
Other assets	38,095	76,950
	<u>\$ 18,627,858</u>	<u>\$ 34,348,967</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 2,037,370	\$ 2,842,566
Accrued compensation and related expenses	752,871	894,696
Accrued contract research and manufacturing	6,274,868	5,501,329
Other accrued expenses	512,930	792,458
Line of credit payable	—	11,466,012
Total liabilities	<u>9,578,039</u>	<u>21,497,061</u>
Commitments		
Stockholders' equity:		
Preferred stock, \$0.0001 par value, 5,000,000 shares authorized, no shares issued and outstanding	—	—
Common stock, \$0.0001 par value, 100,000,000 and 60,000,000 shares authorized, respectively and 40,856,259 and 33,500,406 shares issued and outstanding, respectively	4,086	3,350
Additional paid-in capital	129,532,061	108,391,823
Deficit accumulated during the development stage	(120,486,328)	(95,543,267)
Total stockholders' equity	<u>9,049,819</u>	<u>12,851,906</u>
	<u>\$ 18,627,858</u>	<u>\$ 34,348,967</u>

See accompanying notes to condensed consolidated financial statements.

CHELSEA THERAPEUTICS INTERNATIONAL, LTD. AND SUBSIDIARY
(A Development Stage Company)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	<u>For the three months ended September 30,</u>		<u>For the nine months ended September 30,</u>		<u>Period from</u>
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>April 3, 2002</u> <u>(inception) to</u> <u>September 30, 2010</u>
Operating expenses:					
Research and development	\$ 7,424,682	\$ 5,357,373	\$ 20,699,430	\$ 19,960,065	\$ 98,318,590
Sales and marketing	424,453	714,064	1,343,421	1,352,486	7,823,794
General and administrative	954,540	1,014,299	3,018,299	3,039,234	18,810,882
Total operating expenses	<u>8,803,675</u>	<u>7,085,736</u>	<u>25,061,150</u>	<u>24,351,785</u>	<u>124,953,266</u>
Operating loss	(8,803,675)	(7,085,736)	(25,061,150)	(24,351,785)	(124,953,266)
Interest income	19,003	32,427	188,478	263,925	4,725,286
Interest expense	(2,055)	(40,544)	(70,389)	(108,118)	(258,348)
Other income	—	—	—	4,390,487	—
Net loss	<u>\$ (8,786,727)</u>	<u>\$ (7,093,853)</u>	<u>\$ (24,943,061)</u>	<u>\$ (19,805,491)</u>	<u>\$ (120,486,328)</u>
Net loss per basic and diluted share of common stock	<u>\$ (0.22)</u>	<u>\$ (0.22)</u>	<u>\$ (0.65)</u>	<u>\$ (0.64)</u>	
Weighted average number of basic and diluted common shares outstanding	<u>40,316,699</u>	<u>32,428,692</u>	<u>38,668,900</u>	<u>30,892,371</u>	

See accompanying notes to condensed consolidated financial statements.

CHELSEA THERAPEUTICS INTERNATIONAL, LTD. AND SUBSIDIARY
(A Development Stage Company)
CONDENSED CONSOLIDATED STATEMENT OF
STOCKHOLDERS' EQUITY
(unaudited)

	<u>Common stock</u>		<u>Additional paid-in capital</u>	<u>Deficit accumulated during the development stage</u>	<u>Total stockholders' equity</u>
	<u>Shares</u>	<u>Amount</u>			
Balance at January 1, 2010	33,500,406	\$3,350	\$108,391,823	\$ (95,543,267)	\$ 12,851,906
Stock-based compensation	—	—	1,497,043	—	1,497,043
Sale and issuance of common stock with detachable warrants in March 2010 at approximately \$2.50 per share, net of issuance costs	6,700,000	670	16,762,253	—	16,762,923
Sale and issuance of common stock in controlled at-the-market equity offering in September 2010 at approximately \$4.49 per share, net of issuance costs	634,500	64	2,851,313	—	2,851,377
Common stock issued in 2010 at par, pursuant to net-share (cashless) exercises of common stock warrants	14,298	1	(1)	—	—
Common stock issued in 2010 at \$4.20 per share pursuant to exercise of common stock warrants	7,055	1	29,630	—	29,631
Net loss	—	—	—	(24,943,061)	(24,943,061)
Balance at September 30, 2010	<u>40,856,259</u>	<u>\$4,086</u>	<u>\$129,532,061</u>	<u>\$(120,486,328)</u>	<u>\$ 9,049,819</u>

See accompanying notes to condensed consolidated financial statements.

CHELSEA THERAPEUTICS INTERNATIONAL, LTD. AND SUBSIDIARY
(A Development Stage Company)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	<u>For the nine months ended September 30,</u>		<u>Period from</u>
	<u>2010</u>	<u>2009</u>	<u>April 3, 2002</u>
			<u>(inception) to</u>
			<u>September 30, 2010</u>
Operating activities:			
Net loss	\$ (24,943,061)	\$ (19,805,491)	\$ (120,486,328)
Adjustments to reconcile net loss to net cash used in operating activities:			
Non-cash stock-based compensation	1,497,043	1,242,573	5,852,203
Depreciation and amortization	52,307	52,338	282,211
Stock issued for license agreement	—	—	575,023
Non-cash interest expense	—	—	34,020
Gain on recovery of temporary impairment of short-term and long-term investments	—	(4,390,487)	—
Gain on disposition of assets	—	—	(2,208)
Fair value of warrants for finder's agreement	—	—	433,750
Changes in operating assets and liabilities:			
Prepaid contract research and manufacturing expenses, other prepaid expenses and other assets	91,822	191,672	(331,751)
Accounts payable, accrued contract research and manufacturing expenses and other accrued expenses	(311,185)	33,077	8,825,169
Accrued compensation and related expenses	(141,825)	25,347	752,871
Net cash used in operating activities	<u>(23,754,899)</u>	<u>(22,650,971)</u>	<u>(104,065,040)</u>
Investing activities:			
Acquisitions of property and equipment	(16,995)	(8,724)	(352,164)
Proceeds from sale of assets	—	—	3,677
Purchases of investments	—	—	(49,538,336)
Redemptions and sales of investments	11,450,000	14,550,000	49,538,336
Security deposits	38,855	—	(38,095)
Net cash provided by (used in) investing activities	<u>11,471,860</u>	<u>14,541,276</u>	<u>(386,582)</u>
Financing activities:			
Proceeds from borrowings from affiliate	—	—	1,745,000
Proceeds from (repayments of) borrowings from line of credit	(11,466,012)	4,197,532	—
Proceeds from exercise of stock options	—	—	80,729
Proceeds from exercise of common stock warrants	29,631	—	328,711
Recapitalization of the Company	—	—	(400,000)
Proceeds from sales of equity securities, net of issuance costs	19,614,300	12,430,000	120,882,086
Receipt of cash for stock subscription receivable	—	—	4,625
Net cash provided by financing activities	<u>8,177,919</u>	<u>16,627,532</u>	<u>122,641,151</u>
Net increase (decrease) in cash and cash equivalents	(4,105,120)	8,517,837	18,189,529
Cash and cash equivalents, beginning of period	22,294,649	21,532,553	—
Cash and cash equivalents, end of period	<u>\$ 18,189,529</u>	<u>\$ 30,050,390</u>	<u>\$ 18,189,529</u>
Supplemental disclosure of cash flow information:			
Cash paid for interest	<u>\$ 70,389</u>	<u>\$ 108,118</u>	<u>\$ 224,328</u>

See accompanying notes to condensed consolidated financial statements.

CHELSEA THERAPEUTICS INTERNATIONAL, LTD. AND SUBSIDIARY
(A Development Stage Company)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

Supplemental disclosure of non-cash investing and financing activities:

During 2002, the Company issued 5,428,217 shares of its \$0.0001 par value common stock for a subscription receivable of \$4,625.

During 2004, the Company converted a loan with an affiliate for aggregate principal of \$1,745,000 and accrued interest of \$34,020 into shares of the Company's \$0.0001 par value common stock, issuing 677,919 shares, at approximately \$2.62 per share in lieu of repayment of this obligation.

In December 2004, in conjunction with and as compensation for activities related to the December 2004 sale of equity securities, the Company issued warrants to purchase 483,701 shares of its \$0.0001 par value common stock, with a purchase price of approximately \$2.88 per share and an aggregate fair value of \$14,400.

In conjunction with the merger and recapitalization of the Company on February 11, 2005, the Company issued 11,911,357 shares of its \$0.0001 par value common stock in exchange for all of the issued and outstanding shares of Chelsea Therapeutics, Inc. In addition, in conjunction with and as compensation for facilitating the merger, the Company issued warrants for the purchase of 105,516 shares of its \$0.0001 par value common stock at an exercise price of \$2.62 per share and an aggregate fair value of \$26,700.

In February 2006, in conjunction with and as compensation for activities related to the February 2006 sale of equity securities, the Company issued warrants to purchase 716,666 shares of its \$0.0001 par value common stock, with a purchase price of \$3.30 per share and an aggregate fair value of approximately \$705,000.

In May 2006, in conjunction with and as compensation for activities related to a licensing agreement and under a Finder's Agreement, the Company issued warrants to purchase 250,000 shares of its \$0.0001 par value common stock, with an exercise price of \$4.31 per share. The exercise of these warrants was conditioned on an event that occurred in January 2007 and, accordingly, the Company recorded a charge based on the warrants' fair value determined at January 2007 of \$433,750.

See accompanying notes to condensed consolidated financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND NATURE OF OPERATIONS

The Company

Chelsea Therapeutics International, Ltd. (“Chelsea Ltd.” or the “Company”) is a development stage pharmaceutical company that seeks to acquire, develop and commercialize innovative pharmaceutical products for the treatment of a variety of human diseases. Specifically, the Company is developing a novel therapeutic agent for the treatment of neurogenic orthostatic hypotension, or NOH, and related conditions and diseases along with the development of prescription products for multiple autoimmune disorders including rheumatoid arthritis, psoriasis, inflammatory bowel disease and cancer. The Company’s operating subsidiary, Chelsea Therapeutics, Inc. (“Chelsea Inc.”), was incorporated in the State of Delaware on April 3, 2002 as Aspen Therapeutics, Inc., with the name changed in July 2004. In February 2005, Chelsea Inc. merged with a wholly-owned subsidiary of our predecessor company, Ivory Capital Corporation (“Ivory”), a Colorado public company with no operations (the “Merger”). The Company reincorporated into the State of Delaware in July 2005, changing its name to Chelsea Therapeutics International, Ltd.

As a result of the Merger of Ivory and Chelsea Inc. in February 2005, and the reincorporation in Delaware in July 2005, Chelsea Ltd. is the reporting company and is the 100% owner of Chelsea Inc. The separate existence of Ivory ceased in connection with the Delaware reincorporation in July 2005. Except where the context provides otherwise, references to “the Company” and similar terms mean Ivory, Chelsea Ltd. and Chelsea Inc.

Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of the Company and its operating subsidiary, which shall collectively be referred to as the “Company”. These statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial reporting and the instructions to Form 10-Q and do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of the Company’s management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the results for the interim periods have been included. Operating results for the three and nine months ended September 30, 2010 are not necessarily indicative of the results for the year ending December 31, 2010 or future periods. The accompanying condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K filed on March 10, 2010 and available on the website of the United States Securities and Exchange Commission (www.sec.gov). The accompanying condensed consolidated balance sheet as of December 31, 2009 has been derived from the audited balance sheet as of that date included in the Form 10-K.

Since inception, the Company has focused primarily on organizing and staffing the Company, negotiating in-licensing agreements with its partners, acquiring, developing and securing its proprietary technology, participating in regulatory discussions with the United States Food and Drug Administration, or FDA, the European Medicines Agency, or EMA, and other regulatory agencies and undertaking preclinical trials and clinical trials of its product candidates. The Company is a development stage company and has generated no revenue since inception.

The Company has sustained operating losses since its inception and expects that such losses could continue over at least the next two years. The Company’s continued operation depends on its ability to raise funds through various potential sources, such as equity and debt financing, the exercise of warrants or strategic alliances. Such strategic relationships or out-licensing arrangements might require the Company to relinquish rights to certain of its technologies, product candidates or products that the Company would otherwise seek to develop or commercialize itself. If adequate funds are not available, the Company may be required to delay, reduce the scope of, or eliminate one or more of its development programs or curtail operations.

Management believes that capital resources available at September 30, 2010, funds raised in the October 2010 publicly-marketed offering (see Note 10), anticipated proceeds of approximately \$8.5 million expected from the exercise of warrants expiring in February 2011 and an assumed completion of an out-license agreement for Northera rights outside the North American market in 2011 will meet our operating needs, including an increasing level of commercialization activity for Northera, into the first quarter of 2012.

Basis of Consolidation

The accompanying financial statements present, on a condensed consolidated basis, the financial position and results of operations of Chelsea Ltd. and its subsidiary. All significant intercompany transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements as well as the reported revenues and expenses during the reporting period. On an ongoing basis, management evaluates its estimates and judgments. Management bases estimates on its historical experience and on various other factors that it believes are 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 might differ from these estimates under different assumptions or conditions.

Recent Accounting Pronouncements

In September 2009, the Financial Accounting Standards Board, or FASB, issued authoritative guidance that modifies the accounting for multiple element arrangements. This guidance requires an entity to allocate revenue to each unit of accounting in multiple deliverable arrangements based on the relative selling price of each deliverable. It also changes the level of evidence of stand-alone selling prices required to separate deliverables by allowing an entity to make its best estimate of the stand-alone selling price of the deliverables when more objective evidence of selling price is not available. Implementation of this guidance is required no later than fiscal years beginning after June 15, 2010 and this guidance may be applied prospectively to new or materially modified arrangements after the effective date or retrospectively. Early application is permitted. As the Company has no active multiple element arrangements, the adoption of this authoritative guidance will have no material impact on its consolidated financial position or results of operations.

NOTE 2 AUCTION RATE SECURITIES

On December 31, 2009, the Company held total investments in auction rate securities, or ARS, with a par value of approximately \$11.45 million, classified as trading securities and held at UBS Financial Services, Inc. (UBS). The Company's ARS investments represented interests in collateralized debt obligations supported by pools of student loans and none were collateralized by mortgage, credit card or insurance securitizations. During 2008, the Company finalized the details of its settlement agreement related to those ARS held at UBS and accepted the terms for ARS Rights (the "ARS Rights") for the illiquid ARS holdings maintained at UBS as of February 13, 2008. The ARS Rights provided the Company with the ability to sell the ARS, along with the ARS Rights, to UBS at the par value of the ARS no earlier than June 30, 2010 and were to expire on July 2, 2012. The ARS Rights granted UBS the sole discretion and right to sell or otherwise dispose of ARS at any time up until June 30, 2010, so long as the holder receives a payment of par upon any sale or disposition. The ARS Rights were not transferable, not tradable and were not quoted or listed on any securities exchange or any other trading network.

In addition, UBS also agreed that an affiliate would provide the Company with a no net-cost line of credit. Under the terms of the line of credit agreements the Company received funds in December 2008 and March 2009 equivalent to 100% of the par value of the Company's ARS investments, providing the Company with full liquidity for all its investments in ARS held with UBS. The line of credit agreements also stipulated that proceeds from liquidation of the ARS through redemption or otherwise, would first be applied to the balance outstanding on the line of credit. The Company exercised the ARS Rights on June 30, 2010 and, after applying the proceeds of the redemptions of those ARS Rights, had no remaining investment in ARS or any liability under the line of credit as of the date of exercise.

In 2008, recognizing that the ARS Rights act as an economic hedge against any further price movement in those ARS holdings, the Company elected to account for the ARS Rights under the fair value option to mitigate volatility in reported earnings due to the relationship between the ARS Rights and the ARS. The Company adjusted the ARS Rights to fair value at each financial statement date with corresponding changes in fair value reported in earnings. Simultaneously, the Company elected a one-time transfer of the ARS covered under the settlement agreement with UBS from the available-for-sale category to the trading category recognizing the unprecedented failure of the entire market for ARS. This election allowed any

movements in the fair value of the ARS to be reported in earnings, creating relative accounting symmetry with the ARS Rights until the settlement was realized. The ARS Rights were recorded at fair value and classified as short-term investments as of December 31, 2009.

As a result of its continuing analysis of fair value, the Company recorded no additional trading loss related to its trading securities or any corresponding adjustment to the fair value of its ARS Rights, prior to redemption on June 30, 2010. During the nine months ended September 30, 2009, the Company recorded a gain of approximately \$4.1 million from the recovery of the other-than-temporary impairment that the Company had recorded against investments with an aggregate par value of \$11.6 million, classified as available-for-sale, that were redeemed during 2009. Also, during the nine months ended September 30, 2009, the Company recorded a gain of approximately \$0.2 million related to the increased value of the ARS Rights due to the additional funding received under the line of credit and the resulting elimination of any performance risk associated with the settlement. In addition, the Company recorded the recovery of \$0.1 million of previously recorded other-than-temporary impairment losses related to \$0.3 million in partial redemptions at par of its available-for-sale ARS investments during 2009.

NOTE 3 FAIR VALUE MEASUREMENTS

In determining fair value, the Company utilized techniques that optimized the use of observable inputs, when available, and minimized the use of unobservable inputs to the extent possible. As normal trading activity within public markets for ARS ceased during the quarter ended March 31, 2008 and had not resumed with any regularity prior to full redemption at June 30, 2010, there was an absence of observable market quotes (level 1 inputs). Trading activity in the secondary markets for ARS was not sufficiently active and the resulting data did not qualify as appropriate level 2 inputs. Data points that were available did not technically qualify as level 2 inputs and were characterized as unobservable (level 3) inputs, along with other inputs including fair value information provided by UBS on the Company's ARS holdings with UBS (based on percentage of collateralization, assessments of counterparty credit quality, default risk underlying the security, the mix of FFELP loans and private loans) and overall capital market liquidity.

With the redemption of the Company's ARS investments (see Note 2), assets measured at fair value on a recurring basis consist only of cash and cash equivalents of approximately \$18.2 at September 30, 2010. Based on the short-term liquid nature of these assets, the fair value, determined using level 1 inputs, is equivalent to the recorded book value.

The following table summarizes the Company's fair value measurements using significant Level 3 inputs, and changes therein, for the nine months ended September 30, 2010 (in thousands):

Balance as of December 31, 2009	\$ 11,450
Redemptions (Note 2)	(11,450)
Sales on secondary market	—
Increase in fair value of ARS Rights	—
Realized gains on redemption	—
Transfers in and/or out of Level 3	—
Balance as of September 30, 2010	<u>\$ —</u>

NOTE 4 STOCK-BASED COMPENSATION

The Company has a stock incentive plan, as amended (the "Plan"), under which stock options for 6,200,000 shares of the Company's common stock may be granted. Grants under the Plan may be made to employees (including officers), directors, consultants, advisors or other independent contractors who provide services to the Company or its subsidiary.

During the three months ended September 30, 2010, the Company granted no stock options. During the three months ended September 30, 2009, the Company granted stock options to an employee and a non-employee director for the purchase of 55,000 shares of its common stock with a weighted-average exercise price of \$4.94 per share, a weighted-average grant date fair value of \$3.42 per share and an intrinsic value as of September 30, 2010 of approximately \$15,000.

During the nine months ended September 30, 2010, the Company granted stock options to employees and non-employee directors for the purchase of 801,000 shares of its common stock, of which options for 798,000 shares remain outstanding with a weighted-average exercise price of \$2.95 per share, a weighted-average grant date fair value of \$2.14 per share and an intrinsic value as of September 30, 2010 of approximately \$1.7 million. During the nine months ended September 30, 2009, the Company granted stock options to employees and non-employee directors for the purchase of 863,290 shares of its common stock with a weighted-average exercise price of \$1.92 per share, a weighted-average grant date fair value of \$1.27 per share and an intrinsic value as of September 30, 2010 of approximately \$2.8 million.

Each option granted to employees and non-employee directors during the three and nine months ended September 30, 2010 and 2009 vests as to 25% of the shares on each of the first, second, third and fourth anniversary of the vesting commencement date. Following the vesting periods, options are exercisable by employees until the earlier of 90 days after the employee's termination with the Company or the ten-year anniversary of the initial grant, subject to adjustment under certain conditions. Following the vesting periods, options are exercisable by non-employee directors until the earlier of 180 days after they cease to be a member of the Board of Directors or the ten-year anniversary of the initial grant, subject to adjustment under certain conditions.

The Company utilizes the Black-Scholes-Merton valuation model for estimating the fair value of the stock options granted. The table below summarizes the assumptions utilized in estimating the fair value of the stock options granted during the three months ended September 30, 2009 and the nine months ended September 30, 2010 and 2009. No stock options were granted during the three months ended September 30, 2010 and, accordingly, information for that period is not presented.

	For the three months		For the nine months ended September 30,	
	ended September 30, 2009		2010	2009
Weighted average risk-free interest rate	2.57%		2.46%	1.78%
Weighted average expected life of options	5 years		5 years	5 years
Weighted average expected dividend yield	0%		0%	0%
Weighted average expected volatility	87.51%		94.43%	81.61%

The Company recorded compensation expense for the three and nine months ended September 30, 2010 of \$487,589 and \$1,497,043, respectively, and compensation expense for the three and nine months ended September 30, 2009 of \$424,078 and \$1,242,573, respectively, in conjunction with option grants made to employees and non-employee directors. As of September 30, 2010, the Company had total unrecognized compensation expense related to options granted to employees and non-employee directors of approximately \$3.3 million, which it expects to recognize over a remaining average period of 1.7 years.

As of September 30, 2010, there were 4,601,930 options outstanding under the Plan with a weighted average remaining contractual life of 7.0 years and a weighted average exercise price of approximately \$3.65 per share. Of these, options for 2,523,088 shares had vested and were exercisable at September 30, 2010 with a weighted average remaining contractual life of 5.8 years and a weighted average exercise price of approximately \$3.81 per share.

The aggregate intrinsic value is calculated as the difference between the exercise prices of the underlying awards and the quoted closing price of the common stock of the Company as of September 30, 2010 for those awards that have an exercise price below the quoted closing price. As of September 30, 2010, there were options outstanding to purchase an aggregate of 3,296,430 shares with an exercise price below the quoted closing price of the common stock of the Company, resulting in an aggregate intrinsic value of approximately \$8.0 million. Of those, options for 1,709,588 shares had vested and had an exercise price below the quoted closing price of the common stock of the Company, resulting in an aggregate intrinsic value of approximately \$4.0 million.

During the three and nine months ended September 30, 2010 and 2009, no options were exercised. During the nine months ended September 30, 2010, options for 12,000 shares were forfeited by a former employee who resigned in February 2010.

NOTE 5 LOSS PER SHARE

Basic net loss per common share is calculated by dividing net loss by the weighted-average number of common shares outstanding for the period, without consideration for potentially dilutive securities. For the periods presented, basic and

diluted net loss per common share are identical. Potentially dilutive securities from stock options and stock warrants would be antidilutive as the Company incurred a net loss. The number of shares of common stock potentially issuable at September 30, 2010 and 2009 upon exercise or conversion that were not included in the computation of net loss per share totaled 10,974,254 and 7,798,688 shares, respectively.

NOTE 6 EXERCISE OF COMMON STOCK WARRANTS

In September 2010, a warrant holder exercised the right to purchase 26,379 shares of the common stock of the Company, with an exercise price of \$2.62 per share, pursuant to a cashless exercise whereby the Company, in a net share settlement, issued 14,298 shares of its common stock to the warrant holder based on the excess of the market price over the exercise price on the date of exercise.

In September 2010, various warrant holders exercised their rights to purchase an aggregate of 7,055 shares of the common stock of the Company at an exercise price of \$4.20 per share pursuant to cash exercises whereby the Company recorded proceeds of approximately \$30,000.

No warrants were exercised during the three and nine months ended September 30, 2009.

NOTE 7 REGISTERED DIRECT SALE OF COMMON STOCK

On March 5, 2010, the Company raised gross proceeds of approximately \$18.2 million through the sale of 6,700,000 shares of its common stock plus warrants for the purchase of 2,345,000 shares of its common stock. The warrants permit the holders to purchase the underlying common shares at \$2.79 each and are exercisable in whole at any time, or in part from time to time, during the period commencing six months after the date of issuance and ending three years from the date of issuance. These shares were offered pursuant to the Company's shelf registration statement as filed with the SEC under which it could offer shares of its common stock and preferred stock, various series of debt securities and/or warrants to purchase any of such securities, either individually or in units, in one or more offerings, up to a total dollar amount of \$60 million. Such registration statement became effective as of August 20, 2009. Upon completion of the publicly-marketed offering of common stock in October 2010 (see Note 10), there are no more securities available under this shelf registration. In connection with this offering, the Company paid commissions and other offering-related costs of approximately \$1.5 million.

NOTE 8 CONTROLLED EQUITY OFFERING

In July 2010, the Company filed the required documents and became eligible to use an at-the-market common equity sales program for the sale of up to 3,000,000 shares of common stock. In September 2010, the Company sold 634,500 shares of common stock under this program resulting in net proceeds, after expenses, of approximately \$2.9 million, or \$4.49 per share. These shares were offered pursuant to the Company's shelf registration statement as filed with the SEC under which it could offer shares of its common stock and preferred stock, various series of debt securities and/or warrants to purchase any of such securities, either individually or in units, in one or more offerings, up to a total dollar amount of \$60 million. Such registration statement became effective as of August 20, 2009. Upon completion of the publicly-marketed offering of common stock in October 2010 (see Note 10), there are no more securities available under this shelf registration.

NOTE 9 LICENSING AGREEMENTS

In March 2004, the Company entered into a license agreement with Dr. M. Gopal Nair, Ph.D., of the University of South Alabama College of Medicine, for the rights to use, produce, distribute and market products derived from an invention by Dr. Nair, claimed in US Patent # 5,912,251, entitled "metabolically inert anti-inflammatory and antitumor antifolates", designated by the Company as CH-1504 and related compounds. The license provides the Company exclusive, worldwide (excluding India) rights for CH-1504 and related compounds. The Company made an upfront payment in May 2004 of \$150,000 and milestone payments as required by the agreement of \$100,000 each in March 2006 and 2005. In April 2007, the Company issued 26,643 shares of its common stock, subject to trading restrictions, at a value of approximately \$5.63 per share, in settlement of the \$150,000 annual milestone payment liability. In March 2008, the Company made a milestone payment of \$100,000 related to patient dosing in a Phase II study as required by the agreement. In April 2008, the Company issued 30,612 shares of its common stock, subject to trading restrictions, at a value of approximately \$4.90 per share, in settlement of the 2008 anniversary milestone payment. In April 2009, the Company made the 2009 anniversary milestone payment of \$150,000. In September 2010, the Company accrued a milestone payment of \$100,000 related to patient dosing in

a Phase II study as required by the agreement. The Company is obligated to pay royalties under the agreement until the later of the expiration of the applicable patent or the applicable last date of market exclusivity after the first commercial sale, on a country-by-country basis. There are no minimum royalties required under the agreement. The Company is also obligated to make future potential milestone payments based on the achievement of specific development and regulatory approval milestones. Based on the Company's current development plans for compounds licensed under this agreement, approximately \$1.5 million of payments may become due if specific milestones are achieved, subject to the Company's right to terminate the license agreement. In addition, should the Company enter into an out-licensing agreement, such payments could be offset by revenue received from the sub-licensee.

In May 2006, the Company entered into an agreement with Dainippon Sumitomo Pharma Co., Ltd. ("DSP") for a worldwide, exclusive, sub-licensable license and rights to certain intellectual property and proprietary information (the "DSP Agreement") relating to L-threo-3,4-dihydroxyphenylserine ("L-DOPS" or "droxidopa") including, but not limited to all information, formulations, materials, data, drawings, sketches, designs, testing and test results, records and regulatory documentation. As consideration for these rights, the Company paid DSP \$100,000 and issued 63,131 shares of its common stock, with a value of approximately \$4.35 per share, or \$274,621. As additional consideration, the Company agreed to pay DSP and/or its designees (1) royalties on the sales should any compound be approved for commercial sale, and (2) milestone payments, payable upon achievement of milestones as defined in the DSP Agreement. In February 2008, the Company made a milestone payment under the DSP Agreement of \$500,000 related to patient dosing in a Phase III study and has remaining potential future milestone payments, subject to the Company's right to terminate the DSP Agreement, totaling \$3.25 million. The Company and DSP also initiated, and the Company agreed to fund, activities focused on modifying the manufacturing capabilities of DSP in order to expand capacity and comply with regulations and requirements of the FDA. Based on work performed by DSP as of September 30, 2010, the Company had recorded expense of approximately \$3.3 million and had a remaining liability of \$0.3 million at September 30, 2010.

In conjunction with and as consideration for activities related to the execution of the DSP Agreement, the Company entered into a Finder's Agreement with Paramount BioCapital, Inc. ("Paramount"). In May 2006, pursuant to the Finder's Agreement, the Company issued warrants for the purchase of 250,000 shares of its common stock at an exercise price of \$4.31 per share. The exercise of these warrants was conditioned on an event that occurred in January 2007 and, accordingly, the Company recorded a charge for the fair value of the warrants at January 2007 of \$433,750. The Company utilized the Black-Scholes-Merton valuation model for estimating the fair value of the warrants at the date the condition lapsed, based on a risk-free interest rate of 4.79%, an expected life of three years, an expected dividend yield of 0%, an expected volatility of 66.01% and no estimated forfeitures. As additional consideration, the Company agreed to (1) make future milestone payments to Paramount, upon achievement of milestones as defined in the Finder's Agreement, (2) pay royalties on sales should any licensed compound become available for commercial sale, and (3) compensate a stated third-party consultant for services rendered in the evaluation of the transaction with DSP. The Company has remaining potential future milestone payments under the Finder's Agreement of \$150,000.

NOTE 10 SUBSEQUENT EVENTS

For the three and nine months ended September 30, 2010, the Company evaluated events that occurred after September 30, 2010, the balance sheet date, through November 1, 2010, the date that financial statements were issued.

On October 6, 2010, the Company raised gross proceeds of approximately \$40.3 million through the sale of 8,214,286 shares of its common stock in a publicly-marketed offering. These shares were offered pursuant to the Company's shelf registration statement, as amended effective October 1, 2010 pursuant to Rule 462(b) to increase the dollar amount of securities available for sale, as filed with the SEC under which it may offer shares of its common stock and preferred stock, various series of debt securities and/or warrants to purchase any of such securities, either individually or in units, in one or more offerings, up to a total dollar amount of \$61,566,686. There are no more securities available under this shelf registration. In connection with the October 2010 offering, the Company paid commissions and other offering-related costs of approximately \$2.5 million, resulting in net proceeds to the Company of approximately \$37.8 million.

In October 2010, various warrant holders exercised their rights to purchase an aggregate of 55,000 shares of the common stock of the Company at an exercise price of \$4.20 per share pursuant to cash exercises whereby the Company recorded proceeds of \$231,000.

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

The statements contained in this Quarterly Report on Form 10-Q that are not historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding the expectations, beliefs, intentions or strategies regarding the future. We intend that all forward-looking statements be subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. In particular, this "Management's Discussion and Analysis of Financial Condition and Results of Operations" includes forward-looking statements that reflect our current views with respect to future events and financial performance. We use words such as we "expect," "anticipate," "believe," and "intend" and similar expressions to identify forward-looking statements. A number of important factors could, individually or in the aggregate, cause actual results to differ materially from those expressed or implied in any forward-looking statement, including those set forth under "Item 1A. Part 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2009 and under "Part II, Item 1A" of this report.

Overview

We are a development stage pharmaceutical company that seeks to acquire, develop and commercialize innovative products for the treatment of a variety of human diseases. Our strategy is to develop technologies that address important unmet medical needs or offer improved, cost-effective alternatives to current methods of treatment. Specifically, we are developing a novel therapeutic agent for the treatment of symptomatic neurogenic orthostatic hypotension, or NOH, and related conditions and diseases along with our development of prescription products for multiple autoimmune disorders including rheumatoid arthritis, psoriasis, inflammatory bowel disease and cancer.

We are currently focusing the majority of our drug development resources on two clinical stage development projects: droxidopa for NOH and related conditions and our portfolio of non-metabolized antifolate compounds for the treatment of rheumatoid arthritis.

Droxidopa, our most advanced investigational product candidate, is an orally active synthetic precursor of norepinephrine. To be marketed under the brand name Northera™, droxidopa is being developed for the treatment of symptomatic NOH and is currently approved and marketed in Japan for the treatment of symptomatic orthostatic hypotension, freezing of gait in Parkinson's disease and intradialytic hypotension, or IDH. During 2007, the U.S. Food and Drug Administration, or FDA, granted orphan drug status to Northera for the treatment of NOH and the European Medicines Agency, or EMEA, granted orphan medicinal product designation for the treatment of patients with pure autonomic failure and patients with multiple systems atrophy. Northera is currently in Phase III clinical trials designed to support its registration in the United States for the treatment of symptomatic NOH.

In September 2010, we announced that upon preliminary analysis of Study 301, the second of our pivotal Phase III trials of Northera for the treatment of symptomatic NOH, the study had met its primary endpoint. Treatment with Northera provided clinically-meaningful and statistically-significant improvement (p=0.003) in symptoms associated with NOH. Study results also showed that Northera was both safe and very well tolerated. Patients randomized into this double-blind, placebo-controlled study were evaluated for symptomatic and functional improvements using the orthostatic hypotension questionnaire, or OHQ, that is specifically designed to rate the severity of symptoms resulting from low-blood pressure and the degree to which those symptoms interfere with a patient's ability to perform activities of daily living. In addition to the symptomatic and functional benefits registered on the OHQ, the study validated Northera's unique mechanism of action and confirmed the preferential effect of Northera on standing systolic blood pressure, or SBP, versus supine SBP, demonstrating a statistically-significant improvement in standing SBP (p<0.001) relative to placebo. The study was conducted under a Special Protocol Assessment, or SPA, granted by the FDA in February 2008, providing an agreement that the study design, including trial size, clinical endpoints and/or data analyses is acceptable to support regulatory approval.

In 2009, we announced data from Study 302, the first of our pivotal double-blind Phase III trials, designed to compare Northera to placebo for the treatment of symptomatic NOH. While statistically-significant benefits were shown across six clinically-relevant assessment criteria along with positive trends favoring Northera on 16 of the 17 study endpoints providing

significant supporting data for the use of Northera in the treatment of symptomatic NOH, the trial did not meet the primary endpoint of demonstrating a statistically-significant improvement relative to placebo on Item 1 (dizziness or light-headedness) of the Orthostatic Hypotension Symptom Assessment, or OHSA, scale during the double-blind phase of the trial. While the study did not meet its primary endpoint, additional analysis confirmed statistically-significant symptomatic benefit across five clinically-relevant assessment criteria that reflect symptomatic improvements and corroborate other supportive symptom data. Data from the trial also supported the safety and tolerability of droxidopa.

During the fourth quarter of 2009, we met with the FDA to obtain greater clarity about our options for completing the planned clinical and registration program for Northera after we announced in September 2009 the failure of Study 302, our initial pivotal Phase III trial, to meet its primary endpoint. As a result of that meeting, the FDA agreed to a change in the primary endpoint and an increase in enrollment of Study 301. The FDA agreed that the revised primary endpoint reflected a more comprehensive global assessment of the clinical benefit of Northera for the treatment of symptomatic NOH in primary autonomic failure, a heterogeneous population consisting of patients suffering from Parkinson's disease, multiple systems atrophy, pure autonomic failure, dopamine- β -hydroxylase deficiency and non-diabetic autonomic neuropathy, and would therefore be suitable for supporting a symptomatic claim. The FDA subsequently confirmed that the SPA originally awarded to Study 301 in 2008 remained in effect following the protocol amendments approved by the FDA in December 2009.

The FDA also recommended that we submit a confirmatory pivotal study to support a new drug application, or NDA, filing and that such study could be contained to a small, highly-enriched, homogeneous patient population. Based on this recommendation, we initiated a new clinical trial, Study 306, in June of 2010. Study 306 is a randomized, double-blind, placebo-controlled, induction-design Phase III trial evaluating up to 84 patients with symptomatic NOH associated with Parkinson's disease. The trial will be approximately 12 weeks in duration and include an initial, blinded dose titration period lasting up to two weeks, after which all patients will continue into an 8-week double-blind treatment period. The primary endpoint of the trial will be the relative improvement versus placebo in the OHQ composite score. We expect top-line results from Study 306 in the second quarter of 2011. Assuming favorable results, we anticipate filing a NDA with the FDA in the third quarter of 2011.

In March 2010, we announced the results from our twenty-four hour blood pressure monitoring study, Study 305. Data from this study indicate that Northera treatment resulted in a consistent and expected increase in systolic blood pressure, or SBP, with patients experiencing a mean increase in average SBP of 7.3 mmHg over 24 hours while on drug. Consecutive nocturnal SBP measurements greater than 180 mmHg lasting 3.5 hours or less were observed in only two patients on drug treatment and one patient while off drug treatment. No serious adverse events were reported during the conduct of this study.

In May 2010, we announced the results from our long-term safety extension study, Study 303. Top-line results from this study demonstrated that prolonged treatment with droxidopa provides clinically meaningful and durable symptomatic improvements in patients with symptomatic NOH. The data further validates that the drug is safe and well tolerated throughout the extended three-month dosing period.

In addition, at September 30, 2010, our Phase II trial of droxidopa, alone and in combination with carbidopa, for the treatment of fibromyalgia continues. This trial began in early 2009 under approval from the United Kingdom's Medicines and Healthcare Products Regulatory Agency. On July 1, 2010, we announced completion and favorable outcome of an independent Data Monitoring Committee review of the safety and efficacy data from approximately half the patients expected to participate in the trial. In February 2010, we announced that an investigator-led Phase II study of droxidopa in combination with carbidopa for the treatment of adult attention deficit hyperactivity disorder, or ADHD, had been initiated. In August 2010, we announced that an investigator-led, open label Phase II study of droxidopa for the treatment of chronic fatigue syndrome, or CFS, had been initiated.

In addition to droxidopa, we are currently developing a portfolio of molecules for the treatment of various autoimmune/inflammatory diseases. The most advanced platform is a portfolio of metabolically inert antifolate molecules engineered to have potent anti-inflammatory and anti-tumor activity to treat a range of immunological disorders, including two clinical stage product candidates designated as CH-1504 and CH-4051. In March 2009, we announced positive results from the completed Phase II head-to-head clinical trial of CH-1504 for the treatment of rheumatoid arthritis, designed to compare the efficacy and tolerability of CH-1504 against methotrexate, currently the leading antifolate treatment and standard of care for a broad range of abnormal cell proliferation diseases. The preliminary analysis showed comparable American College of Rheumatology efficacy criteria, or ACR20/50/70, response rates to patients treated with 0.25mg, 0.50mg and 1.0mg of CH-1504 against patients treated with a standard 20mg oral dose of methotrexate. In addition, the efficacy of CH-1504 was associated with improved tolerability and reduced hepatotoxicity compared with methotrexate. We

currently do not expect to conduct additional trials or make further investments in the development of CH-1504 and plan to focus our clinical resources on further development of CH-4051, the second clinical stage compound in this portfolio and the more potent L-enantiomer of CH-1504. In April 2009, we announced positive findings from our Phase I study of CH-4051, the L-isomer of CH-1504. Data from this single and multiple ascending dose study demonstrated that CH-4051 is safe and well tolerated up to a maximally tolerated dose of 7.5mg.

Upon finalization and submission to the FDA of the proposed protocol for our Phase II study to compare CH-4051 to methotrexate in patients who have previously failed to show an adequate therapeutic response to methotrexate in the treatment of rheumatoid arthritis, the agency requested additional detail from preclinical studies previously submitted as part of our investigational new drug application, or IND, to support our proposed dose range. In late July 2010, we submitted both the requested preclinical data as well as a revised protocol for the Phase II trial of CH-4051 in rheumatoid arthritis and, in late August 2010, the FDA approved our proposed Phase II trial. This Phase II study is a double-blind, multiple-arm randomized study with a primary efficacy endpoint of the ACR hybrid score that combines a continuous scale of percentage improvement with the well-known ACR20/50/70. We initiated patient enrollment in this trial in September 2010.

Complementing our autoimmune/inflammatory program is a second platform consisting of a portfolio of therapeutics targeting immune-mediated inflammatory disorders and transplantation, known as our I-3D portfolio. We currently have no work underway related to this portfolio.

Since inception we have focused primarily on organizing and staffing our company, negotiating in-licensing agreements with our partners, acquiring, developing and securing our proprietary technology, participating in regulatory discussions with the FDA, the EMA and other regulatory agencies and undertaking preclinical trials and clinical trials of our product candidates. We are a development stage company and have generated no revenue since inception. We do not anticipate generating any product revenue until and unless we successfully obtain approval from the FDA or equivalent foreign regulatory bodies to begin selling our pharmaceutical candidates although we could potentially generate revenue by entering into strategic agreements including out-licensing, co-development or co-promotion of our drug candidates. Developing pharmaceutical products is a lengthy and expensive process. Even if we do not encounter unforeseen safety issues or timing or other delays during the course of developing our currently licensed product candidates, we would not anticipate receiving regulatory approval to market any such products until, at the earliest, 2012. Assuming FDA approval of Northera for marketing in the United States, we currently anticipate launching the product and having initial sales or royalty revenue from it in the first quarter of 2012. Currently, development expenses are being funded with proceeds from equity financings and, to a much lesser extent, through the issuance of our common stock pursuant to option or warrant exercises. We completed equity financings in December 2004, February 2006, March 2007, November 2007, July 2009, March 2010 and October 2010. In addition, we received additional proceeds under a controlled equity offering for sales made during September 2010. To the extent we move our products into additional clinical trials and expand our commercialization and marketing efforts for droxidopa, our need to finance operating costs will continue. Accordingly, our success depends not only on the safety and efficacy of our product candidates, but also on our ability to finance the development and/or commercialization of the products (see "Liquidity and Capital Resources").

Critical Accounting Policies

Our management's discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. Our significant accounting policies are more fully described in Note 1 to the financial statements. The following accounting policies are critical in fully understanding and evaluating our reported financial results.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent liabilities at the date of the financial statements as well as the reported revenue and expenses during the reporting periods. On an ongoing basis, management evaluates its estimates and judgments. Management bases estimates on historical experience and on various other factors that it believes are 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 might differ from these estimates under different assumptions or conditions.

Research and Development Expense. Research and development costs are expensed as incurred. We often contract with third parties to facilitate, coordinate and perform agreed upon research and development activities. To ensure that research

and development costs are expensed as incurred, we measure expense based on work performed for the underlying contract, typically utilizing a percentage-of-completion approach, and record prepaid assets or accrue expenses on a monthly basis for such activities based on the measurement of liability from expense recognition and the receipt of invoices.

These contracts typically call for the payment of fees for services at the initiation of the contract and/or upon the achievement of certain milestones. In the event that we prepay fees for future milestones, we record the prepayment as a prepaid asset and amortize the asset into research and development expense over the period of time the contracted research and development services are performed. Most fees are incurred throughout the contract period and are expensed based on their percentage of completion at a particular date.

These contracts generally include pass-through fees. Pass-through fees include, but are not limited to, regulatory expenses, investigator fees, travel costs, and other miscellaneous costs including shipping and printing fees. Because these fees are incurred at various times during the contract term and they are used throughout the contract term, we record a monthly expense allocation to recognize the fees during the contract period. Fees incurred to set up the clinical trial are expensed during the setup period.

Costs related to the acquisition of technology rights and patents for which development work is still in process are expensed as incurred and considered a component of research and development costs.

Accounting for Stock-Based Compensation. We account for our stock options and warrants utilizing a fair value based method of accounting. In determining the fair value of the equity instrument, we consider, among other factors, (i) the risk-free interest rate, (ii) the expected life of the options granted, (iii) the anticipated dividend yield, (iv) the estimated future volatility of the underlying shares and (v) anticipated future forfeitures. To determine the risk-free interest rate, we utilize the U.S. Treasury yield curve in effect at the time of grant with a term consistent with the expected life of our awards. We estimate the expected life of the options granted based on anticipated exercises in future periods assuming the success of our business model as currently forecasted. The expected dividends reflect our current and expected future policy for dividends on our common stock. To determine the expected stock price volatility for our stock options, we examine historical volatilities for industry peers closely related to the current status of our business, but with sufficient trading history to be able to determine volatility. Utilizing a weighted average calculation to account for the limited price history of our stock, we analyze the historical volatility of our stock price in combination with the historical volatility of the industry peers selected to determine an appropriate volatility factor. We plan to continue to analyze the expected stock price volatility and expected term assumption at each grant date as more historical data for our common stock becomes available. Given our low historical rate of attrition and the senior nature of the roles for a significant portion of our employees, we had estimated that we would experience no forfeitures or that our rate of forfeiture would be immaterial to the recognition of compensation expense for those options currently outstanding. Our results of operations include non-cash compensation expense as a result of the issuance of stock option grants utilizing this method. We expect to record additional non-cash compensation expense in the future, which might be significant. Due to the limited amount of historical data available to us, particularly with respect to stock-price volatility, employee exercise patterns and forfeitures, actual results could differ from our assumptions.

Results of Operations

Three Months Ended September 30, 2010 and 2009

The table below sets forth, for the periods indicated, certain items in our condensed consolidated statements of operations and other pertinent financial and operating data.

(in thousands, except percentages)

	For the three months ended September 30, 2010	For the three months ended September 30, 2009	\$ Increase	% Change
Research and development expense	\$ 7,425	\$ 5,357	\$2,068	39%
Sales and marketing expense	424	714	(290)	-41%
General and administrative expense	955	1,014	(59)	-6%
Interest income	19	32	(13)	-41%
Interest expense	(2)	(41)	39	-95%

Research and development expenses increased in the third quarter of 2010 when compared to the same period of 2009. In December 2009 and during the nine months ended September 30, 2010, we announced several updates related to our Phase III clinical and registration program for Northera in symptomatic NOH. Based on the results of our meeting with the FDA in the fourth quarter of 2009, much of our efforts during 2010 were focused on implementing the approved changes to and completing Study 301 while also finalizing the plans for and initiating Study 306, our newest pivotal study. We incurred expenses associated with these and other NOH programs during the quarter ended September 30, 2010, along with costs related to our ongoing Phase II trial of droxidopa in fibromyalgia, costs related to the Phase II trial of our antifolates in rheumatoid arthritis, including licensing fees, and the costs of manufacturing, packaging and labeling appropriate clinical trial material for these trials. For the quarter ended September 30, 2009, we incurred significant expenses associated with our pivotal Phase III clinical and registration program for Northera in symptomatic NOH, along with costs related to our ongoing Phase II trial of droxidopa in fibromyalgia and final costs related to Phase I and Phase II trials of our antifolates. Also contributing to our expenses in both periods were compensation and related costs. As a percentage of operating expenses, research and development costs were 84% for the three months ended September 30, 2010 and 76% for the three months ended September 30, 2009.

From inception through September 30, 2010, cumulative research and development expenses related to our major research and development projects were approximately \$98.4 million and are detailed as follows:

(in thousands)	Nine months ended September 30,		Inception Through September 30,
	2010	2009	2010
Antifolates	\$ 3,200	\$ 1,900	\$ 29,300
Droxidopa	17,500	18,100	66,600
I-3D	—	—	2,500
	<u>\$20,700</u>	<u>\$20,000</u>	<u>\$ 98,400</u>

Droxidopa. From inception through September 30, 2010, we had spent approximately \$66.6 million in research and development expenses on droxidopa. Assuming we do not enter into an out-license, development or other collaborative agreement with respect to this compound, we estimate that subsequent to that date we will need to incur approximately \$25 million more, primarily to complete our Phase III clinical program and submit a NDA, under the brand name Northera, to the FDA. In addition to the completion of our ongoing pivotal efficacy Study 306, this estimate also includes costs related to our ongoing extension safety studies, certain pharmacokinetic studies and regulatory activities for Northera. It excludes license payments totaling \$2.25 million to be made at the time of the NDA filing and approval. It also excludes \$3 million in estimated direct costs for drug product to be purchased and expensed prior to regulatory approval but which could be available for sale if regulatory approval is granted. Assuming FDA approval of Northera for marketing in the United States, we currently anticipate launching the product and having initial sales or royalty revenue from it in the first quarter of 2012. In addition to the spending requirements above, we plan to spend up to approximately \$0.4 million through the end of 2010 and \$3 million in 2011 for clinical proof of concept studies of droxidopa in other indications unrelated to the NOH registration and commercialization program.

Antifolates. From inception through September 30, 2010, we had spent approximately \$29.3 million in research and development expenses on our portfolio of antifolates. We currently do not expect to conduct additional trials or make further investments in the development of CH-1504 and plan to focus our clinical resources on further development of CH-4051, the second clinical stage compound in this portfolio and the more potent L-enantiomer of

CH-1504. We currently intend to seek a partner to assist us in the development of our antifolates after the completion of Phase II proof-of-concept studies for CH-4051 in rheumatoid arthritis. We expect interim safety and efficacy data for the lower doses in this trial during the second half of 2011 with final data in the first half of 2012 and estimate that we will spend approximately \$15 million subsequent to September 30, 2010 to complete this study. Assuming an approval for marketing, we currently estimate launch of this product and initial royalty revenue from it no sooner than 2015.

I-3D Portfolio. From inception through September 30, 2010, we had spent approximately \$2.5 million in research and development expenses on the I-3D portfolio of compounds. We have conducted compound discovery work on the portfolio to try and identify one or more lead compounds. All of the work completed to date was performed before 2008 and we do not expect to incur significant additional expenses for these compounds until we select a partner or obtain additional financing.

Sales and marketing expenses. Although we have no formalized selling activities, sales and marketing expenses decreased significantly in the third quarter of 2010 when compared to the same period of 2009 primarily related to approximately \$250,000 of expenses incurred in 2009 for the planned commercialization and marketing activities of Northera based on anticipated positive results for Study 302.

General and administrative expenses decreased slightly due to decreases in professional accounting fees and travel expenses, partially offset by an increase in insurance expense.

Interest income and interest expense. At September 30, 2010, we had cash and cash equivalents of \$18.2 million. The funding received from our July 2009 financing allowed us to maintain a higher average cash level during the third quarter of 2009 when compared to 2010. In addition, the redemption of our investments in auction rate securities, or ARS, during the second quarter of 2009 and the second quarter of 2010 and the loss of the premium interest rates for those investments also contributed to the decrease in interest income. Interest expense decreased as the line of credit associated with our investments in ARS held at UBS was fully paid on June 30, 2010.

Nine Months Ended September 30, 2010 and 2009

The table below sets forth, for the periods indicated, certain items in our condensed consolidated statements of operations and other pertinent financial and operating data.

(in thousands, except percentages)

	For the nine months ended September 30, 2010	For the nine months ended September 30, 2009	\$ Increase	% Change
Research and development expense	\$ 20,699	\$ 19,960	\$ 739	4%
Sales and marketing expense	1,343	1,352	(9)	-1%
General and administrative expense	3,018	3,039	(21)	-1%
Interest income	188	264	(76)	-29%
Interest expense	(70)	(108)	38	-35%
Other income	—	4,390	(4,390)	-100%

Research and development expenses. In December 2009 and during the nine months ended September 30, 2010, we announced several updates related to our Phase III clinical and registration program for Northera in symptomatic NOH. Based on the results of our meeting with the FDA in the fourth quarter of 2009, much of our efforts during 2010 have been focused on implementing the approved changes to and completing Study 301 and finalizing the plans for and initiating Study 306, our newest pivotal study. We incurred expenses associated with these and other NOH programs during the period, along with costs related to our ongoing Phase II trial of droxidopa in fibromyalgia, initial costs related to the Phase II trial of our antifolates in rheumatoid arthritis and the costs of manufacturing, packaging and labeling appropriate clinical trial material for these trials. We incurred significant expenses in 2009, primarily related to our extensive clinical testing programs, particularly, clinical activities for droxidopa, including our pivotal Phase III trials in NOH and Phase II trial in fibromyalgia. In addition, we incurred costs associated with our Phase II study of CH-1504 in rheumatoid arthritis,

completed in March 2009, and our Phase I dosing study of CH-4051, completed in April 2009. Other activities contributing to expenses in 2009 include manufacture, formulation, labeling and packaging and regulatory costs. As a percentage of operating expenses, research and development costs were 83% for the nine months ended September 30, 2010 and 82% for the same period of 2009. In addition, during the nine months ended September 30, 2010, we incurred a \$0.6 million increase in compensation expenses related to our research and development activities.

Sales and marketing expenses . Although we have no formalized selling activities, in 2010 we incurred increases in sales and marketing expenses for compensation and related expenses and promotional costs that include conference sponsorships offset by decreases in legal expenses related to our intellectual property and market research costs. During 2009, we incurred expenses of a similar nature, with more market research activity and less promotional activity than in 2010.

General and administrative expenses remained flat when comparing the nine months ended September 30, 2010 to the same period of 2009. During 2010, we incurred small increases in compensation and related costs, computer and software expenses and insurance expenses, offset by decreases in professional fees for legal and accounting services and travel expenses.

Interest income and interest expense . At September 30, 2010, we had cash and cash equivalents of \$18.2 million. We received interest income on ARS during the first six months of 2010 for ARS that were redeemed on June 30, 2010 and during 2009 for ARS that were redeemed in the second quarter of 2009 as well as those redeemed in 2010. The decrease reflects the loss of the premium interest rates for those investments. Interest expense decreased as the line of credit associated with our investments in ARS held at UBS was fully paid on June 30, 2010.

Other income. During the nine months ended September 30, 2009, we recorded a gain of \$4.4 million on the recovery of previously recorded impairment losses for ARS that were redeemed at par and an increase in the fair value of our ARS Rights.

Liquidity and Capital Resources

From inception to September 30, 2010, we have incurred an aggregate net loss of approximately \$120.5 million as a result of expenses similar in nature to those described above.

As of September 30, 2010, we had working capital of approximately \$8.9 million including cash and cash equivalents of approximately \$18.2 million and liabilities of \$9.6 million. We have financed our operations primarily through sales of our common stock and, to a much lesser extent, through the issuance of our common stock pursuant to option or warrant exercises. Cash on hand results primarily from previous financing activities offset by funds utilized for operating and investing activities.

On March 5, 2010, we raised gross proceeds of approximately \$18.2 million through the sale of 6,700,000 shares of common stock plus warrants for the purchase of 2,345,000 shares of common stock in a registered direct offering pursuant to our shelf registration statement filed with the Securities and Exchange Commission that became effective on August 20, 2009. Upon completion of the publicly-marketed offering discussed below, there are no more securities available under this shelf registration. In connection with this offering, we paid commissions and other offering-related costs of approximately \$1.5 million.

In July 2010, we filed the required documents and became eligible to use an at-the-market common equity sales program for the sale of up to 3,000,000 shares of common stock pursuant to our shelf registration statement filed with the Securities and Exchange Commission that became effective on August 20, 2009. In September 2010, we sold 634,500 shares of common stock under this program resulting in net proceeds, after expenses for the program, of approximately \$2.9 million. Upon completion of the publicly-marketed offering discussed below, there are no more securities available under this shelf registration.

In October 2010, we raised gross proceeds of approximately \$40.3 million through the sale of approximately 8.2 million shares of common stock in a publicly-marketed offering pursuant to our shelf registration statement, as amended pursuant to Rule 462(b), as filed with the SEC. In connection with this offering, we paid commissions and other offering-related costs of approximately \$2.5 million. There are no more securities available under this shelf registration.

We invest our cash in a variety of financial instruments in order to preserve principal and liquidity while maximizing returns. To limit market risk, investments are restricted to high quality instruments with relatively short maturities including, but not limited to, fully liquid interest-bearing money market accounts, certificates of deposit and Treasury funds with a maturity of 90 days or less.

During 2010, we successfully redeemed, at full par value, all of our holdings in ARS. At December 31, 2009, we held short-term investments of \$11.45 million, consisting of principal invested in certain ARS and the fair value of the ARS Rights. Our investments in these securities represented interests in collateralized debt obligations supported by pools of structured credit instruments consisting of student loans. None of the collateral for the ARS held by us included mortgage, credit card or insurance securitizations. During the nine months ended September 30, 2010, approximately \$5.3 million of our investments in ARS were redeemed at full par value. On June 30, 2010, we exercised our right, as outlined under the settlement agreement with UBS, to sell the remaining ARS investments of approximately \$6.2 million, along with our ARS rights, to UBS at par value.

During the fourth quarter of 2008, we accepted the terms of the settlement agreement from UBS for ARS Rights for our illiquid ARS holdings purchased from and maintained at UBS as of February 13, 2008. The ARS Rights provided us with the ability to sell the ARS, along with the ARS Rights, to UBS at the par value of the ARS no earlier than June 30, 2010 and expired on July 2, 2012. UBS also agreed that an affiliate would provide us with a no net-cost line of credit for up to a portion of the market value (as determined by UBS) of our ARS holdings as of October 31, 2008. In March 2009, the line of credit was amended to provide us with a credit line of up to the full par value of our ARS holdings at UBS and, accordingly, we had fully drawn down the line of credit and had recorded a corresponding liability at December 31, 2009 of \$11.47 million, including accrued interest. We repaid the line of credit with the proceeds from redemptions during the nine months ended September 30, 2010 and offset the remaining balance at June 30, 2010 with the exercise of our ARS Rights on June 30, 2010.

We have incurred negative cash flows from operations since inception. We have spent, and expect to continue to spend, substantial amounts in connection with implementing our business strategy, including our planned product development efforts, our clinical trials, our commercialization and marketing activities for Northera and our efforts to secure opportunities for strategic alliances.

We believe that capital resources available at September 30, 2010, when combined with net proceeds of approximately \$37.8 million from our October 2010 public offering, anticipated proceeds of approximately \$8.5 million from the exercise of warrants expiring in February 2011 and an assumed completion of an out-license agreement for Northera rights outside the North American market will be sufficient to meet our operating needs, including an increasing level of commercialization activity for Northera, into the first quarter of 2012.

Our continued operations depend on our ability to raise funds through various potential sources, such as equity and debt financing, the exercise of warrants or strategic alliances. Such strategic relationships or out-licensing arrangements might require us to relinquish rights to certain of our technologies, product candidates or products that we would otherwise seek to develop or commercialize ourselves. Such additional funds might not become available on acceptable terms, or at all, and there can be no assurance that any additional funding that we do obtain will be sufficient to meet our needs.

From inception through September 30, 2010 we had losses of \$120.5 million. We had net losses of \$24.9 million and \$19.8 million for the nine months ended September 30, 2010 and 2009, respectively, and we anticipate losses to continue for several years. Actual losses will depend on a number of considerations including:

- discussions with regulatory agencies concerning the design and results of our clinical trials;
- the pace and success of development activities, including clinical programs for droxidopa, antifolates and other product candidates;
- our ability to identify and recruit patients into our clinical trials at costs consistent with our current estimates;
- seeking regulatory approval for our various product candidates;
- the pace of commercialization and marketing efforts for Northera;
- possible out-licensing of our product candidates;

- the pace of development of new intellectual property for our existing product candidates;
- in-licensing and development of additional product candidates;
- implementing additional internal systems and infrastructure; and
- hiring additional personnel.

Should we raise additional funds by selling shares of common stock or other securities convertible into common stock, the ownership interest of our existing stockholders will be diluted. If we are not able to obtain financing when needed, we may be required to delay, reduce the scope of, or eliminate one or more of our development programs or curtail operations. As a result, our business, financial condition and results of operations would be materially harmed.

Off-Balance Sheet Arrangements

We do not have any unconsolidated entities and, accordingly, we have not entered into any transactions with unconsolidated entities whereby we have financial guarantees, subordinated retained interests, derivative instruments or other contingent arrangements that expose us to material continuing risks, contingent liabilities, or any other obligations under a variable interest in an unconsolidated entity that provides us with financing, liquidity, market risk or credit risk support.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We invest our cash in a variety of financial instruments in order to preserve principal and liquidity while maximizing returns and we do not invest in financial instruments or their derivatives for trading or speculative purposes. To minimize the exposure due to adverse shifts in interest rates, we maintain investments of shorter maturities. Our investment guidelines include security type, credit quality and maturity and are intended to limit market risk by restricting our investments to high quality debt instruments with relatively short maturities. At September 30, 2010, a portion of our cash was maintained in non-interest bearing accounts at federally insured financial institutions that, under the Temporary Liquidity Guarantee Program, are fully insured by the Federal Deposit Insurance Corporation. In addition, we maintained funds on deposit that were invested primarily in fully liquid interest-bearing money market accounts, certificates of deposit and Treasury funds with a maturity under 90 days. All deposits and investments to date have been made in U. S. dollars and, accordingly, have no exposure to foreign currency rate fluctuations.

Our interest income is sensitive to changes in the general level of interest rates in the United States, particularly since our investments are and will be in short-term investments. Currently, the returns on such short-term, fully liquid cash investments are at historic lows. Accordingly, we estimate that any sensitivity experienced due to fluctuations of interest rates in the United States for such investments would have no material impact on our consolidated financial position or results of operations.

Item 4. Controls and Procedures

Disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) are designed only to provide reasonable assurance that they will meet their objectives that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e)) pursuant to Exchange Act Rule 13a-15. Based upon that evaluation and subject to the foregoing, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of September 30, 2010.

Changes in Internal Control over Financial Reporting.

Management has determined that, as of September 30, 2010, no changes in our internal control over financial reporting occurred during our fiscal quarter then ended that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 6. Exhibits

<u>Exhibit Number</u>	<u>Description of Document</u>	<u>Registrant's Form</u>	<u>Dated</u>	<u>Exhibit Number</u>	<u>Filed Herewith</u>
3.1	Certificate of Incorporation for Chelsea Therapeutics International, Ltd., as amended on June 1, 2010.				X
10.4	Chelsea Therapeutics International, Ltd. 2004 Stock Plan, as amended, and forms of Notice of Stock Option Grant and Stock Option Agreement, as amended.				X
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				X
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				X

SIGNATURES

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

Date: November 1, 2010

Chelsea Therapeutics International, Ltd.

By: /s/ J. Nick Riehle

J. Nick Riehle

Vice President, Administration and

Chief Financial Officer

**CERTIFICATE OF AMENDMENT
OF
CERTIFICATE OF INCORPORATION
OF
CHELSEA THERAPEUTICS INTERNATIONAL, LTD.**

The undersigned corporation, a corporation duly organized and existing under the General Corporation Law of the State of Delaware (the "Corporation"), does hereby certify that:

1. The name of the Corporation is Chelsea Therapeutics International, Ltd.
2. The amendment to the Corporation's Certificate of Incorporation set forth below was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware, and has been approved by the stockholders of the Corporation in accordance with Section 242 of the General Corporation Law of the State of Delaware.
3. The Corporation's Certificate of Incorporation is hereby amended by deleting the text of Article IV, Section 1 in its entirety and replacing it with the following:

"Section 1. Authorized Shares. The Corporation shall have authority to issue One Hundred Five Million (105,000,000) shares of capital stock, of which One Hundred Million (100,000,000) shares shall be designated Common Stock ("Common Stock"), par value \$0.0001 per share, and of which Five Million (5,000,000) shares shall be designated Preferred Stock ("Preferred Stock"), \$0.0001 par value per share."
4. This Certificate of Amendment shall be effective upon filing.

IN WITNESS WHEREOF, Chelsea Therapeutics International, Ltd. has caused this Certificate of Amendment to be executed by the undersigned officer, on this the 1st day of June 2010.

CHELSEA THERAPEUTICS INTERNATIONAL, LTD.

/s/ Simon Pedder

Simon Pedder, President

**CERTIFICATE OF AMENDMENT
OF
CERTIFICATE OF INCORPORATION
OF
CHELSEA THERAPEUTICS INTERNATIONAL, LTD.**

The undersigned corporation, a corporation duly organized and existing under the General Corporation Law of the State of Delaware (the "Corporation"), does hereby certify that:

1. The name of the Corporation is Chelsea Therapeutics International, Ltd.
2. The amendment to the Corporation's Certificate of Incorporation set forth below was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware, and has been approved by the stockholders of the Corporation in accordance with Section 242 of the General Corporation Law of the State of Delaware.

The Corporation's Certificate of Incorporation is hereby amended by deleting the text of Article IV, Section 1 in its entirety and replacing it with the following:

"Section 1. Authorized Shares. The Corporation shall have authority to issue Sixty-Five Million (65,000,000) shares of capital stock, of which Sixty Million (60,000,000) shares shall be designated Common Stock ("Common Stock"), par value \$0.0001 per share, and of which Five Million (5,000,000) shares shall be designated Preferred Stock ("Preferred Stock"), \$0.0001 par value per share."

4. This Certificate of Amendment shall be effective upon filing.

IN WITNESS WHEREOF, Chelsea Therapeutics International, Ltd. has caused this Certificate of Amendment to be executed by the undersigned officer, on this the 28th day of May 2009.

CHELSEA THERAPEUTICS INTERNATIONAL, LTD.

/s/ Simon Pedder

Simon Pedder, President

**CERTIFICATE OF INCORPORATION
OF
CHELSEA THERAPEUTICS INTERNATIONAL, LTD.**

The undersigned, for the purpose of incorporating and organizing a corporation under the General Corporation Law of the State of Delaware, does hereby execute this Certificate of Incorporation and does hereby certify as set forth below.

ARTICLE I.

The name of the corporation is "Chelsea Therapeutics International, Ltd." (the "Corporation").

ARTICLE II.

The address of the Corporation's registered office in the State of Delaware is 15 East North Street, in the City of Dover, Kent County, Delaware 19901. The name of its registered agent at such address is Incorporating Services, Ltd.

ARTICLE III.

The purpose for which the Corporation is organized is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

ARTICLE IV.

Section 1. Authorized Shares. The Corporation shall have authority to issue Fifty Million (50,000,000) shares of capital stock, of which Forty-Five Million (45,000,000) shares shall be designated Common Stock ("Common Stock"), par value \$0.0001 per share, and of which Five Million (5,000,000) shares shall be designated Preferred Stock ("Preferred Stock"), \$0.0001 par value per share.

Section 2. Preferred Stock. The Preferred Stock may be issued from time to time in one or more series. The Board of Directors of the Corporation is authorized to determine or alter the dividend rights, dividend rate, conversion rights, voting rights, rights and terms of redemption (including sinking fund provisions, if any), the redemption price or prices, the liquidation preferences and other designations, powers, preferences and relative, participating, optional or other special rights, if any, and the qualifications, limitations and restrictions granted to or imposed upon any wholly unissued series of Preferred Stock, and to fix the number of shares of any series of Preferred Stock (but not below the number of shares of any such series then outstanding).

Section 3. Voting of Shares. Except as otherwise provided by law, or by the resolution or resolutions adopted by the Board of Directors designating the rights, powers and preferences of any series of Preferred Stock, the Common Stock shall have the exclusive right to vote for the election of directors and for all other purposes on which stockholders are entitled to vote. Each share of Common Stock shall have one vote, and the Common Stock shall vote together as a single class. No stockholder shall be entitled to exercise any right of cumulative voting.

ARTICLE V.

The Corporation reserves the right at any time, and from time to time, to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, and other provisions authorized by the laws of the State of Delaware at the time in force may be added or inserted, in the manner now or hereafter prescribed by law; and all rights, preferences and privileges of whatsoever nature conferred upon stockholders, directors or any other persons whomsoever by and pursuant to this Certificate of Incorporation in its present form or as hereafter amended are granted subject to the rights reserved in this Article.

ARTICLE VI.

Section 1. Elimination of Certain Liability of Directors. A director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent such exemption from liability or limitation thereof is not permitted under the General Corporation Law of the State of Delaware as the same exists or may hereafter be amended.

Any repeal or modification of the foregoing paragraph shall not adversely affect any right or protection of a director of the Corporation existing hereunder with respect to any act or omission occurring prior to such repeal or modification.

Section 2. Indemnification and Insurance.

(a) Right to Indemnification. Each person who was or is made a party or is threatened to be made a party to or is involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "proceeding"), by reason of the fact that he or she, or a person of whom he or she is the legal representative, is or was a director or officer of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to employee benefit plans, whether the basis of such proceeding is alleged action in an official capacity as a director, officer, employee or agent or in any other capacity while serving as a director, officer, employee or agent, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the General Corporation Law of the State of Delaware, as the same exists or may hereafter be amended (but, in the case of any such amendment, to the fullest extent permitted by law, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than said law

permitted the Corporation to provide prior to such amendment), against all expense, liability and loss (including attorneys' fees, judgments, fines, amounts paid or to be paid in settlement, and excise taxes or penalties arising under the Employee Retirement Income Security Act of 1974) reasonably incurred or suffered by such person in connection therewith and such indemnification shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of his or her heirs, executors and administrators; provided, however, that, except as provided in paragraph (b) hereof, the Corporation shall indemnify any such person seeking indemnification in connection with a proceeding (or part thereof) initiated by such person only if such proceeding (or part thereof) was authorized by the Board. The right to indemnification conferred in this Section shall be a contract right and shall include the right to be paid by the Corporation the expenses incurred in defending any such proceeding in advance of its final disposition; provided, however, that, if the General Corporation Law of the State of Delaware requires, the payment of such expenses incurred by a director or officer in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such person while a director or officer, including, without limitation, service to an employee benefit plan) in advance of the final disposition of a proceeding, shall be made only upon delivery to the Corporation of an undertaking, by or on behalf of such director or officer, to repay all amounts so advanced if it shall ultimately be determined that such director or officer is not entitled to be indemnified under this Section or otherwise. The Corporation may, by action of the Board, provide indemnification to employees and agents of the Corporation with the same scope and effect as the foregoing indemnification.

(b) Right of Claimant to Bring Suit. If a claim under paragraph (a) of this Section is not paid in full by the Corporation within thirty days after a written claim has been received by the Corporation, the claimant may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the expense (including reasonable attorneys' fees) of prosecuting such claim. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking, if any is required, has been tendered to the Corporation) that the claimant has not met the standards of conduct which make it permissible under the General Corporation Law of the State of Delaware for the Corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the Corporation. Neither the failure of the Corporation (including its Board, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth in the General Corporation Law of the State of Delaware, nor an actual determination by the Corporation (including its Board, independent legal counsel, or its stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that the claimant has not met the applicable standard of conduct.

(c) Non-Exclusivity of Rights. The right to indemnification and the payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in this Section shall not be exclusive of any other right which any person may have or hereafter

acquire under any statute, provision of the Certificate of Incorporation, Bylaw, agreement, vote of stockholders or disinterested directors or otherwise.

Section 3. Insurance. The Corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise against any such expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the General Corporation Law of the State of Delaware.

ARTICLE VII.

In furtherance and not in limitation of the powers conferred by the laws of the State of Delaware, the Board of Directors of the Corporation is expressly authorized to make, alter and repeal the Bylaws of the Corporation, subject to the power of the stockholders of the Corporation to alter or repeal any Bylaw whether adopted by them or otherwise.

ARTICLE VIII.

The Corporation shall be governed in all manner and respects by the provisions of Section 203 of the Delaware General Corporation Law (“Section 203”); provided, however, that in no case shall Jason Stein, Michael Weiser, the Rosenwald 2000 Family Trust, the Lindsay A. Rosenwald 2000 (Delaware) Irrevocable Indenture of Trust, the Lindsay A. Rosenwald Alaska Irrevocable Indenture of Trust, the Lindsay A. Rosenwald Rhode Island Irrevocable Indenture of Trust or the Lindsay A. Rosenwald Nevada Irrevocable Indenture of Trust, or any successor to all or substantially all of their assets, or any affiliate thereof (collectively, the “Investors”), or any person or entity to which any Investor sells, distributes or otherwise transfers Common Stock, regardless of the total percentage of Common Stock owned by the Investors or such person or entity, be deemed an “interested stockholder” for any purpose whatsoever under Section 203, provided that the foregoing provision shall not apply with respect to any transferee who purchases shares of Common Stock (i) pursuant to an underwritten, broadly distributed public offering or (ii) in a transaction effected through a broker pursuant to Rule 144 promulgated under Section 4(1) of the Securities Act of 1933, as amended.

ARTICLE IX.

The name and mailing address of the incorporator are as follows:

Jeffrey M. Smith
Wyrick Robbins Yates & Ponton LLP
4101 Lake Boone Trail, Suite 300
Raleigh, North Carolina 27607

The powers of the incorporator are to terminate upon filing of this Certificate of Incorporation with the Secretary of State of the State of Delaware.

The undersigned incorporator hereby acknowledges that the foregoing Certificate of Incorporation is his act and deed and that the facts stated herein are true.

Dated: June 17, 2005

Jeffrey M. Smith, Incorporator

CHELSEA THERAPEUTICS INTERNATIONAL, LTD.

2004 STOCK PLAN, AS AMENDED

Approved by the Board: January 19, 2010

Approved by the Stockholders: May 26, 2010

1. Purpose. The purpose of 2004 Stock Plan, as amended (the “**Plan**”) of Chelsea Therapeutics International, Ltd. (the “**Company**”) is to increase shareholder value and to advance the interests of the Company by furnishing a variety of economic incentives (“**Incentives**”) designed to attract, retain and motivate employees, directors and consultants. Incentives may consist of opportunities to purchase or receive shares of Common Stock, \$0.0001 par value, of the Company (“**Common Stock**”) on terms determined under this Plan.

2. Administration. The Plan shall be administered by a committee of the Board of Directors of the Company (the “**Committee**”). The Committee shall consist of not less than two directors of the Company who shall be appointed from time to time by the board of directors of the Company. Each member of the Committee shall be a “non-employee director” within the meaning of Rule 16b-3 of the Exchange Act of 1934, as amended (together with the rules and regulations promulgated thereunder, the “**Exchange Act**”), and an “outside director” as defined in Section 162(m) of the Internal Revenue Code of 1986, as amended (the “**Code**”). The Committee shall have complete authority to determine all provisions of all Incentives awarded under the Plan (as consistent with the terms of the Plan), to interpret the Plan, and to make any other determination which it believes necessary and advisable for the proper administration of the Plan. The Committee’s decisions and matters relating to the Plan shall be final and conclusive on the Company and its participants. No member of the Committee will be liable for any action or determination made in good faith with respect to the Plan or any Incentives granted under the Plan. The Committee will also have the authority under the Plan to amend or modify the terms of any outstanding Incentives in any manner; provided, however, that the amended or modified terms are permitted by the Plan as then in effect and that any recipient of an Incentive adversely affected by such amended or modified terms has consented to such amendment or modification. No amendment or modification to an Incentive, however, whether pursuant to this Section 2 or any other provision of the Plan, will be deemed to be a re-grant of such Incentive for purposes of this Plan (notwithstanding that such amendment or modification may be deemed to be a new grant of an incentive stock option, as such term is defined in Section 422 of the Code, under the Code). If at any time there is no Committee, then for purposes of the Plan the term “Committee” shall mean the Company’s Board of Directors.

3. Eligible Participants. Employees of the Company or its subsidiaries (including officers and employees of the Company or its subsidiaries), directors and consultants, advisors or other independent contractors who provide services to the Company or its subsidiaries (including members of the Company’s scientific advisory board) shall become eligible to receive Incentives under the Plan when designated by the Committee. Participants may be designated individually or by groups or categories (for example, by pay grade) as the Committee deems appropriate. Participation by officers of the Company or its subsidiaries and any performance objectives relating to such officers must be approved by the Committee. Participation by others and any performance objectives relating to others may be approved by groups or categories (for example, by pay grade)

and authority to designate participants who are not officers and to set or modify such targets may be delegated.

4. Types of Incentives . Incentives under the Plan may be granted in any one or a combination of the following forms: (a) incentive stock options and non-statutory stock options (Section 6); (b) stock appreciation rights (“**SARs**”) (Section 7); (c) stock awards (Section 8); (d) restricted stock (Section 8); and (e) performance shares (Section 9). Only employees of the Company shall be entitled to receive incentive stock options under Section 422 of the Code.

5. Shares Subject to the Plan .

5.1. Number of Shares . Subject to adjustment as provided in Section 11.6, the number of shares of Common Stock which may be issued under the Plan is 6,200,000 shares of Common Stock. Of such aggregate number of shares of Common Stock that may be issued under the Plan, the maximum number of shares that may be issued as incentive stock options under Section 422 of the Code is 6,200,000. Any shares of Common Stock available for issuance as incentive stock options may be alternatively issued as other types of Incentives under the Plan. Shares of Common Stock that are issued under the Plan or that are subject to outstanding Incentives will be applied to reduce the maximum number of shares of Common Stock remaining available for issuance under the Plan.

5.2. Cancellation . To the extent that cash in lieu of shares of Common Stock is delivered upon the exercise of an SAR pursuant to Section 7.4, the Company shall be deemed, for purposes of applying the limitation on the number of shares, to have issued the greater of the number of shares of Common Stock which it was entitled to issue upon such exercise or on the exercise of any related option. In the event that a stock option or SAR granted hereunder expires or is terminated or canceled unexercised or unvested as to any shares of Common Stock, such shares may again be issued under the Plan either pursuant to stock options, SARs or otherwise. In the event that shares of Common Stock are issued as restricted stock or pursuant to a stock award and thereafter are forfeited or reacquired by the Company pursuant to rights reserved upon issuance thereof, such forfeited and reacquired shares may again be issued under the Plan, either as restricted stock, pursuant to stock awards or otherwise. Shares of Common Stock which are withheld to pay the exercise price of an option and/or any related withholding obligations shall again be available for issuance under the Plan. The Committee may also determine to cancel, and agree to the cancellation of, stock options in order to make a participant eligible for the grant of a stock option at a lower price than the option to be canceled.

6. Stock Options . A stock option is a right to purchase shares of Common Stock from the Company. The Committee may designate whether an option is to be considered an incentive stock option or a non-statutory stock option. To the extent that any incentive stock option granted under the Plan ceases for any reason to qualify as an “incentive stock option” for purposes of Section 422 of the Code, such incentive stock option will continue to be outstanding for purposes of the Plan but will thereafter be deemed to be a non-statutory stock option. Each stock option granted by the Committee under this Plan shall be subject to the following terms and conditions:

6.1. Price. The option price per share shall be determined by the Committee, subject to adjustment under Section 11.6.

6.2. Number. The number of shares of Common Stock subject to the option shall be determined by the Committee, subject to adjustment as provided in Section 11.6. The number of shares of Common Stock subject to a stock option shall be reduced in the same proportion that the holder thereof exercises a SAR if any SAR is granted in conjunction with or related to the stock option.

6.3. Duration and Time for Exercise. Subject to earlier termination as provided in Section 11.4 and except for incentive stock options which shall be subject to the provisions of Section 6.5, the term of each stock option shall be determined by the Committee but shall not exceed ten years from the date of grant. Each stock option shall become exercisable at such time or times during its term as shall be determined by the Committee at the time of grant. The Committee may accelerate the exercisability of any stock option.

6.4. Manner of Exercise. Subject to the conditions contained in this Plan and in the agreement with the recipient evidencing such option, a stock option may be exercised, in whole or in part, by giving written notice to the Company, specifying the number of shares of Common Stock to be purchased and accompanied by the full purchase price for such shares. The exercise price shall be payable (a) in United States dollars upon exercise of the option and may be paid by cash; uncertified or certified check; bank draft; (b) at the discretion of the Committee, by delivery of shares of Common Stock that are already owned by the participant in payment of all or any part of the exercise price, which shares shall be valued for this purpose at the Fair Market Value on the date such option is exercised; or (c) at the discretion of the Committee, by instructing the Company to withhold from the shares of Common Stock issuable upon exercise of the stock option shares of Common Stock in payment of all or any part of the exercise price and/or any related withholding tax obligations, which shares shall be valued for this purpose at the Fair Market Value or in such other manner as may be authorized from time to time by the Committee. The shares of Common Stock delivered by the participant pursuant to Section 6.4(b) must have been held by the participant for a period of not less than six months prior to the exercise of the option, unless otherwise determined by the Committee. Prior to the issuance of shares of Common Stock upon the exercise of a stock option, a participant shall have no rights as a shareholder. Except as otherwise provided in the Plan, no adjustment will be made for dividends or distributions with respect to such stock options as to which there is a record date preceding the date the participant becomes the holder of record of such shares, except as the Committee may determine in its discretion.

6.5. Incentive Stock Options. Notwithstanding anything in the Plan to the contrary, the following additional provisions shall apply to the grant of stock options which are intended to qualify as incentive stock options (as such term is defined in Section 422 of the Code):

(a) To the extent that the aggregate Fair Market Value (determined as of the time the option is granted) of the shares of Common Stock with respect to which incentive stock options are exercisable for the first time by any participant during any

calendar year (under the Plan and any other incentive stock option plans of the Company or any subsidiary or parent corporation of the Company) shall exceed \$100,000, such excess portion of the incentive stock options will be treated as Non-Statutory Stock Options; provided that this provision shall have no force or effect to the extent that its inclusion in the Plan is not necessary for the Incentive to qualify as incentive stock options pursuant to Section 422 of the Code. The determination will be made by taking incentive stock options into account in the order in which they were granted.

(b) Any incentive stock option certificate authorized under the Plan shall contain such other provisions as the Committee shall deem advisable, but shall in all events be consistent with and contain all provisions required in order to qualify the options as incentive stock options.

(c) All incentive stock options must be granted within ten years from the earlier of the date on which this Plan was adopted by board of directors or the date this Plan was approved by the Company's shareholders.

(d) Unless sooner exercised, all incentive stock options shall expire no later than 10 years after the date of grant. No incentive stock option may be exercisable after ten (10) years from its date of grant (or five (5) years from its date of grant if, at the time the incentive stock option is granted, the Participant owns, directly or indirectly, more than 10% of the total combined voting power of all classes of stock of the Company or any parent or subsidiary corporation of the Company).

(e) The exercise price for incentive stock options shall be not less than 100% of the Fair Market Value of the Common Stock subject thereto on the date of grant; provided that the exercise price shall be 110% of the Fair Market Value if, at the time the incentive stock option is granted, the participant owns, directly or indirectly, more than 10% of the total combined voting power of all classes of stock of the Company or any parent or subsidiary corporation of the Company.

7. Stock Appreciation Rights . An SAR is a right to receive, without payment to the Company, a number of shares of Common Stock, cash or any combination thereof, the amount of which is determined pursuant to the formula set forth in Section 7.4. An SAR may be granted (a) with respect to any stock option granted under this Plan, either concurrently with the grant of such stock option or at such later time as determined by the Committee (as to all or any portion of the shares of Common Stock subject to the stock option), or (b) alone, without reference to any related stock option. Each SAR granted by the Committee under this Plan shall be subject to the following terms and conditions:

7.1. Number; Exercise Price . Each SAR granted to any participant shall relate to such number of shares of Common Stock as shall be determined by the Committee, subject to adjustment as provided in Section 11.6. In the case of an SAR granted with respect to a stock option, the number of shares of Common Stock to which the SAR pertains shall be reduced in the same proportion that the holder of the option exercises the related stock

option. The exercise price of an SAR will be determined by the Committee, in its discretion, at the date of grant but may not be less than 100% of the Fair Market Value of the shares of Common Stock subject thereto on the date of grant.

7.2. Duration. Subject to earlier termination as provided in Section 11.4, the term of each SAR shall be determined by the Committee but shall not exceed ten years and one day from the date of grant. Unless otherwise provided by the Committee, each SAR shall become exercisable at such time or times, to such extent and upon such conditions as the stock option, if any, to which it relates is exercisable. The Committee may in its discretion accelerate the exercisability of any SAR.

7.3. Exercise. An SAR may be exercised, in whole or in part, by giving written notice to the Company, specifying the number of SARs which the holder wishes to exercise. Upon receipt of such written notice, the Company shall, within 90 days thereafter, deliver to the exercising holder certificates for the shares of Common Stock or cash or both, as determined by the Committee, to which the holder is entitled pursuant to Section 7.4.

7.4. Payment. Subject to the right of the Committee to deliver cash in lieu of shares of Common Stock (which, as it pertains to officers and directors of the Company, shall comply with all requirements of the Exchange Act), the number of shares of Common Stock which shall be issuable upon the exercise of an SAR shall be determined by dividing:

(a) the number of shares of Common Stock as to which the SAR is exercised multiplied by the amount of the appreciation in such shares (for this purpose, the "appreciation" shall be the amount by which the Fair Market Value of the shares of Common Stock subject to the SAR on the exercise date exceeds (1) in the case of an SAR related to a stock option, the exercise price of the shares of Common Stock under the stock option or (2) in the case of an SAR granted alone, without reference to a related stock option, an amount which shall be determined by the Committee at the time of grant, subject to adjustment under Section 11.6); by

(b) the Fair Market Value of a share of Common Stock on the exercise date.

In lieu of issuing shares of Common Stock upon the exercise of a SAR, the Committee may elect to pay the holder of the SAR cash equal to the Fair Market Value on the exercise date of any or all of the shares which would otherwise be issuable. No fractional shares of Common Stock shall be issued upon the exercise of an SAR; instead, the holder of the SAR shall be entitled to receive a cash adjustment equal to the same fraction of the Fair Market Value of a share of Common Stock on the exercise date or to purchase the portion necessary to make a whole share at its Fair Market Value on the date of exercise.

8. Stock Awards and Restricted Stock. A stock award consists of the transfer by the Company to a participant of shares of Common Stock, without other payment therefor, as additional compensation for services to the Company. The participant receiving a stock award will have all voting, dividend, liquidation and other rights with respect to the shares of Common Stock issued to a participant as a stock award under this Section 8 upon the participant becoming the holder of record

of such shares. A share of restricted stock consists of shares of Common Stock which are sold or transferred by the Company to a participant at a price determined by the Committee (which price shall be at least equal to the minimum price required by applicable law for the issuance of a share of Common Stock) and subject to restrictions on their sale or other transfer by the participant, which restrictions and conditions may be determined by the Committee as long as such restrictions and conditions are not inconsistent with the terms of the Plan. The transfer of Common Stock pursuant to stock awards and the transfer and sale of restricted stock shall be subject to the following terms and conditions:

8.1. Number of Shares. The number of shares to be transferred or sold by the Company to a participant pursuant to a stock award or as restricted stock shall be determined by the Committee.

8.2. Sale Price. The Committee shall determine the price, if any, at which shares of restricted stock shall be sold or granted to a participant, which may vary from time to time and among participants and which may be below the Fair Market Value of such shares of Common Stock at the date of sale.

8.3. Restrictions. All shares of restricted stock transferred or sold hereunder shall be subject to such restrictions as the Committee may determine, including, without limitation any or all of the following:

(a) a prohibition against the sale, transfer, pledge or other encumbrance of the shares of restricted stock, such prohibition to lapse at such time or times as the Committee shall determine (whether in annual or more frequent installments, at the time of the death, disability or retirement of the holder of such shares, or otherwise);

(b) a requirement that the holder of shares of restricted stock forfeit, or (in the case of shares sold to a participant) resell back to the Company at his or her cost, all or a part of such shares in the event of termination of his or her employment or consulting engagement during any period in which such shares are subject to restrictions; or

(c) such other conditions or restrictions as the Committee may deem advisable.

8.4. Escrow. In order to enforce the restrictions imposed by the Committee pursuant to Section 8.3, the participant receiving restricted stock shall enter into an agreement with the Company setting forth the conditions of the grant. Shares of restricted stock shall be registered in the name of the participant and deposited, together with a stock power endorsed in blank, with the Company. Each such certificate shall bear a legend in substantially the following form:

The transferability of this certificate and the shares of Common Stock represented by it are subject to the terms and conditions (including conditions of forfeiture) contained in the 2004 Stock Plan of Chelsea Therapeutics International, Ltd., (the "Company"), as amended from

time to time, and an agreement entered into between the registered owner and the Company. A copy of the 2004 Stock Plan, as amended from time to time, and the agreement is on file in the office of the secretary of the Company.

8.5. End of Restrictions. Subject to Section 11.5, at the end of any time period during which the shares of restricted stock are subject to forfeiture and restrictions on transfer, such shares will be delivered free of all restrictions to the participant or to the participant's legal representative, beneficiary or heir.

8.6. Shareholder. Subject to the terms and conditions of the Plan, each participant receiving restricted stock shall have all the rights of a shareholder with respect to shares of stock during any period in which such shares are subject to forfeiture and restrictions on transfer, including without limitation, the right to vote such shares. Dividends paid in cash or property other than Common Stock with respect to shares of restricted stock shall be paid to the participant currently.

9. Performance Shares. A performance share consists of an award which shall be paid in shares of Common Stock, as described below. The grant of a performance share shall be subject to such terms and conditions as the Committee deems appropriate, including the following:

9.1. Performance Objectives. Each performance share will be subject to performance objectives for the Company or one of its operating units to be achieved by the participant before the end of a specified period. The number of performance shares granted shall be determined by the Committee and may be subject to such terms and conditions, as the Committee shall determine. If the performance objectives are achieved, each participant will be paid in shares of Common Stock or cash as determined by the Committee. If such objectives are not met, each grant of performance shares may provide for lesser payments in accordance with formulas established in the award.

9.2. Not Shareholder. The grant of performance shares to a participant shall not create any rights in such participant as a shareholder of the Company, until the payment of shares of Common Stock with respect to an award.

9.3. No Adjustments. No adjustment shall be made in performance shares granted on account of cash dividends which may be paid or other rights which may be issued to the holders of Common Stock prior to the end of any period for which performance objectives were established.

9.4. Expiration of Performance Share. If any participant's employment or consulting engagement with the Company is terminated for any reason other than normal retirement, death or disability prior to the achievement of the participant's stated performance objectives, all the participant's rights on the performance shares shall expire and terminate unless otherwise determined by the Committee. In the event of termination of employment or consulting by reason of death, disability, or normal retirement, the Committee, in its own discretion may determine what portions, if any, of the performance shares should be paid to the participant.

10. Change of Control.

10.1 Change in Control. For purposes of this Section 10, a “ **Change in Control** ” of the Company will mean the following:

(a) the sale, lease, exchange or other transfer, directly or indirectly, of substantially all of the assets of the Company (in one transaction or in a series of related transactions) to a person or entity that is not controlled by the Company;

(b) the approval by the shareholders of the Company of any plan or proposal for the liquidation or dissolution of the Company;

(c) any person not a shareholder of the Company on the date of the Plan becomes after the effective date of the Plan the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of (i) 20% or more, but not 50% or more, of the combined voting power of the Company’s outstanding securities ordinarily having the right to vote at elections of directors, unless the transaction resulting in such ownership has been approved in advance by the Continuing Directors (as defined below), or (ii) 50% or more of the combined voting power of the Company’s outstanding securities ordinarily having the right to vote at elections of directors (regardless of any approval by the Continuing Directors); provided that a traditional institutional or venture capital financing transaction shall be excluded from this definition; or

(d) a merger or consolidation to which the Company is a party if the shareholders of the Company immediately prior to the effective date of such merger or consolidation have “beneficial ownership” (as defined in Rule 13d-3 under the Exchange Act), immediately following the effective date of such merger or consolidation, of securities of the surviving corporation representing (i) 50% or more, but less than 80%, of the combined voting power of the surviving corporation’s then outstanding securities ordinarily having the right to vote at elections of directors, unless such merger or consolidation has been approved in advance by the Continuing Directors, or (ii) less than 50% of the combined voting power of the surviving corporation’s then outstanding securities ordinarily having the right to vote at elections of directors (regardless of any approval by the Continuing Directors).

10.2 Continuing Directors. For purposes of this Section 10, “ **Continuing Directors** ” of the Company will mean any individuals who are members of the Board on the effective date of the Plan and any individual who subsequently becomes a member of the Board whose election, or nomination for election by the Company’s shareholders, was approved by a vote of at least a majority of the Continuing Directors (either by specific vote or by approval of the Company’s proxy statement in which such individual is named as a nominee for director without objection to such nomination).

10.3 Acceleration of Incentives. Unless otherwise resolved by the Committee in its sole discretion at such time, if a Change in Control of the Company occurs whereby the acquiring entity or successor to the Company does not agree to assume the Incentives or

replace them with substantially equivalent incentive awards (as determined by the Committee in its reasonable discretion), then (a) all outstanding options and SARs will vest and will become immediately exercisable in full and, if not exercised on the date of the Change of Control, will terminate on such date regardless of whether the participant to whom such options or SARs have been granted remains in the employ or service of the Company or any subsidiary of the Company or any acquiring entity or successor to the Company; (b) the restrictions on all shares of restricted stock awards shall lapse immediately; and (c) all performance shares criteria shall be deemed to be met and payment made immediately.

10.4 Cash Payment for Options. If a Change in Control of the Company occurs, then the Committee, if approved by the Committee in its sole discretion either in an agreement evidencing an option at the time of grant or at any time after the grant of an option, and without the consent of any participant affected thereby, may determine that:

(a) some or all participants holding outstanding options will receive, with respect to some or all of the shares of Common Stock subject to such options, as of the effective date of any such Change in Control of the Company, cash in an amount equal to the excess of the Fair Market Value of such shares immediately prior to the effective date of such Change in Control of the Company over the exercise price per share of such options; and

(b) any options as to which, as of the effective date of any such Change in Control, the Fair Market Value of the shares of Common Stock subject to such options is less than or equal to the exercise price per share of such options, shall terminate as of the effective date of any such Change in Control.

If the Committee makes a determination as set forth in subparagraph (a) of this Section 10.4, then as of the effective date of any such Change in Control of the Company such options will terminate as to such shares and the participants formerly holding such options will only have the right to receive such cash payment(s). If the Committee makes a determination as set forth in subparagraph (b) of this Section 10.4, then as of the effective date of any such Change in Control of the Company such options will terminate, become void and expire as to all unexercised shares of Common Stock subject to such options on such date, and the participants formerly holding such options will have no further rights with respect to such options.

11. General.

11.1. Effective Date. The Plan will become effective upon approval by the Company's board of directors.

11.2. Duration. The Plan shall remain in effect until all Incentives granted under the Plan have either been satisfied by the issuance of shares of Common Stock or the payment of cash or been terminated under the terms of the Plan and all restrictions imposed on shares of Common Stock in connection with their issuance under the Plan have lapsed. No Incentives may be granted under the Plan after the earlier of the tenth anniversary of the date of the adoption of the Plan or the date the Plan is approved by the shareholders of the Company.

11.3. Non-transferability of Incentives . Except in the event of the holder's death, by will or the laws of descent and distribution to the limited extent provided in the Plan or the Incentive, unless approved by the Committee, no stock option, SAR, restricted stock or performance award may be transferred, pledged or assigned by the holder thereof, either voluntarily or involuntarily, directly or indirectly, by operation of law or otherwise, and the Company shall not be required to recognize any attempted assignment of such rights by any participant. During a participant's lifetime, an Incentive may be exercised only by him or her or by his or her guardian or legal representative.

11.4. Effect of Termination or Death . In the event that a participant ceases to be an employee of or consultant to the Company, or the participants' other service with the Company is terminated, for any reason, including death, any Incentives may be exercised or shall expire at such times as may be determined by the Committee in its sole discretion in the agreement evidencing an Incentive. Notwithstanding the other provisions of this Section 11.4, upon a participant's termination of employment or other service with the Company and all subsidiaries, the Committee may, in its sole discretion (which may be exercised at any time on or after the date of grant, including following such termination), cause options and SARs (or any part thereof) then held by such participant to become or continue to become exercisable and/or remain exercisable following such termination of employment or service and Restricted Stock Awards, Performance Shares and Stock Awards then held by such participant to vest and/or continue to vest or become free of transfer restrictions, as the case may be, following such termination of employment or service, in each case in the manner determined by the Committee; provided, however, that no Incentive may remain exercisable or continue to vest beyond its expiration date. Any incentive stock option that remains unexercised more than one (1) year following termination of employment by reason of death or disability or more than three (3) months following termination for any reason other than death or disability will thereafter be deemed to be a Non-Statutory Stock Option.

11.5. Additional Conditions . Notwithstanding anything in this Plan to the contrary: (a) the Company may, if it shall determine it necessary or desirable for any reason, at the time of award of any Incentive or the issuance of any shares of Common Stock pursuant to any Incentive, require the recipient of the Incentive, as a condition to the receipt thereof or to the receipt of shares of Common Stock issued pursuant thereto, to deliver to the Company a written representation of present intention to acquire the Incentive or the shares of Common Stock issued pursuant thereto for his or her own account for investment and not for distribution; and (b) if at any time the Company further determines, in its sole discretion, that the listing, registration or qualification (or any updating of any such document) of any Incentive or the shares of Common Stock issuable pursuant thereto is necessary on any securities exchange or under any federal or state securities or blue sky law, or that the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with the award of any Incentive, the issuance of shares of Common Stock pursuant thereto, or the removal of any restrictions imposed on such shares, such Incentive shall not be awarded or such shares of Common Stock shall not be issued or such restrictions shall not be removed, as the case may be, in whole or in part, unless such listing, registration, qualification, consent or approval shall have been effected or obtained

free of any conditions not acceptable to the Company. Notwithstanding any other provision of the Plan or any agreements entered into pursuant to the Plan, the Company will not be required to issue any shares of Common Stock under this Plan, and a participant may not sell, assign, transfer or otherwise dispose of shares of Common Stock issued pursuant to any Incentives granted under the Plan, unless (a) there is in effect with respect to such shares a registration statement under the Securities Act of 1933, as amended (the “**Securities Act**”), and any applicable state or foreign securities laws or an exemption from such registration under the Securities Act and applicable state or foreign securities laws, and (b) there has been obtained any other consent, approval or permit from any other regulatory body which the Committee, in its sole discretion, deems necessary or advisable. The Company may condition such issuance, sale or transfer upon the receipt of any representations or agreements from the parties involved, and the placement of any legends on certificates representing shares of Common Stock, as may be deemed necessary or advisable by the Company in order to comply with such securities laws or other restrictions. The Committee may restrict the rights of participants to the extent necessary to comply with Section 16(b) of the Exchange Act, the Internal Revenue Code or any other applicable law or regulation. The grant of an Incentive award pursuant to the Plan shall not limit in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge, exchange or consolidate or to dissolve, liquidate, sell or transfer all or any part of its business or assets.

11.6. Adjustment. In the event of any recapitalization, stock dividend, stock split, combination of shares or other change in the Common Stock, the number of shares of Common Stock then subject to the Plan, including shares subject to restrictions, options or achievements of performance shares, shall be adjusted in proportion to the change in outstanding shares of Common Stock. In the event of any such adjustments, the purchase price of any option, the performance objectives of any Incentive, and the shares of Common Stock issuable pursuant to any Incentive shall be adjusted as and to the extent appropriate, in the discretion of the Committee, to provide participants with the same relative rights before and after such adjustment.

11.7. Incentive Plans and Agreements. Except in the case of stock awards, the terms of each Incentive shall be stated in a plan or agreement approved by the Committee. The Committee may also determine to enter into agreements with holders of options to reclassify or convert certain outstanding options, within the terms of the Plan, as incentive stock options or as non-statutory stock options and in order to eliminate SARs with respect to all or part of such options and any other previously issued options.

11.8. Withholding.

(a) The Company shall have the right to (i) withhold and deduct from any payments made under the Plan or from future wages of the participant (or from other amounts that may be due and owing to the participant from the Company or a subsidiary of the Company), or make other arrangements for the collection of, all legally required amounts necessary to satisfy any and all foreign, federal, state and local withholding and employment-related tax requirements attributable to an Incentive, or (ii) require the participant promptly to remit the amount of such

withholding to the Company before taking any action, including issuing any shares of Common Stock, with respect to an Incentive. At any time when a participant is required to pay to the Company an amount required to be withheld under applicable income tax laws in connection with a distribution of Common Stock or upon exercise of an option or SAR, the participant may satisfy this obligation in whole or in part by electing (the “ **Election** ”) to have the Company withhold from the distribution shares of Common Stock having a value up to the amount required to be withheld. The value of the shares to be withheld shall be based on the Fair Market Value of the Common Stock on the date that the amount of tax to be withheld shall be determined (“ **Tax Date** ”).

(b) Each Election must be made prior to the Tax Date. The Committee may disapprove of any Election, may suspend or terminate the right to make Elections, or may provide with respect to any Incentive that the right to make Elections shall not apply to such Incentive. An Election is irrevocable.

(c) If a participant is an officer or director of the Company within the meaning of Section 16 of the Exchange Act, then an Election is subject to the following additional restrictions:

(1) No Election shall be effective for a Tax Date which occurs within six months of the grant or exercise of the award, except that this limitation shall not apply in the event death or disability of the participant occurs prior to the expiration of the six-month period.

(2) The Election must be made either six months prior to the Tax Date or must be made during a period beginning on the third business day following the date of release for publication of the Company’s quarterly or annual summary statements of sales and earnings and ending on the twelfth business day following such date.

(d) If the option granted to a participant hereunder is an incentive stock option, and if the participant sells or otherwise disposes of any of the shares of Common Stock acquired pursuant to the incentive stock option on or before the later of (1) the date two years after the date of grant, or (2) the date one year after the date of exercise, the participant shall immediately notify the Company in writing of such disposition. The participant agrees that the participant may be subject to income tax withholding by the Company on the compensation income recognized by the participant from the early disposition by payment in cash or out of the current earnings paid to the participant.

11.9. No Continued Employment, Engagement or Right to Corporate Assets . No participant under the Plan shall have any right, because of his or her participation, to continue in the employ of the Company for any period of time or any right to continue his or her present or any other rate of compensation. Nothing contained in the Plan shall be construed as giving an employee, a consultant, such persons’ beneficiaries or any other person any

interests of any kind in the assets of the Company or creating a trust of any kind or a fiduciary relationship of any kind between the Company and any such person.

11.10. Deferral Permitted . Payment of cash or distribution of any shares of Common Stock to which a participant is entitled under any Incentive shall be made as provided in the Incentive. Payment may be deferred at the option of the participant if provided in the Incentive.

11.11. Amendment of the Plan . The Board may amend, suspend or discontinue the Plan at any time; provided, however, that no amendments to the Plan will be effective without approval of the shareholders of the Company if shareholder approval of the amendment is then required pursuant to Section 422 of the Code, the regulations promulgated thereunder or the rules of any stock exchange or Nasdaq or similar regulatory body. No termination, suspension or amendment of the Plan may adversely affect any outstanding Incentive without the consent of the affected participant; provided, however, that this sentence will not impair the right of the Committee to take whatever action it deems appropriate under Sections 2, 10 and 11 of the Plan.

11.12. Definition of Fair Market Value . For purposes of this Plan, the “ **Fair Market Value** ” of a share of Common Stock at a specified date shall, unless otherwise expressly provided in this Plan, be the amount which the Committee or the board of directors of the Company determines in good faith in the exercise of its reasonable discretion to be 100% of the fair market value of such a share as of the date in question; provided, however, that notwithstanding the foregoing, if such shares are listed on a U.S. securities exchange or are quoted on the Nasdaq National Market System or Nasdaq SmallCap Stock Market (“ **Nasdaq** ”), then Fair Market Value shall be determined by reference to the last sale price of a share of Common Stock on such U.S. securities exchange or Nasdaq on the applicable date. If such U.S. securities exchange or Nasdaq is closed for trading on such date, or if the Common Stock does not trade on such date, then the last sale price used shall be the one on the date the Common Stock last traded on such U.S. securities exchange or Nasdaq.

11.13 Breach of Confidentiality, Assignment of Inventions, or Non-Compete Agreements . Notwithstanding anything in the Plan to the contrary, in the event that a participant materially breaches the terms of any confidentiality, assignment of inventions, or non-compete agreement entered into with the Company or any subsidiary of the Company, whether such breach occurs before or after termination of such participant’s employment or other service with the Company or any subsidiary, the Committee in its sole discretion may immediately terminate all rights of the participant under the Plan and any agreements evidencing an Incentive then held by the participant without notice of any kind.

11.13 Governing Law . The validity, construction, interpretation, administration and effect of the Plan and any rules, regulations and actions relating to the Plan will be governed by and construed exclusively in accordance with the laws of the State of North Carolina, notwithstanding the conflicts of laws principles of any jurisdictions.

11.14 Successors and Assigns. The Plan will be binding upon and inure to the benefit of the successors and permitted assigns of the Company and the participants in the Plan.

CHELSEA THERAPEUTICS INTERNATIONAL, LTD.

**2004 Stock Plan, as amended to date
NOTICE OF STOCK OPTION GRANT**

(Optionee and address)

Grant Number

You have been granted an option to purchase Common Stock of Chelsea Therapeutics International, Ltd. (the "Company"), as follows:

Date of Grant _____
Vesting Commencement Date _____
Exercise Price per Share \$ _____
Total Number of Shares Granted _____
Total Exercise Price \$ _____
Type of Option: Incentive Stock Option
 Nonstatutory Stock Option
Term/Expiration Date: 10 Years/ _____

Vesting Schedule: Subject to accelerated vesting as set forth in the Plan or in the Stock Option Agreement, this Option may be exercised, in whole or in part, in accordance with the following schedule: 25% of the shares shall vest on the first, second, third and fourth anniversaries of the Vesting Commencement Date; provided that the Optionee remains an employee or director of, or consultant to, the Company as of each such vesting date. Notwithstanding the above, if a Change of Control (as defined by the Chelsea Therapeutics International, Ltd. 2004 Stock Plan, as amended, the "Plan") takes place, all shares will become fully vested and this option may be exercised in whole or in part, provided that the Optionee is an employee or director of, or consultant to, the Company as of date of such Change of Control.

Termination Period: Option may be exercised for up to 180 days after termination of employment or consulting relationship except as set out in Sections 7 and 8 of the Stock Option Agreement (but in no event later than the Expiration Date). Any Incentive Stock Option that remains unexercised for more than 90 days after termination will automatically become a non-statutory stock option. By your signature and the signature of the Company's representative below, you and the Company agree that this option is granted

under and governed by the terms and conditions of the Chelsea Therapeutics International, Ltd. 2004 Stock Plan (as amended, the "Plan") and the Stock Option Agreement, all of which are attached and made a part of this document.

Effective as of the Date of Grant provided above.

OPTIONEE:

**CHELSEA THERAPEUTICS
INTERNATIONAL, LTD.**

By: _____

J. Nick Riehle

Chief Financial Officer

Print Name

CHELSEA THERAPEUTICS INTERNATIONAL, LTD.
STOCK OPTION AGREEMENT

1. Grant of Option. Chelsea Therapeutics International, Ltd. a Delaware corporation (the “Company”), hereby grants to the Optionee named in the Notice of Grant (the “Optionee”) an option (the “Option”) to purchase a total number of shares of Common Stock (the “Shares”) set forth in the Notice of Grant, at the exercise price per share set forth in the Notice of Grant (the “Exercise Price”) subject to the terms, definitions and provisions of the Chelsea Therapeutics International, Ltd. 2004 Stock Plan (as amended, the “Plan”) adopted by the Company, which is incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Option. To the extent of any conflict between the terms of this Stock Option Agreement and the Plan, the terms of the Plan shall control.

If designated an Incentive Stock Option, this Option is intended to qualify as an Incentive Stock Option as defined in Section 422 of the Code, or any successor provision.

2. Exercise of Option. This Option shall be exercisable during its term in accordance with the Vesting Schedule set out in the Notice of Grant, the terms of the Plan and as follows:

(a) Right to Exercise.

(i) This Option may not be exercised for a fraction of a share.

(ii) In the event of Optionee’s death, disability or other termination of employment, the exercisability of the Option is governed by Sections 6, 7 and 8 below, subject to the limitation contained in subsection 2(a)(iii).

(iii) In no event may this Option be exercised after the date of expiration of the term of this Option as set forth in the Notice of Grant.

(b) Method of Exercise. This Option shall be exercisable by written notice (in the form attached hereto as *Exhibit A*) which shall state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised, and such other representations and agreements as to the holder’s investment intent with respect to such shares of Common Stock as may be required by the Company pursuant to the provisions of the Plan. Such written notice shall be signed by the Optionee and shall be delivered in person or by certified mail to the Secretary of the Company. The written notice shall be accompanied by payment of the Exercise Price. This Option shall be deemed to be exercised upon receipt by the Company of such written notice accompanied by the Exercise Price.

No Shares will be issued pursuant to the exercise of an Option unless such issuance and such exercise shall comply with all relevant provisions of law and the requirements

of any stock exchange upon which the Shares may then be listed. Assuming such compliance, for income tax purposes the Shares shall be considered transferred to the Optionee on the date on which the Option is exercised with respect to such Shares.

3. Optionee's Representations. In the event the Shares purchasable pursuant to the exercise of this Option have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), at the time this Option is exercised, Optionee shall, if required by the Company, concurrently with the exercise of all or any portion of this Option, deliver to the Company an Investment Representation Statement in the form attached hereto as *Exhibit B*.

4. Method of Payment. Payment of the Exercise Price shall be by any of the following, or a combination thereof, at the election of the Optionee:

- a. cash;
- b. check; or
- c. at the discretion of the Board or Committee, any other method permitted by the Plan or any combination thereof.

5. Restrictions on Exercise. This Option may not be exercised until such time as (a) the Plan and the Shares covered by this Option have been approved by the stockholders of the Company and (b) the issuance of such Shares upon such exercise or the method of payment of consideration for such shares does not constitute a violation of any applicable federal or state securities or other law or regulation, including any rule under Part 207 of Title 12 of the Code of Federal Regulations ("Regulation G") as promulgated by the Federal Reserve Board. As a condition to the exercise of this Option, the Company may require Optionee to make any representation and warranty to the Company as may be required by any applicable law or regulation.

6. Termination of Relationship. In the event of termination of Optionee's employment or consulting relationship with the Company, Optionee may, to the extent otherwise so entitled at the date of such termination (the "Termination Date"), exercise this Option during the Termination Period set out in the Notice of Grant. To the extent that Optionee was not entitled to exercise this Option at the date of such termination, or if Optionee does not exercise this Option within the time specified herein, the Option shall terminate.

7. Disability of Optionee. Notwithstanding the provisions of Section 6 above, in the event of termination of Optionee's consulting or employment relationship as a result of his total and permanent disability (as defined in Section 22(e)(3) of the Code or any successor provision), Optionee may, but only within twelve (12) months from the date of termination of employment or consulting relationship (but in no event later than the date of expiration of the term of this Option as set forth in Section 10 below), exercise this Option to the extent Optionee was entitled to exercise it at the date of such termination. To the extent that Optionee was not entitled to exercise the Option at the date of termination, or if Optionee does not exercise such Option (which Optionee was entitled to exercise) within the time specified herein, the Option shall terminate.

8. Death of Optionee. In the event of the death of Optionee during the term of this Option and, with respect to a consultant, during such consultant's continuing consulting relationship with the Company or within 90 days of termination of consultant's relationship with the Company and, with respect to an employee, during such employee's employment relationship with the Company or within 90 days of termination of such employee's relationship with the Company, the Option may be exercised at any time within twelve (12) months following the date of termination (but in no event later than the date of expiration of the term of this Option as set forth in Section 10 below), by Optionee's estate or by a person who acquired the right to exercise the Option by bequest or inheritance, but only to the extent of the right to exercise that Optionee was entitled to at the date of death.

9. Nontransferability of Option. This Option may not be transferred in any manner other than by will or by the laws of descent or distribution and may be exercised during the lifetime of Optionee only by Optionee. The terms of this Option shall be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

10. Term of Option. This Option may be exercised only within the term set out in the Notice of Grant and the Plan, and may be exercised during such term only in accordance with the Plan and the terms of this Option.

11. Taxation Upon Exercise of Option. Optionee understands that, upon exercising a Nonstatutory Stock Option, he or she will recognize income for tax purposes in an amount equal to the excess of the then fair market value of the Shares over the exercise price. If the Optionee is an employee, the Company will be required to withhold from Optionee's compensation, or collect from Optionee and pay to the applicable taxing authorities an amount equal to a percentage of this compensation income. Additionally, the Optionee may at some point be required to satisfy tax withholding obligations with respect to the disqualifying disposition of an Incentive Stock Option. The Optionee shall satisfy his or her tax withholding obligation arising upon the exercise of a Nonstatutory Stock Option or a disqualifying disposition by one or some combination of the following methods: (i) by cash payment, or (ii) out of Optionee's current compensation, or (iii) if permitted by the Committee, in its discretion, by surrendering to the Company Shares that (a) in the case of Shares previously acquired from the Company, have been owned by the Optionee for more than six months on the date of surrender, and (b) have a fair market value on the date of surrender equal to or greater than Optionee's marginal tax rate times the ordinary income recognized, or (iv) if permitted by the Committee, in its discretion, and if the Option is designated as a Nonstatutory Stock Option by electing to have the Company withhold from the Shares to be issued upon exercise of the Option that number of Shares having a fair market value equal to the amount required to be withheld. For this purpose, the fair market value of the Shares to be withheld shall be determined on the date that the amount of tax to be withheld is to be determined (the "Tax Date").

If the Optionee is subject to Section 16 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") (an "Insider"), any surrender of previously owned Shares to satisfy tax withholding obligations arising upon exercise of this Option must comply with the applicable provisions of Rule 16b-3 promulgated under the Exchange Act ("Rule 16b-3") and shall be subject to such additional conditions or restrictions as may be required thereunder to

qualify for the maximum exemption from Section 16 of the Exchange Act with respect to Plan transactions.

All elections by an Optionee to have Shares withheld to satisfy tax-withholding obligations shall be made in writing in a form acceptable to the Committee and shall be subject to the following restrictions:

- (1) the election must be made on or prior to the applicable Tax Date;
- (2) once made, the election shall be irrevocable as to the particular Shares of the Option as to which the election is made;
- (3) all elections shall be subject to the consent or disapproval of the Committee;
- (4) if the Optionee is an Insider, the election must comply with the applicable provisions of Rule 16b-3 and shall be subject to such additional conditions or restrictions as may be required thereunder to qualify for the maximum exemption from Section 16 of the Exchange Act with respect to Plan transactions.

12. **Tax Consequences.** Set forth below is a brief summary as of the date of this Option of some of the federal tax consequences of exercise of this Option and disposition of the Shares. **THIS SUMMARY IS NECESSARILY INCOMPLETE, AND THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. OPTIONEE SHOULD CONSULT A TAX ADVISER BEFORE EXERCISING THIS OPTION OR DISPOSING OF THE SHARES.**

(a) Exercise of ISO. If this Option qualifies as an ISO, there will be no regular federal income tax liability upon the exercise of the Option, although the excess, if any, of the fair market value of the Shares on the date of exercise over the Exercise Price will be treated as an item of adjustment to the alternative minimum tax for federal tax purposes in the year of exercise and may subject the Optionee to the alternative minimum tax.

(b) Exercise of Nonstatutory Stock Option. If this Option does not qualify as an ISO, there may be a regular federal income tax liability upon the exercise of the Option. The Optionee will be treated as having received compensation income (taxable at ordinary income tax rates) equal to the excess, if any, of the fair market value of the Shares on the date of exercise over the Exercise Price and the Company will qualify for a deduction in the same amount, subject to the requirement that the compensation be reasonable. If Optionee is an employee, the Company will be required to withhold from Optionee's compensation or collect from Optionee and pay to the applicable taxing authorities an amount equal to a percentage of this compensation income at the time of exercise.

(c) Disposition of Shares. In the case of an NSO, if Shares are held for at least one year, any gain realized on disposition of the Shares will be treated as long-term capital

gain for federal income tax purposes. In the case of an ISO, if Shares transferred pursuant to the Option are held for at least one year after exercise and are disposed of at least two years after the Date of Grant, any gain realized on disposition of the Shares will also be treated as long-term capital gain for federal income tax purposes. If Shares purchased under an ISO are disposed of within one-year after exercise or within two years after the Date of Grant, any gain realized on such disposition will be treated as compensation income (taxable at ordinary income rates) in an amount equal to the excess of the lesser of (1) the fair market value of the Shares on the date of exercise, or (2) the sale price of the Shares over the Exercise Price paid for those shares. The Company will also be allowed a deduction equal to any such amount recognized, subject to the requirement that the compensation be reasonable.

(d) Notice of Disqualifying Disposition of ISO Shares. If the Option granted to Optionee herein is an ISO, and if Optionee sells or otherwise disposes of any of the Shares acquired pursuant to the ISO on or before the later of (1) the date two years after the Date of Grant, or (2) the date one year after the date of exercise, the Optionee shall immediately notify the Company in writing of such disposition. Optionee agrees that Optionee may be subject to income tax withholding by the Company on the compensation income recognized by the Optionee from the early disposition by payment in cash or out of the current earnings paid to the Optionee.

13. Restrictive Legends and Transfer Restrictions. Unless the Shares granted hereunder have been effectively registered under the Securities Act of 1933, as now in force or hereafter amended, the Company shall be under no obligation to issue or transfer any shares covered by this option unless the Optionee or Optionee's successors in accordance with section 5 above, shall give a written representation and undertaking to the company and upon which, in the opinion of such counsel, the Company may reasonably rely that Optionee is acquiring the shares for his or her own account as an investment and not with the view to, or for sale in connection with, the distribution of such shares, and that Optionee will make no transfer of the same except in compliance with any rules and regulations in force at the time of such transfer under the Securities Act of 1933, or any other applicable law, and that if shares are issued or transferred without such registration, a legend to this effect may be placed upon the certificate representing the Shares.

14. Successors and Assigns. The Company may assign any of its rights under this Agreement to single or multiple assignees, and this Agreement shall inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer herein set forth, this Agreement shall be binding upon Optionee and his or her heirs, executors, administrators, successors and assigns.

15. Interpretation. Any dispute regarding the interpretation of this Agreement shall be submitted by Optionee or by the Company forthwith to the Company's Board of Directors or the Committee that administers the Plan, which shall review such dispute at its next regular meeting. The resolution of such a dispute by the Board or committee shall be final and binding on the Company and on Optionee.

16. Governing Law; Severability. This Agreement shall be governed by and construed in accordance with the laws of the State of North Carolina excluding that body of law pertaining to conflicts of law. Should any provision of this Agreement be determined by a court of law to be illegal or unenforceable, the other provisions shall nevertheless remain effective and shall remain enforceable.

17. Notices. Any notice required or permitted hereunder shall be given in writing and shall be deemed effectively given upon personal delivery or upon deposit in the United States mail by certified mail, with postage and fees prepaid, addressed to the other party at its address as shown below beneath its signature, or to such other address as such party may designate in writing from time to time to the other party.

18. Further Instruments. The parties agree to execute such further instruments and to take such further action as may be reasonably necessary to carry out the purposes and intent of this Agreement.

19. 2004 Stock Plan. Optionee acknowledges receipt of a copy of the Plan and represents that he is familiar with the terms and provisions thereof, and hereby accepts this Option subject to all of the terms and provisions thereof. Optionee has reviewed the Plan and this Option in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Option and fully understands all provisions of the Option. Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Board or Committee upon any questions arising under the Plan or this Option.

EXHIBIT A
CHELSEA THERAPEUTICS INTERNATIONAL, LTD.
EXERCISE NOTICE

Chelsea Therapeutics International, Ltd.

Attention: Secretary

1. Exercise of Option. Effective as of today, the undersigned (“Optionee”) hereby elects to exercise Optionee’s option to purchase _____ shares of the Common Stock (the “Shares”) of Chelsea Therapeutics International, Ltd. (the “Company”) under and pursuant to the Company’s 2004 Stock Plan (as amended, the “Plan”) and the Notice of Stock Option Grant dated _____, 200__ with its attached Stock Option Agreement (the “Option Agreement”). The purchase price for the Shares shall be \$ _____ as required by the Option Agreement. Optionee herewith delivers to the Company the full Exercise Price for the Shares.

2. Representations of Optionee. Optionee acknowledges that Optionee has received, read and understood the Plan and the Option Agreement and agrees to abide by and be bound by their terms and conditions.

3. Rights as Stockholder. Until the stock certificate evidencing such Shares is issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the optioned Shares, notwithstanding the exercise of the Option. The Company shall issue (or cause to be issued) such stock certificate promptly after the Option is exercised.

4. Tax Consultation. Optionee understands that Optionee may suffer adverse tax consequences as a result of Optionee’s purchase or disposition of the Shares. Optionee represents that Optionee has consulted with any tax consultants Optionee deems advisable in connection with the purchase or disposition of the Shares and that Optionee is not relying on the Company for any tax advice.

5. Entire Agreement. The Plan and Option Agreement are incorporated herein by reference. This Exercise Notice, the Plan and the Option Agreement and any Investment Representation statement executed and delivered to Company by Optionee shall constitute the entire agreement of the parties and supersede in their entirety all prior undertakings and agreements of the Company and Optionee with respect to the subject matter hereof, and is governed by North Carolina law except for that body of law pertaining to conflict of laws.

Submitted by:

OPTIONEE:

Address: _____

Accepted by:

Chelsea Therapeutics International, Ltd.

By: _____

Name: _____

Title: _____

Address: _____

EXHIBIT B

[Form can be omitted if securities underlying option are registered under Securities Act]

INVESTMENT REPRESENTATION STATEMENT

OPTIONEE : _____
COMPANY : Chelsea Therapeutics International, Ltd.
SECURITY : Common Stock
AMOUNT : _____ Shares

In connection with the purchase of the above-listed Securities, I, the Optionee, represent to the Company the following.

1. Optionee is aware of the Company's business affairs and financial condition and has acquired sufficient information about the Company to reach an informed and knowledgeable decision to acquire the securities. Optionee is purchasing the securities for investment for Optionee's own account only and not with a view to, or for resale in connection with, any "distribution" thereof within the meaning of the Securities Act of 1933, as amended (the "Securities Act").

2. Optionee understands that the securities have not been registered under the Securities Act in reliance upon a specific exemption therefrom, which exemption depends upon, among other things, the bona fide nature of Optionee's investment intent as expressed herein.

3. Optionee further understands that the securities must be held indefinitely unless subsequently registered under the Securities Act or unless an exemption from registration is available. Moreover, Optionee understands that the Company is under no obligation to register the securities. In addition, Optionee understands that the certificate evidencing the securities will be imprinted with a legend that prohibits the transfer of the securities unless they are registered or such registration is not required in the opinion of counsel for the Company.

4. Optionee is familiar with the provisions of Rules 144 and 701, promulgated under the Securities Act, that permit limited public resale of "restricted securities" acquired, directly or indirectly, from the issuer thereof (or from an affiliate of such issuer) in a nonpublic offering, subject to the satisfaction of certain conditions.

Subject to any lock-up agreement, in the event the Company becomes subject to the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the securities exempt under Rule 701 may be resold by the Optionee 90 days thereafter, subject to the satisfaction of certain of the conditions specified

by Rule 144, including: (a) the sale being made through a broker in an unsolicited “broker’s transaction” or in transactions directly with a market maker (as that term is defined under the Exchange Act); and (b) in the case of an affiliate, the availability of certain public information about the Company, and the amount of securities being sold during any three-month period not exceeding the limitations specified in Rule 144(e), if applicable.

If the purchase of the securities does not qualify under Rule 701 at the time of purchase, then the securities may be resold by the Optionee in certain limited circumstances subject to the provisions of Rule 144. For nonaffiliates, resales under Rule 144 will be permitted after the Optionee has held the shares for six months if certain public information about the Company is available, and may be sold freely after the Optionee has held the shares for one year. For affiliates, resales under Rule 144 will be permitted after the Optionee has held the shares for six months if: (a) certain public information about the Company is available; (b) the amount of securities being sold during any three-month period does not exceed specified limitations; and (c) the sale is made through a broker in an unsolicited “broker’s transaction” or in transactions directly with a market maker (as that term is defined under the Exchange Act) and (d) the affiliate makes a required Form 144 filing.

For purposes of determining when shares are acquired by an Optionee, shares obtained by cashless exercise will be deemed to have been acquired when the Optionee was originally granted the option. Otherwise, the Optionee will be deemed to have acquired the shares upon exercise of the option.

5. Optionee further understands that at the time Optionee wishes to sell the securities there may be no public market upon which to make such a sale, and that, even if such a public market then exists, the Company may not be satisfying the current public information requirements of Rules 144 or 701, and that, in such event, Optionee would be precluded from selling the securities under Rules 144 or 701 even if the six month minimum holding period had been satisfied; however, Optionee may be able to sell the securities pursuant to the exemptions contained in Rule 144 if a one-year holding period has been satisfied.

6. Optionee further understands that in the event all of the applicable requirements of Rules 144 or 701 are not satisfied, registration under the Securities Act or some registration exemption will be required; and that, notwithstanding the fact that Rules 144 and 701 are not exclusive, the Staff of the SEC has expressed its opinion that persons proposing to sell private placement securities other than in a registered offering and otherwise than pursuant to Rules 144 or 701 will have a substantial burden of proof in establishing that an exemption from registration is available for such offers or sales, and that such persons and their brokers who participate in such transactions do so at their own risk.

Date

Signature of Optionee:

CERTIFICATION

I, Simon Pedder, certify that:

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

Date: November 1, 2010

By: /s/ Simon Pedder
Simon Pedder
President and Chief Executive Officer

CERTIFICATION

I, J. Nick Riehle, certify that:

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

Date: November 1, 2010

By: /s/ J. Nick Riehle

J. Nick Riehle

Vice President, Administration and Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT
TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Chelsea Therapeutics International, Ltd. (the “Company”) for the period ended September 30, 2010 as filed with the Securities and Exchange Commission on or about the date hereof (the “Report”), I, Simon Pedder, President and Chief Executive Officer, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Report.

/s/ Simon Pedder

Simon Pedder
President and Chief Executive Officer

November 1, 2010

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT
TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Chelsea Therapeutics International, Ltd. (the "Company") for the period ended September 30, 2010 as filed with the Securities and Exchange Commission on or about the date hereof (the "Report"), I, J. Nick Riehle, Vice President, Administration and Chief Financial Officer, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Report.

/s/ J. Nick Riehle

J. Nick Riehle

Vice President, Administration and Chief Financial
Officer

November 1, 2010