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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 June 30, 2007

or

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

For the transition period from to .

Commission file number: 000-50865

MannKind Corporation

(Exact name of registrant as specified in its charter)

Delaware	**13-3607736**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
28903 North Avenue Paine Valencia, California	**91355**
(Address of principal executive offices)	*(Zip Code)*

(661) 775-5300
(*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 o

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

Large accelerated filer o Accelerated filer ☑ Non-accelerated filer o

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

As of August 1, 2007, there were 73,498,148 shares of the registrant's common stock, $.01 par value per share, outstanding.

MANNKIND CORPORATION
Form 10-Q
For the Quarterly Period Ended June 30, 2007
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PART 1: FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
MANNKIND CORPORATION AND SUBSIDIARIES
(A Development Stage Company)
CONSOLIDATED BALANCE SHEETS (Unaudited)
(In thousands except share data)

	June 30, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 216,429	$ 319,555
Marketable securities	67,599	116,924
State research and development credit exchange	3,918	2,418
Prepaid expenses and other current assets	10,664	10,650
Total current assets	298,610	449,547
Property and equipment — net	118,331	88,328
State research and development credit exchange receivable — net of current portion	750	1,500
Other assets	546	362
Total	$ 418,237	$ 539,737
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 5,653	$ 10,715
Accrued expenses and other current liabilities	52,758	34,244
Total current liabilities	58,411	44,959
Senior convertible notes	111,523	111,267
Other liabilities	24	24
Total liabilities	169,958	156,250
Commitments and contingencies		
Stockholders' equity:		
Undesignated preferred stock, $0.01 par value — 10,000,000 shares authorized; no shares issued or outstanding at June 30, 2007 and December 31, 2006	—	—
Common stock, $0.01 par value — 150,000,000 and 90,000,000 shares authorized at June 30, 2007 and December 31, 2006, respectively; 73,485,839 and 73,360,154 shares issued and outstanding at June 30, 2007 and December 31, 2006, respectively	735	734
Additional paid-in capital	1,180,523	1,170,602
Deficit accumulated during the development stage	(932,979)	(787,849)
Total stockholders' equity	248,279	383,487
Total	$ 418,237	$ 539,737

The accompanying notes are an integral part of these consolidated financial statements

MANNKIND CORPORATION AND SUBSIDIARY
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands except per share data)

	Three months ended June 30,		Six months ended June 30,		Cumulative period from February 14, 1991 (date of inception) to June 30,
	2007	2006	2007	2006	2007
Revenue	$ —	$ —	$ 10	$ 100	$ 2,968
Operating expenses:					
Research and development	61,480	45,321	125,268	81,271	615,464
General and administrative	13,913	10,456	27,463	19,594	167,439
In-process research and development costs	—	—	—	—	19,726
Goodwill impairment	—	—	—	—	151,428
Total operating expenses	75,393	55,777	152,731	100,865	954,057
Loss from operations	(75,393)	(55,777)	(152,721)	(100,765)	(951,089)
Other income (expense)	44	59	96	109	(1,588)
Interest expense on note payable to principal stockholder	—	—	—	—	(1,511)
Interest expense on senior convertible notes	(901)	—	(2,046)	—	(2,268)
Interest income	4,261	971	9,541	2,351	23,498
Loss before provision for income taxes	(71,989)	(54,747)	(145,130)	(98,305)	(932,958)
Income taxes	—	(4)	—	(5)	(21)
Net loss	(71,989)	(54,751)	(145,130)	(98,310)	(932,979)
Deemed dividend related to beneficial conversion feature of convertible preferred stock	—	—	—	—	(22,260)
Accretion on redeemable preferred stock	—	—	—	—	(952)
Net loss applicable to common stockholders	$ (71,989)	$ (54,751)	$ (145,130)	$ (98,310)	$ (956,191)
Net loss per share applicable to common stockholders — basic and diluted	$ (0.98)	$ (1.10)	$ (1.98)	$ (1.98)	
Shares used to compute basic and diluted net loss per share applicable to common stockholders	73,421	49,638	73,405	49,712	

The accompanying notes are an integral part of these consolidated financial statements.

MANNKIND CORPORATION AND SUBSIDIARIES
(A Development Stage Company)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Six months ended June 30, 2007	Six months ended June 30, 2006	Cumulative Period from February 14, 1991 (Date of Inception) to June 30, 2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$(145,130)	$(98,310)	$ (932,979)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	4,165	4,115	43,319
Stock-based compensation expense	8,803	7,497	45,988
Stock expense for shares issued pursuant to research agreement	—	—	2,074
Loss on sale and abandonment/disposal of property and equipment	—	(14)	3,446
Accrued interest on investments, net of amortization of premiums	—	197	58
In-process research and development	—	—	19,726
Discount on stockholder notes below market rate	—	—	241
Non-cash compensation expense of officer resulting from stockholder contribution	—	—	70
Accrued interest expense on notes payable to stockholders	—	—	1,538
Non-cash interest expense	—	—	3
Accrued interest on notes receivable	—	—	(747)
Goodwill impairment	—	—	151,428
Loss on available-for-sale securities	—	—	229
Changes in assets and liabilities:			
State research and development credit exchange receivable	(750)	(68)	(4,668)
Prepaid expenses and other current assets	(14)	(3,908)	(10,664)
Other assets	(184)	(3)	(546)
Accounts payable	(5,062)	(962)	5,653
Accrued expenses and other current liabilities	10,722	6,730	44,966
Other liabilities	—	(5)	22
Net cash used in operating activities	(127,450)	(84,731)	(630,843)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of marketable securities	(3,450)	(23,950)	(560,599)
Sales of marketable securities	52,775	89,550	492,715
Purchase of property and equipment	(26,120)	(11,141)	(157,262)
Proceeds from sale of property and equipment	—	32	214
Net cash provided by (used in) investing activities	23,205	54,491	(224,932)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Issuance of common stock and warrants	1,178	1,259	885,086
Collection of Series C convertible preferred stock subscriptions receivable	—	—	50,000
Issuance of Series B convertible preferred stock for cash	—	—	15,000
Cash received for common stock to be issued	—	—	3,900
Repurchase of common stock	—	—	(1,028)
Put shares sold to majority stockholder	—	—	623
Borrowings under lines of credit	—	—	4,220
Proceeds from notes receivables	—	—	1,742
Borrowings on notes payable from principal stockholder	—	—	70,000
Principal payments on notes payable to principal stockholder	—	—	(70,000)
Borrowings on notes payable	—	—	3,460
Principal payments on notes payable	—	—	(1,667)
Proceeds from senior convertible notes	—	—	111,267
Payment of employment taxes related to vested restricted stock units	(59)	—	(399)
Net cash provided by financing activities	1,119	1,259	1,072,204

	Six months ended June 30, 2007	2006	Cumulative Period from February 14, 1991 (Date of Inception) to June 30, 2007
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ (103,126)	$ (28,981)	$ 216,429
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	319,555	56,037	—
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 216,429	$ 27,056	$ 216,429
SUPPLEMENTAL CASH FLOWS DISCLOSURES:			
Cash paid for income taxes	$ —	$ 5	$ 21
Interest paid in cash	2,192	—	3,887
Accretion on redeemable convertible preferred stock	—	—	(952)
Issuance of common stock upon conversion of notes payable	—	—	3,331
Increase in additional paid-in capital resulting from merger	—	—	171,154
Issuance of common stock for notes receivable	—	—	2,758
Issuance of put option by stockholder	—	—	(2,949)
Put option redemption by stockholder	—	—	1,921
Issuance of Series C convertible preferred stock subscriptions	—	—	50,000
Issuance of Series A redeemable convertible preferred stock	—	—	4,296
Conversion of Series A redeemable convertible preferred stock	—	—	(5,248)
Noncash construction in progress	7,792	—	7,792

In connection with the Company’s initial public offering, all shares of Series B and Series C convertible preferred stock, in the amount of $15.0 million and $50.0 million, respectively, automatically converted into common stock in August 2004.

The accompanying notes are an integral part of these consolidated financial statements.

MANNKIND CORPORATION AND SUBSIDIARY
(A Development Stage Company)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Description of business and basis of presentation

The accompanying unaudited consolidated financial statements of MannKind Corporation (the "Company"), have been prepared in accordance with generally accepted accounting principles in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission (the "SEC"). Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles in the United States of America for complete financial statements. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's latest audited annual financial statements. The audited statements for the year ended December 31, 2006 are included in the Company's annual report on Form 10-K for the fiscal year ended December 31, 2006 filed with the SEC on March 16, 2007 (the "Annual Report").

In the opinion of management, all adjustments, consisting only of normal, recurring adjustments considered necessary for a fair presentation of the results of these interim periods have been included. The results of operations for the six months ended June 30, 2007 may not be indicative of the results that may be expected for the full year.

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 disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of expenses during the reporting period. Actual results could differ from those estimates or assumptions. The more significant estimates reflected in these financial statements involve accrued expenses, the valuation of stock-based compensation and the determination of the provision for income taxes and corresponding deferred tax assets and liabilities and any valuation allowance recorded against net deferred tax assets.

Business — MannKind Corporation is a biopharmaceutical company focused on the development and commercialization of therapeutic products for patients with diseases such as diabetes and cancer. The Company's lead investigational product candidate, the Technosphere Insulin System, is currently in Phase 3 clinical trials in the U.S., Europe and Latin America to study its safety and efficacy in the treatment of diabetes. The Technosphere Insulin System consists of the Company's proprietary Technosphere particles onto which insulin molecules are loaded. These loaded particles are then aerosolized and inhaled deep into the lung using the Company's MedTone inhaler.

Basis of Presentation — The Company is considered to be in the development stage as its primary activities since incorporation have been establishing its facilities, recruiting personnel, conducting research and development, business development, business and financial planning, and raising capital. Since its inception through June 30, 2007, the Company has reported accumulated net losses of $933.0 million, which include a goodwill impairment charge of $151.4 million, and negative cash flow from operations of $630.8 million. It is costly to develop therapeutic products and conduct clinical trials for these products. On August 1, 2007, the Company's $150.0 million loan arrangement with its principal stockholder was extended for an additional year. See Note 11 — Related-Party Loan Arrangement. Based upon the Company's current expectations, management believes the Company's existing capital resources will enable it to continue planned operations into the second quarter of 2008. Accordingly, the Company expects that it will need to raise additional capital, either through the sale of equity and/or debt securities, a strategic business collaboration with a pharmaceutical or biotechnology company or the establishment of other funding facilities, in order to continue the development and commercialization of its Technosphere Insulin System and other product candidates and to support its other ongoing activities. On August 9, 2007, the Company filed a shelf registration statement with the SEC providing for the issuance of up to $350 million of equity and/or debt securities from time to time in one or more transactions. However, the Company cannot provide assurances that its plans will not change or that changed circumstances will not result in the depletion of its capital resources more rapidly than it currently anticipates.

Segment Information — In accordance with Statement of Financial Accounting Standards ("SFAS") No. 131, *Disclosures about Segments of an Enterprise and Related Information*, operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision-maker in making decisions regarding resource allocation and assessing performance. To date, the Company has viewed its operations and manages its business as one segment operating entirely in the United States of America.

Recently Issued Accounting Standards — In June 2007, the Financial Accounting Standards Board ("FASB") ratified Emerging Issues Task Force ("EITF") Issue No. 07-3, *Accounting for Advance Payments for Goods or Services to Be Used in Future Research and Development Activities* ("EITF 07-3"). EITF 07-3 requires that nonrefundable advance payments for future research and development activities be deferred and capitalized. EITF 07-3 is effective as of the beginning of an entity's first fiscal year that begins after December 15, 2007. The Company is assessing the impact of EITF 07-3 and has not determined whether it will have a material impact on its results of operations or financial position.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 also includes an amendment to SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* which applies to all entities with available-for-sale and trading securities. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company is assessing the impact of SFAS No. 159 and has not determined whether it will have a material impact on its results of operations or financial position.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. The Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements, and does not require any new fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements. The Statement is effective for the fiscal years beginning after November 15, 2007. The Company is assessing SFAS No. 157 and has not determined the impact the adoption of SFAS No. 157 will have on its results of operations or financial position.

2. Investment in securities

The following is a summary of the available-for-sale securities classified as current assets (in thousands).

	June 30, 2007		December 31, 2006	
	Cost Basis	Fair Value	Cost Basis	Fair Value
Auction rate municipal bonds	$ 67,599	$ 67,599	$116,924	$116,924

The Company's policy is to maintain a highly liquid short-term investment portfolio. The contractual maturities for auction rate municipal bonds at June 30, 2007 are between 21 and 39 years. Despite the long-term nature of their stated contractual maturities, the Company has the ability to quickly liquidate these securities. Proceeds from the sale of available-for-sale securities amounted to approximately $52.8 million and $89.6 million for the six months ended June 30, 2007 and 2006, respectively. Gross realized gains and losses for available-for-sale securities were insignificant. Gross realized gains and losses for available-for-sale securities are recorded as other income (expense). The cost of securities sold is based on the specific identification method. Unrealized gains and losses for available-for-sale securities for all periods presented in the table above were not material.

3. Accrued expenses and other current liabilities

Accrued expenses and other current liabilities are comprised of the following (in thousands):

	June 30, 2007	December 31, 2006
Salary and related expenses	$ 9,598	$ 7,255
Research and clinical trial costs	27,483	18,707
Construction in progress costs	7,792	1,929
Accrued interest	192	228
Other	7,693	6,125
Accrued expenses and other current liabilities	$ 52,758	$ 34,244

4. Accounting for stock-based compensation

As of June 30, 2007, the Company has three active stock-based compensation plans — the 2004 Equity Incentive Plan (the "2004 Plan"), the 2004 Non-Employee Directors' Stock Option Plan (the "NED Plan"), and the 2004 Employee Stock Purchase Plan (the "ESPP"). The 2004 Plan provides for the granting of stock awards including stock options and restricted stock units, to employees, directors and consultants. The NED Plan provides for the automatic, non-discretionary grant of options to the Company's non-employee directors.

Options also remain outstanding at June 30, 2007 under the following inactive plans: the 1991 Stock Option Plan, the 1999 Stock Plan, the CTL ImmunoTherapies Corp. 2000 Stock Option and Stock Plan (the "CTL Plan"), and the Allecure Corp 2000 Stock Option and Stock Plan (the "Allecure Plan"). There are also options outstanding to our principal stockholder at June 30, 2007 that were not granted under any plan; these options were granted during the year ended December 31, 2002, vested over four years, and have an exercise price of $25.23 per share. The following table summarizes information about our stock-based award plans as of June 30, 2007:

	Outstanding Options	Outstanding Restricted Stock Units	Shares Available for Future Issuance
2004 Plan	5,553,292	823,294	2,127,445
2004 NED Plan	447,500		352,500
1991 Stock Option Plan	1,284		
1999 Stock Plan	122,715		
CTL and Allecure Plans	40,305		
Options outside of any plan granted to principal stockholder	240,972		
Total	6,406,068	823,294	2,479,945

The Company's board of directors determines eligibility, vesting schedules and exercise prices (generally based upon fair market value on grant date) for stock awards granted under the 2004 Plan. Options and other stock awards under the 2004 Plan and the NED Plan expire not more than ten years from the date of the grant and are exercisable upon vesting. Stock options generally vest over four years. Current stock option grants vest and become exercisable at the rate of 25% after one year and ratably on a monthly basis over a period of 36 months thereafter. Restricted stock units generally vest over four years with consideration satisfied by service to the Company. Certain performance-based awards vest upon achieving three pre-determined performance milestones which are expected to occur over a period of 42 months. The 2004 Plan provides for full acceleration of vesting if an employee is terminated within thirteen months of a change in control, as defined.

In March 2004, the Company's board of directors approved the ESPP, which became effective upon the closing of the Company's initial public offering. During the six months ended June 30, 2007 and 2006, the Company sold 56,563 shares and 50,894 shares, respectively, of its common stock to employees participating in the plan.

Upon adoption of SFAS No. 123R, *Share-based Payment: an Amendment of FASB Statement 123 and 95* ("SFAS No. 123R"), the Company selected the modified prospective transition method whereby unvested awards at the date of adoption as well as awards that are granted, modified, or settled after the date of adoption will be measured and accounted for in accordance with SFAS No. 123R. Measurement and attribution of compensation cost for awards unvested as of January 1, 2006 is based on the same estimate of the grant-date or modification-date fair value and the same attribution method (straight-line) used previously under SFAS No. 123. The Company continues to account for non-employee stock-based compensation expense based on the estimated fair value of the options, determined using the Black-Scholes option valuation model, in accordance with EITF No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services*, and amortizes such expense on a straight-line basis. As of June 30, 2007, there were 382,834 options outstanding to all consultants.

Total stock-based compensation expense recognized in the accompanying statements of operations is as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Employee-related	$ 4,270	$ 3,692	$ 7,982	$ 7,263
Consultant-related	(16)	94	821	234
Total	$ 4,254	$ 3,786	$ 8,803	$ 7,497

Total stock-based compensation expense recognized in the accompanying statements of operations is included in the following categories (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Research and development	$ 2,284	$ 1,615	$ 4,482	$ 3,254
General and administrative	1,970	2,171	4,321	4,243
Total	$ 4,254	$ 3,786	$ 8,803	$ 7,497

The Company uses the Black-Scholes option valuation model to estimate the grant date fair value of employee stock options. Upon adoption of SFAS No. 123R, the expected life of the option is estimated using the "simplified" method as provided in SEC Staff Accounting Bulletin No. 107 (SAB No. 107). Under this method, the expected life equals the arithmetic average of the vesting term and the original contractual term of the options. The Company also estimates volatility as provided in SAB 107. Under this method, volatility is estimated based on the historical volatility of similar entities whose share prices are publicly available. The Company has selected risk-free interest rates based on U.S. Treasury securities with an equivalent expected term in effect on the date the options were granted. Additionally, the Company uses historical data and management judgment to estimate stock option exercise behavior and employee turnover rates to estimate the number of stock option awards that will eventually vest. The following table summarizes the assumptions the Company used to estimate the fair value of each stock option at the grant date or modification date, if any, using the Black-Scholes option valuation model:

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Risk-free interest rate	4.8%	5.0%	4.7%-4.8%	4.6%-5.0%
Volatility factor	55%	63%	55-57%	63%
Weighted average expected life	6 years	6 years	6 years	6 years
Dividend yield	—	—	—	—

The following table summarizes information about stock options outstanding:

	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (Yrs.)	Aggregate Intrinsic Value ($000)
Outstanding at January 1, 2007	6,216,698	$ 13.94		
Granted	125,320	17.19		
Exercised	(42,801)	10.04		$ 273
Forfeited	(35,861)	14.53		
Expired	(18,830)	15.90		
Outstanding at March 31, 2007	6,244,526	14.02	7.2	$ 1,744
Granted	260,560	12.31		
Exercised	(17,987)	7.94		$ 109
Forfeited	(57,801)	14.22		
Expired	(23,230)	9.09		
Outstanding at June 30, 2007	6,406,068	13.98	6.9	$ 5,854
Vested or expected to vest at June 30, 2007	5,899,989	13.90	6.9	$ 5,392
Exercisable at June 30, 2007	3,028,978	12.83	5.3	$ 4,948

The weighted-average grant date fair value per share of options granted during the three months ended June 30, 2007 and 2006 was $7.09 and $10.65, respectively. The weighted-average grant date fair value per share of options granted during the six months ended June 30, 2007 and 2006 was $8.06 and $10.44, respectively. The aggregate intrinsic value of options exercised during the three months ended June 30, 2007 and 2006 was $0.1 million and $0.2 million. The aggregate intrinsic value of options exercised during the six months ended June 30, 2007 and 2006 was $0.4 million and $0.7 million. Cash received from the exercise of options during the three months ended June 30, 2007 and 2006 was approximately $0.1 million and $0.2 million, respectively. Cash received from the exercise of options during the six months ended June 30, 2007 and 2006 was approximately $0.5 million and $0.8 million, respectively. The total fair value of options vested during the three months ended June 30, 2007 and 2006 was $1.7 million and $2.3 million. The total fair value of options vested during the six months ended June 30, 2007 and 2006 was $3.3 million and $4.2 million.

A summary of restricted stock units activity for the six months ended June 30, 2007 is presented below:

	Number of Shares	Weighted Average Grant Date Fair Value per Share
Outstanding at January 1, 2007	776,653	
Granted	39,260	$ 17.19
Vested	(7,258)	
Forfeited	(9,361)	
Outstanding at March 31, 2007	799,294	
Granted	43,480	$ 12.31
Vested	(5,123)	
Forfeited	(14,357)	
Outstanding at June 30, 2007	823,294	

The total fair value of restricted stock units vested during the three and six months ended June 30, 2007 was $0.1 million and $0.2 million, respectively. No restricted stock units vested during the three or six months ended June 30, 2006. The weighted-average remaining contractual term for restricted stock units outstanding at June 30, 2007 was 8.9 years. As of June 30, 2007, there were 11,975 restricted stock units outstanding to one consultant.

A summary of the status of the Company's nonvested shares, excluding restricted stock units, for the six months ended June 30, 2007, is presented below:

	Number of Shares	Weighted Average Grant Date Fair Value per Share
Nonvested at January 1, 2007	3,462,549	$ 12.96
Granted	125,320	10.08
Vested	(181,121)	9.07
Forfeited	(35,861)	9.52
Nonvested at March 31, 2007	3,370,887	9.73
Granted	260,560	7.09
Vested	(196,556)	8.91
Forfeited	(57,801)	9.23
Nonvested at June 30, 2007	3,377,090	9.99

As of June 30, 2007, there was $25.8 million and $10.4 million of unrecognized compensation cost related to options and restricted stock units, respectively, which is expected to be recognized over the weighted average vesting period of 2.6 years.

5. Net loss per common share

Basic net loss per share excludes dilution for potentially dilutive securities and is computed by dividing loss applicable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted net loss per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Potentially dilutive securities are excluded from the computation of diluted net loss per share for all of the periods presented in the accompanying statements of operations because the reported net loss in each of these periods results in their inclusion being antidilutive. Antidilutive securities, which consist of stock options, restricted stock units, warrants, and shares that could be issued upon conversion of the senior convertible notes, that are not included in the diluted net loss per share calculation consisted of an aggregate of 15,242,217 shares and 5,750,067 shares as of June 30, 2007 and 2006, respectively.

6. State research and development credit exchange receivable

The State of Connecticut provides certain companies with the opportunity to exchange certain research and development income tax credit carryforwards for cash in exchange for forgoing the carryforward of the research and development income tax credits. The program provides for an exchange of research and development income tax credits for cash equal to 65% of the value of corporation tax credit available for exchange. Estimated amounts receivable under the program are recorded as a reduction of research and development expenses. At June 30, 2007, the estimated amount receivable under the program was $4.7 million.

7. Property and equipment

Property and equipment consist of the following (dollar amounts in thousands):

	Estimated Useful Life (Years)	June 30, 2007	December 31, 2006
Land	—	$ 5,273	$ 5,273
Buildings	39-40	9,566	9,566
Building improvements	5-40	50,524	44,041
Machinery and equipment	3-10	28,510	26,623
Furniture, fixtures and office equipment	5-10	3,607	2,923
Computer equipment and software	3	6,637	5,878
Leasehold improvements		135	103
Construction in progress		42,737	20,164
Deposits on equipment		7,962	6,903
		154,951	121,474
Less accumulated depreciation and amortization		(36,620)	(33,146)
Property and equipment — net		$ 118,331	$ 88,328

Leasehold improvements are amortized over the shorter of the term of the lease or the service lives of the improvements. Depreciation and amortization expense for the six months ended June 30, 2007 and 2006, and the cumulative period from February 14, 1991 (date of inception) to June 30, 2007 was $3.9 million, $4.1 million and $43.0 million, respectively. Capitalized interest during the three and six months ended June 30, 2007 was $0.3 million and $0.4 million, respectively.

8. Common and preferred stock

In May 2007, the Company's stockholders approved an increase in our authorized shares of common stock from 90,000,000 to 150,000,000. As such, the Company is authorized to issue 150,000,000 shares of common stock, par value $0.01 per share, and 10,000,000 shares of undesignated preferred stock, par value $0.01 per share, issuable in one or more series designated by the Company's board of directors. No other class of capital stock is authorized. As of June 30, 2007 and December 31, 2006, 73,485,839 and 73,360,154 shares of common stock, respectively, were issued and outstanding. No shares of preferred stock were issued and outstanding at June 30, 2007 and December 31, 2006.

Registration rights — As of June 30, 2007, the holders of 17,132,000 shares of common stock together with warrants to purchase up to 2,882,873 shares of common stock, all of which were issued in the August 2005 private placement, have rights that require the Company to keep the registration of the shares of common stock purchased in the private placement or underlying warrants continuously effective until at least August 2007.

As of June 30, 2007 the holders of 916,715 shares of the Company's common stock and the holders of warrants to purchase 12,459 shares of the Company's common stock have rights, subject to some conditions, to require the Company to file registration statements covering their shares or to include their shares in registration statements that the Company may file for itself or other stockholders.

9. Warrants

In connection with the sale of common stock in the private placement which closed in August 2005, the Company concurrently issued warrants to purchase up to 3,426,000 shares of common stock at an exercise price of $12.228 per share. These warrants became exercisable in February 2006 and expire in August 2010. During the six months ended June 30, 2007, no warrants were exercised. During the year ended December 31, 2006, warrants to purchase 543,000 shares were exercised and net settled for approximately 339,000 shares. As of June 30, 2007, warrants to purchase approximately 2,883,000 shares of common stock remained outstanding.

During 1995 and 1996, the Company issued warrants to purchase shares of common stock. As of June 30, 2007, the remaining warrants to purchase 12,459 shares of common stock at a weighted average exercise price of $12.64 per share were outstanding and exercisable, and expire in December 2007. The warrants contain provisions for the adjustment of the exercise price and the number of shares issuable upon the exercise of the warrant in the event the Company declares any stock dividends or effects any stock split, reclassification or consolidation of its common stock. The warrants also contain a provision that provides for an adjustment to the exercise price and the number of shares issuable in the event that the Company issues securities for a per share price less than a specified price.

10. Commitments and contingencies

Guarantees and Indemnifications — In the ordinary course of its business, the Company makes certain indemnities, commitments and guarantees under which it may be required to make payments in relation to certain transactions. The Company, as permitted under Delaware law and in accordance with its Bylaws, indemnifies its officers and directors for certain events or occurrences, subject to certain limits, while the officer or director is or was serving at the Company's request in such capacity. The term of the indemnification period is for the officer's or director's lifetime. The maximum amount of potential future indemnification is unlimited; however, the Company has a director and officer insurance policy that may enable it to recover a portion of any future amounts paid. The Company believes the fair value of these indemnification agreements is minimal. The Company has not recorded any liability for these indemnities in the accompanying consolidated balance sheets. However, the Company accrues for losses for any known contingent liability, including those that may arise from indemnification provisions, when future payment is probable. No such losses have been recorded to date.

Litigation — The Company is involved in various legal proceedings and other matters. In accordance with SFAS No. 5, *Accounting for Contingencies*, the Company would record a provision for a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated.

In May 2005, the Company's former Chief Medical Officer filed a complaint against the Company in the California Superior Court, County of Los Angeles, alleging causes of action for wrongful termination in violation of public policy, breach of contract and retaliation. A trial on the claims remaining after pre-trial proceedings began on April 30, 2007 and concluded on June 5, 2007. On June 15, 2007, the Company announced the dismissal of the complaint. In connection with the resolution of the litigation, the Company also agreed to dismiss the complaint for declaratory relief that it filed in April 2007 against the former officer in a Maryland Circuit Court.

Licensing Arrangement — On October 12, 2006, the Company entered into an agreement with The Technion Research and Development Foundation Ltd. ("TRDF"), an Israeli corporation affiliated with the Technion-Israel Institute of Technology (the "Technion") to license certain technology from TRDF and to collaborate with TRDF in the further research in and the development and commercialization of such technology. In exchange for the rights that the Company obtained under this agreement, the Company agreed to pay to TRDF aggregate license fees of $3.0 million and to issue to TRDF a total of 300,000 shares of the Company's common stock. The license fees will be paid and the shares issued in three equal installments, the first of which occurred on October 18, 2006 and the second and third installments to occur, subject to the accomplishment of certain milestones, on October 12, 2007 and October 12, 2008. The Company has also agreed to pay royalties to TRDF with respect to sales of certain products that contain or use the licensed technology or are covered by patents included in the licensed technology or are discovered through the use of the licensed technology. The Company agreed to pay up to $6.0 million of the royalties in advance upon the receipt of specified regulatory approvals. The Company agreed to pay to TRDF specified percentages of any lump-sum sub-license payments that the Company receives if it decides to sub-license the technology. The Company has also agreed to pay a total of $2.0 million to TRDF in three nearly equal installments to fund sponsored research to be conducted at TRDF by a team led by a faculty member at the Technion. The initial sponsored research payment was made upon signing of the agreement, and the second and third sponsored research payments will occur, subject to the accomplishment of certain milestones, on October 12, 2007 and October 12, 2008. The Company also agreed to retain the services of the Technion faculty member as a consultant, for which the Company agrees to pay the consultant $60,000 per year and granted the individual an option to purchase 60,000 shares of the Company's common stock. Under the terms of the agreement, the Company issued 100,000 shares of common stock to TRDF on October 12, 2006 and paid $1.6 million in license fees on October 18, 2006.

11. Related-Party Loan Arrangement

On August 2, 2006 the Company entered into a $150.0 million loan arrangement with its principal stockholder. This loan arrangement was amended on October 30, 2006. Under the amended arrangement, the Company could borrow in one or more advances at any time through August 2, 2007 that the Company's cash balance fell below its projected cash requirements for the subsequent three month period, provided that each advance was no less than $10.0 million. Interest accrued on each outstanding advance at a fixed rate equal to the one year LIBOR rate in effect on the day of such advance plus 3% per annum and was payable quarterly in arrears. Principal repayment was due and payable one year from the date of each advance. The Company borrowed $50.0 million under the loan arrangement on August 2, 2006 and $20.0 million on November 27, 2006. On December 12, 2006, the Company paid off the total borrowings of $70.0 million following the completion of concurrent offerings of convertible notes and common stock. There were no borrowings under this arrangement during the six months ending June 30, 2007 and no balance outstanding or accrued interest related to this borrowing as of June 30, 2007. On August 1, 2007, the loan arrangement was modified to extend it for an additional year.

The loan is unsecured and contains no financial covenants. There are no warrants associated with the loan nor is the loan convertible into the Company's stock. Upon the closing of certain financing events, including equity and debt financings or strategic transactions with third parties, in which the Company receives cash proceeds of at least $300.0 million, the Company is required to repay all or a portion of the principal and accrued and unpaid interest under the note equal to the difference between the Company's cash balance immediately following the financing event and its projected cash requirements for the six month period following the financing event. Any principal repaid can be re-borrowed by the Company unless it is repaid as a result of a financing event. In the event of a default, all unpaid principal and interest either becomes immediately due and payable or may be accelerated at the option of the lender, and the interest rate increases to one year LIBOR calculated on the date of the initial advance or in effect on the date of default, whichever is greater, plus 5% per annum.

12. Senior convertible notes

On December 12, 2006, the Company completed an offering of $115.0 million aggregate principal amount of 3.75% Senior Convertible Notes due 2013 (the "Notes"), including $15.0 million aggregate principal amount of the Notes sold pursuant to the underwriters' over-allotment option that was exercised in full. The Notes are governed by the terms of an indenture dated as of November 1, 2006 and a First Supplemental Indenture, dated as of December 12, 2006. The Notes bear interest at the rate of 3.75% per year on the principal amount of the Notes, payable in cash semi-annually in arrears on June 15 and December 15 of each year, beginning June 15, 2007. In June 2007, the Company paid $2.2 million in related interest. As of June 30, 2007 and December 31, 2006, the Company had accrued interest of $0.2 million related to the Notes. The Notes are general, unsecured, senior obligations of the Company and effectively rank junior in right of payment to all of the Company's secured debt, to the extent of the value of the assets securing such debt, and to the debt and all other liabilities of the Company's subsidiaries. The maturity date of the Notes is December 15, 2013 and payment is due in full on that date for unconverted securities. Holders may convert, at any time prior to the close of business on the business day immediately preceding the stated maturity date, any outstanding Notes into shares of the Company's common stock at an initial conversion rate of 44.5002 shares per $1,000 principal amount of Notes, which is equal to a conversion price of approximately $22.47 per share, subject to adjustment. Except in certain circumstances, if the Company undergoes a fundamental change: (1) the Company will pay a make-whole premium on the Notes converted in connection with a fundamental change by increasing the conversion rate on such Notes, which amount, if any, will be based on the Company's common stock price and the effective date of the fundamental change, and (2) each holder of the Notes will have the option to require the Company to repurchase all or any portion of such holder's Notes at a repurchase price of 100% of the principal amount of the Notes to be repurchased plus accrued and unpaid interest, if any.

The Company incurred approximately $3.7 million in issuance costs which are recorded as an offset to the Notes in the accompanying balance sheet. These costs and are being amortized to interest expense using the effective interest method over the term of the Notes. Amortized interest expense during the six months ended June 30, 2007 was $0.3 million

13. Income taxes

As discussed in Note 16 to the consolidated financial statements on Form 10-K for the fiscal year ended December 31, 2006, Management has concluded, in accordance with applicable accounting standards, that it is more likely than not that the Company may not realize the benefit of its deferred tax assets. Accordingly, net deferred tax assets have been fully reserved.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109* ("FIN 48"), which clarifies the accounting and disclosure for uncertainty in tax positions, as defined. FIN 48 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. The Company is subject to the provisions of FIN 48 as of January 1, 2007. The Company believes that its income tax filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material change to its financial position. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to FIN 48. The cumulative effect, if any, of applying FIN 48 is to be reported as an adjustment to the opening balance of retained earnings in the year of adoption. The Company did not record a cumulative effect adjustment related to the adoption of FIN 48. Tax years since 1992 remain subject to examination by the major tax jurisdictions in which the Company is subject to tax.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion contains forward-looking statements, which involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth below in Part II, Item 1A Risk Factors and elsewhere in this quarterly report on Form 10-Q (this "Quarterly Report"). The interim financial statements and this Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the financial statements and notes for the year ended December 31, 2006 and the related Management's Discussion and Analysis of Financial Condition and Results of Operations, both of which are contained in the Annual Report. Readers are cautioned not to place undue reliance on forward-looking statements. The forward-looking statements speak only as of the date on which they are made, and we undertake no obligation to update such statements to reflect events that occur or circumstances that exist after the date on which they are made.

OVERVIEW

MannKind Corporation is a biopharmaceutical company focused on the discovery, development and commercialization of therapeutic products for patients with diseases such as diabetes and cancer. Our lead investigational product candidate, the Technosphere Insulin System, is currently in Phase 3 clinical trials in the United States, Europe and Latin America to study its safety and efficacy in the treatment of diabetes. This dry powder therapy consists of our proprietary Technosphere particles onto which insulin molecules are loaded. These loaded particles are then aerosolized and inhaled into the deep lung using our proprietary MedTone inhaler. We believe that the performance characteristics, unique kinetics, convenience and ease of use of the Technosphere Insulin System may have the potential to change the way diabetes is treated.

In particular, we have observed in our clinical trials to date that the Technosphere Insulin System produces a profile of insulin levels in the bloodstream that approximates the insulin profile normally seen in healthy individuals immediately following the beginning of a meal, but which is absent in patients with diabetes. Specifically, Technosphere Insulin is rapidly absorbed into the bloodstream following inhalation, reaching peak levels within 12 to 14 minutes. As a result of this rapid onset of action, most of the glucose-lowering activity of Technosphere Insulin occurs within the first three hours of administration — which is generally the time in which glucose becomes available from a meal — instead of the much longer duration of action observed when insulin is injected subcutaneously. We believe that the relatively short duration of action of Technosphere Insulin reduces the need for patients to snack between meals in order to manage ongoing blood glucose excursions. In our clinical trials, we have observed that patients using Technosphere Insulin have achieved significant reductions in post-meal glucose excursions and significant improvements in overall glucose control, as measured by decreases in glycosylated hemoglobin, or HbA1c, levels, without the weight gain typically associated with insulin therapy.

In our clinical trials to date, we have observed no difference in pulmonary function between patients treated with Technosphere Insulin and patients treated with standard diabetes care. However, the longest study that we have completed so far is a six-month trial. In September 2006, we completed patient enrollment in a pivotal, two-year, Phase 3, safety study of the Technosphere Insulin System that compares the pulmonary function of diabetes patients randomized to either Technosphere Insulin or standard diabetes care. We have completed patient enrollment in three other major Phase 3 clinical trials, two of which are pivotal efficacy trials. Based on our discussions with the Food and Drug Administration, or FDA, we plan to accumulate two years of controlled safety data before we file a new drug application for the Technosphere Insulin System. We anticipate that our entire clinical trial program, including several special population studies, will involve more than 4,500 patients. Larger populations and longer durations of exposure may be necessary depending on the safety profile of our product.

Our Technosphere Insulin System utilizes our proprietary Technosphere formulation technology, which is based on a class of organic molecules that are designed to self-assemble into small particles onto which drug molecules can be loaded. We are also developing additional Technosphere-based products for the delivery of other drugs. In May 2007, we initiated a clinical trial in healthy individuals for a second Technosphere product, MKC—253. This trial is being conducted in Europe. MKC—253 is a Technosphere formulation of glucagon-like peptide 1, or GLP—1, that we are evaluating for safety, tolerability, and pharmacokinetics. GLP—1 is a hormone secreted in the small intestine and colon in response to food intake. GLP—1 in healthy individuals is known to stimulate insulin secretion and slow gastric emptying. Patients with type 2 diabetes often exhibit a lower level of GLP—1 secretion. In addition to these products, we are developing therapies for the treatment of solid tumor cancers. We initiated a Phase 1 clinical trial of a therapeutic cancer vaccine in January 2007.

We are a development stage enterprise and have incurred significant losses since our inception in 1991. As of June 30, 2007, we have reported accumulated net losses of $933.0 million. To date, we have not generated any product revenues and have funded our operations primarily through the sale of equity securities.

We do not anticipate sales of any product prior to regulatory approval and commercialization of our Technosphere Insulin System. We currently do not have the required approvals to market any of our product candidates, and we may not receive any approvals. We may not be profitable even if we succeed in commercializing any of our product candidates. We expect to make substantial and increasing expenditures and to incur additional operating losses for at least the next several years as we:

- continue the clinical development and commercialization of our Technosphere Insulin System for the treatment of diabetes;
- expand our manufacturing operations for our Technosphere Insulin System to meet our currently anticipated commercial production needs;
- expand our other research, discovery and development programs;
- expand our proprietary Technosphere platform technology and develop additional applications for the pulmonary delivery of other drugs; and
- enter into sales and marketing collaborations with other companies, if available on commercially reasonable terms, or develop these capabilities ourselves.

Our business is subject to significant risks, including but not limited to the risks inherent in our ongoing clinical trials and the regulatory approval process, the results of our research and development efforts, competition from other products and technologies and uncertainties associated with obtaining and enforcing patent rights.

RESEARCH AND DEVELOPMENT EXPENSES

Our research and development expenses consist mainly of costs associated with the clinical trials of our product candidates which have not yet received regulatory approval for marketing and for which no alternative future use has been identified. This includes the salaries, benefits and stock-based compensation of research and development personnel, laboratory supplies and materials, facility costs, costs for consultants and related contract research, licensing fees, and depreciation of laboratory equipment. We track research and development costs by the type of cost incurred. We partially offset research and development expenses with the recognition of estimated amounts receivable from the State of Connecticut pursuant to a program under which we can exchange qualified research and development income tax credits for cash.

Our research and development staff conducts our internal research and development activities, which include research, product development, clinical development, manufacturing and related activities. This staff is located in our facilities in Valencia, California; Paramus, New Jersey; and Danbury, Connecticut. We expense the majority of research and development costs as we incur them.

Clinical development timelines, likelihood of success and total costs vary widely. We are focused primarily on advancing the Technosphere Insulin System through Phase 3 clinical trials and regulatory filings. We plan to commercialize our lead product as a treatment for diabetes. Based on the results of preclinical studies, we plan to develop additional applications of our Technosphere technology. Additionally, we anticipate that we will continue to determine which research and development projects to pursue, and how much funding to direct to each project, on an ongoing basis, in response to the scientific and clinical success of each product candidate. We cannot be certain when any revenues from the commercialization of our products will commence.

At this time, due to the risks inherent in the clinical trial process and given the early stage of development of our product candidates other than the Technosphere Insulin System, we are unable to estimate with any certainty the costs we will incur in the continued development of our product candidates for commercialization. The costs required to complete the development of our Technosphere Insulin System will be largely dependent on the scope of our clinical trials, the cost and efficiency of our manufacturing process and discussions with the FDA on its requirements. We anticipate that our research and development expenses, particularly for the Technosphere Insulin System, will increase significantly with the continuation of existing clinical trials, the initiation of new trials, the resulting manufacturing costs associated with producing clinical trial materials, and the expansion, qualification and validation of our commercial manufacturing processes and facilities. Additionally, we expect non-cash stock-based compensation expense resulting from the adoption of Statement of Financial Accounting Standards (“SFAS”) No. 123R, *Share-based Payment: an Amendment of*

FASB Statement 123 and 95 ("SFAS No. 123R"), effective as of January 1, 2006, to increase in the future. See Note 4 — Accounting for Stock-Based Compensation in the notes to our financial statements.

GENERAL AND ADMINISTRATIVE EXPENSES

Our general and administrative expenses consist primarily of salaries, benefits and stock-based compensation for administrative, finance, business development, human resources, legal and information systems support personnel. In addition, general and administrative expenses include business insurance and professional services costs.

We expect general and administrative expenses other than non-cash stock-based compensation expense to increase in the future as a result of increased headcount, public company compliance and establishment of investor relations and marketing programs. We expect overall general and administrative expenses to increase as a result of the adoption of SFAS No. 123R. See Note 4 — Accounting for Stock-Based Compensation in the notes to our financial statements.

CRITICAL ACCOUNTING POLICIES

We must make significant management judgments when determining our provision for income taxes, our deferred tax assets and liabilities and any valuation allowance recorded against our net deferred tax assets. Due to our history of operating losses we have established a valuation allowance against all of our net deferred tax asset balances.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109* ("FIN 48"), which clarifies the accounting and disclosure for uncertainty in tax positions, as defined. FIN 48 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. We are subject to the provisions of FIN 48 as of January 1, 2007. We believe that our income tax filing positions and deductions will be sustained on audit and do not anticipate any adjustments that will result in a material change to our financial position. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to FIN 48. The cumulative effect, if any, of applying FIN 48 is to be reported as an adjustment to the opening balance of retained earnings in the year of adoption. Our adoption of FIN 48 did not result in a cumulative effect adjustment to retained earnings. Tax years since 1992 remain subject to examination by the major tax jurisdictions in which the Company is subject to tax.

There have been no material changes to our critical accounting policies as described in Item 7 of the Annual Report.

RESULTS OF OPERATIONS

Three and six months ended June 30, 2007 and 2006

Revenues

During the six months ended June 30, 2007 and 2006, we recognized $10,000 and $100,000 in revenue, respectively, under a license agreement. We did not recognize any revenue in the three months ended June 30, 2007 or 2006. We do not anticipate sales of any product prior to regulatory approval and commercialization of our Technosphere Insulin System.

Research and Development Expenses

The following table provides a comparison of the research and development expense categories for the three and six months ended June 30, 2007 and 2006 (dollars in thousands):

	Three months ended June 30,			
	2007	2006	$ Change	% Change
Clinical	$ 32,027	$ 28,092	$ 3,935	14%
Manufacturing	18,448	8,906	9,542	107%
Research	8,721	6,708	2,013	30%
Stock-based compensation expense	2,284	1,615	669	41%
Research and development expenses	$ 61,480	$ 45,321	$ 16,159	36%

	Six months ended June 30,			
	2007	2006	$ Change	% Change
Clinical	$ 64,028	$ 46,762	$ 17,266	37%
Manufacturing	40,062	18,129	21,933	121%
Research	16,696	13,126	3,570	27%
Stock-based compensation expense	4,482	3,254	1,228	38%
Research and development expenses	$ 125,268	$ 81,271	$ 43,997	54%

The increase in research and development expenses for the three and six months ended June 30, 2007, as compared to the same periods in the prior year was primarily due to increased costs associated with the expanded clinical development of our Technosphere Insulin System and the continuation of other preclinical studies, increased manufacturing costs, increased salaries and related expenses driven by higher headcount, increased costs related to consulting services and technology agreements, and increased stock-based compensation expense. We anticipate that our research and development expenses associated with Technosphere Insulin System, expansion of our Technosphere platform technology and the pursuit of cancer therapies will increase significantly in 2007. Specifically, we anticipate increased expenses related to the continuation of existing and initiation of new clinical trials, and the resulting manufacturing costs associated with producing clinical trial materials.

General and Administrative Expenses

The following table provides a comparison of the general and administrative expense categories for the three and six months ended June 30, 2007 and 2006 (dollars in thousands):

	Three months ended June 30,			
	2007	2006	$ Change	% Change
Salaries, employee related and other general expenses	$ 11,943	$ 8,285	$ 3,658	44%
Stock-based compensation expense	1,970	2,171	(201)	(9)%
General and administrative expenses	$ 13,913	$ 10,456	$ 3,457	33%

	Six months ended June 30,			
	2007	2006	$ Change	% Change
Salaries, employee related and other general expenses	$ 23,142	$ 15,351	$ 7,791	51%
Stock-based compensation expense	4,321	4,243	78	2%
General and administrative expenses	$ 27,463	$ 19,594	$ 7,869	40%

General and administrative expenses for the three and six months ended June 30, 2007 increased as compared to the same periods in the prior year due to increased professional fees and increased salaries, employee related and other general expenses resulting from increased headcount and administrative services. We expect general and administrative expenses, other than non-cash stock-based compensation expense, to increase in the future.

Interest Income and Expense

Interest income for the three and six months ended June 30, 2007 increased $3.3 million and $7.2 million as compared to the same periods in the prior year primarily due to higher cash balances as a result of the sale by the Company of common stock and convertible notes in December 2006. Interest expense for the three and six months ended June 30, 2007 was related to the convertible notes issued in December 2006.

LIQUIDITY AND CAPITAL RESOURCES

We have funded our operations primarily through the sale of equity securities. In December 2006, we issued and sold 23,000,000 shares of our common stock at a price of $17.42 per share in an underwritten public offering. The resulting aggregate net proceeds to us from this common stock offering were approximately $384.7 million after expenses. In December 2006, we also sold $115.0 million aggregate principal amount

of 3.75% Senior Convertible Notes due 2013. The resulting aggregate net proceeds to us from this note offering was approximately $111.3 million after expenses.

In August 2006, we entered into a $150.0 million loan arrangement with our principal stockholder, which was amended on October 30, 2006. Under this arrangement, we can borrow funds in one or more advances at any time through August 2, 2007 should our cash balance fall below its projected cash requirements for the subsequent three months, provided that each advance be no less than $10.0 million and provided that at no time shall the total principal amount borrowed exceed $150.0 million. Principal repayment is due and payable one year from the date of each advance. As of June 30, 2007, there are no amounts borrowed and outstanding under this loan arrangement with our principal stockholder. On August 1, 2007, the loan arrangement was modified to extend it for an additional year, with provisions for repayment upon a financing resulting in $300.0 million in proceeds to the Company.

During the six months ended June 30, 2007, we used $127.5 million of cash for our operations compared to using $84.7 million for our operations in the six months ended June 30, 2006. We had a net loss of $145.1 million for the six months ended June 30, 2007, of which $13.0 million consisted of non-cash charges such as depreciation and amortization, and stock-based compensation. We expect our negative operating cash flow to continue at least until we obtain regulatory approval and achieve commercialization of our Technosphere Insulin System.

We generated $23.2 million of cash from investing activities during the six months ended June 30, 2007, compared to generating $54.5 million for the six months ended June 30, 2006. Cash generated in investing activities for the six months ended June 30, 2007 was primarily from net sales of marketable securities of $49.3 million. In addition, $26.1 million was used to purchase machinery and equipment to expand our manufacturing operations and quality systems in support of our expansion of clinical trials for Technosphere Insulin System. We expect to make significant purchases of equipment in the foreseeable future.

Our financing activities provided cash of $1.1 million for the six months ended June 30, 2007 compared to $1.3 million for the same period in 2006. Cash from financing activities in the first six months of 2007 and 2006, respectively, was primarily from the exercise of stock options.

As of June 30, 2007, we had $284.0 million in cash, cash equivalents and marketable securities. Although we believe our existing capital resources, which includes the renewed $150.0 million loan arrangement with our principal stockholder, will be sufficient to fund our anticipated cash requirements into the second quarter of 2008, we will require significant additional financing in the future to fund our operations. Accordingly, we expect that we will need to raise additional capital, either through the sale of equity and/or debt securities, a strategic business collaboration with a pharmaceutical or biotechnology company or the establishment of other funding facilities, in order to continue the development and commercialization of our Technosphere Insulin System and other product candidates and to support our other ongoing activities.

We intend to use our capital resources to continue the development of our Technosphere Insulin System and to develop additional applications for our proprietary Technosphere platform technology. In addition, portions of our capital resources will be devoted to expanding our other product development programs for the treatment of solid-tumor cancers. We anticipate that we will expend a portion of our capital to scale up our manufacturing capabilities in our Danbury facilities. We also intend to use our capital resources for general corporate purposes, which may include in-licensing or acquiring additional technologies.

We have held extensive discussions with a number of pharmaceutical companies concerning a potential strategic business collaboration for our Technosphere Insulin System. To date, we have not reached agreement with any of these companies on a collaboration. While we are continuing to engage in such discussions, we believe that we will have to expend significant additional time and effort before we could reach agreement, and we cannot predict when, if ever, we could conclude such an agreement with a partner. There can be no assurance that any such collaboration will be available to us on a timely basis or on acceptable terms, if at all.

If we enter into a strategic business collaboration with a pharmaceutical or biotechnology company, we would expect, as part of the transaction, to receive additional capital and reimbursements for a portion of the costs associated with the development, manufacture and commercialization of our Technosphere Insulin System. In addition, we expect to pursue the sale of equity and/or debt securities, or the establishment of other funding facilities. On August 9, 2007, we filed a shelf registration statement with the SEC providing for the issuance of up to $350 million of equity and/or debt securities from time to time in one or more transactions. The shelf registration is intended to provide us with the flexibility to take advantage of financing opportunities when and if deemed appropriate by our management. Issuances of debt or additional equity could impact the rights of our existing stockholders, dilute the ownership percentages of our existing stockholders and may impose restrictions on our operations. These restrictions could include limitations on additional borrowing, specific restrictions on the use of our assets as well as prohibitions on our ability to create liens, pay dividends,

redeem our stock or make investments. We also may seek to raise additional capital by pursuing opportunities for the licensing, sale or divestiture of certain intellectual property and other assets, including our Technosphere technology platform. There can be no assurance, however, that any strategic collaboration, sale of securities or sale or license of assets will be available to us on a timely basis or on acceptable terms, if at all. If we are unable to raise additional capital, we may be required to enter into agreements with third parties to develop or commercialize products or technologies that we otherwise would have sought to develop independently, and any such agreements may not be on terms as commercially favorable to us.

However, we cannot provide assurances that our plans will not change or that changed circumstances will not result in the depletion of our capital resources more rapidly than we currently anticipate. If planned operating results are not achieved or we are not successful in raising additional equity financing or entering a business collaboration, we may be required to reduce expenses through the delay, reduction or curtailment of our projects, including our Technosphere Insulin System development activities, or further reduction of costs for facilities and administration.

Off-Balance Sheet Arrangements

As of June 30, 2007, we did not have any off-balance sheet arrangements.

Contractual Obligations

There have been no material changes to our contractual obligations disclosed in Item 7 to the Annual Report other than those in the ordinary course of our business, such as contracts related to the continuation of existing clinical trials, the initiation of new trials and the expansion, qualification and validation of our commercial manufacturing processes and facilities. In April 2007, we entered into a $114.0 million contractual arrangement with our general contractor related to the expansion of the manufacturing facility in Danbury.

Recent Accounting Pronouncements

In June 2007, the FASB ratified EITF 07-3, *Accounting for Advance Payments for Goods or Services to Be Used in Future Research and Development Activities*. EITF 07-3 requires that nonrefundable advance payments for future research and development activities be deferred and capitalized. EITF 07-3 is effective as of the beginning of an entity's first fiscal year that begins after December 15, 2007. We are assessing the impact of EITF 07-3 and have not determined whether it will have a material impact on our results of operations or financial position.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 also includes an amendment to SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* which applies to all entities with available-for-sale and trading securities. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. We are assessing the impact of SFAS No. 159 and have not determined whether it will have a material impact on our results of operations or financial position.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. The Statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements, and does not require any new fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements. The Statement is effective for the fiscal years beginning after November 15, 2007. We are assessing SFAS No. 157 and have not determined the impact the adoption of SFAS No. 157 will have on our results of operations or financial position.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have not used derivative financial instruments. However, we are exposed to market risk related to changes in interest rates. Our current policy is to maintain a highly liquid short-term investment portfolio consisting mainly of U.S. money market funds and investment-grade corporate, government and municipal debt. None of these investments is entered into for trading purposes. Our cash is deposited in and invested through highly rated financial institutions in North America. Our short-term investments are subject to interest rate risk and will fall in value if market interest rates increase. If market interest rates were to increase immediately and uniformly by ten percent from levels at June 30, 2007, we estimate that the fair value of our investment portfolio would decline by an immaterial amount.

ITEM 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934, as amended, or the Securities Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission'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 for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Our Chief Executive Officer and Chief Financial Officer, with the participation of our management, performed an evaluation of our disclosure controls and procedures (as defined in Rule 13a-15(b) of the Securities Exchange Act) as of June 30, 2007. Based on that evaluation, which included consideration of a material weakness in our internal control over financial reporting (discussed below), our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective at reasonable assurance levels as of June 30, 2007. We have disclosed this conclusion to the Audit Committee and to our independent registered public accountants.

The material weakness occurred in the operation of controls for identifying and recording clinical trial costs, principally from the failure of our controls to detect an overstatement of clinical trial liabilities. After identifying this material weakness, we recorded adjustments aggregating $6.7 million to decrease accrued expenses and other current liabilities, $0.7 million to decrease prepaid expenses and other current assets, $0.2 million to decrease property and equipment, and $5.8 million to reduce research and development expenses as of June 30, 2007 and for the three months ended June 30, 2007. We recorded these adjustments prior to the public release of our financial statements for the three months ended June 30, 2007.

The following is a summary of control deficiencies that contributed to the material weakness as of June 30, 2007:

- Certain balance sheet accounts relating primarily to accrued vendor invoices and clinical trial costs were not adequately analyzed or reconciled to supporting documentation.
- Controls designed to ensure that these accounts and the supporting analysis were reviewed by knowledgeable personnel did not operate effectively.
- Personnel responsible for the preparation of these accruals were not adequately trained.

Management is in the process of implementing controls to remediate this material weakness, including providing enhanced training to personnel involved with the recording of clinical trial costs and vendor invoice accruals.

During the quarter ended June 30, 2007, there was no change in our internal control over financial reporting that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

As previously disclosed in the Annual Report, in May 2005, our former Chief Medical Officer, Wayman Wendell Cheatham, M.D., filed a complaint against us in the California Superior Court, County of Los Angeles, *Wayman Wendell Cheatham, M.D. v. MannKind Corporation* , Case No. BC333845. The complaint alleged causes of action for wrongful termination in violation of public policy, breach of contract and retaliation, in connection with our termination of Dr. Cheatham's employment. In the complaint, Dr. Cheatham sought compensatory, punitive and exemplary damages in excess of $2.0 million, as well as reimbursement of attorneys' fees. Subsequently, Dr. Cheatham filed a notice of dismissal of the retaliation cause of action, and we filed a notice of dismissal of our remaining claims in a cross-complaint that we had filed in June 2005. In April 2007, Dr. Cheatham through his counsel advised us that Dr. Cheatham intended to file a new lawsuit against us alleging that we had refused to enter into a contract with Dr. Cheatham's current employer because of the pending litigation and claiming that such refusal was wrongful and legally actionable. On April 16, 2007, we filed a complaint for declaratory relief in the Circuit Court of Howard County, Maryland seeking a declaration from the Maryland court that we had not engaged in wrongful or legally actionable conduct, that Dr. Cheatham had suffered no damages and that we could in the future choose not to enter into a contract or otherwise conduct business with Dr. Cheatham's employer simply because of the pending litigation with Dr. Cheatham. The trial in the California Superior Court commenced on April 30, 2007 and concluded on June 5, 2007. On June 15, 2007, we announced a final resolution and the dismissal of Dr. Cheatham's claims. In connection with the resolution of this litigation, we also agreed to dismiss our complaint for declaratory relief in Maryland.

ITEM 1A. RISK FACTORS

You should consider carefully the following information about the risks described below, together with the other information contained in this Quarterly Report before you decide to buy or maintain an investment in our common stock. We believe the risks described below are the risks that are material to us as of the date of this Quarterly Report. Additional risks and uncertainties that we are unaware of may also become important factors that affect us. The risk factors set forth below with an asterisk (*) next to the title contain changes to the description of the risk factors previously disclosed in Item 1A to the Annual Report. If any of the following risks actually occur, our business, financial condition, results of operations and future growth prospects would likely be materially and adversely affected. In these circumstances, the market price of our common stock could decline, and you may lose all or part of the money you paid to buy our common stock.

RISKS RELATED TO OUR BUSINESS

We have a history of operating losses, we expect to continue to incur losses and we may never become profitable. *

We are a development stage company with no commercial products. All of our product candidates are still being developed, and all but our Technosphere Insulin System are still in early stages of development. Our product candidates will require significant additional development, clinical trials, regulatory clearances and additional investment before they can be commercialized. We anticipate that our Technosphere Insulin System will not be commercially available for several years, if at all.

We have never been profitable and, as of June 30, 2007, we had an accumulated deficit of $933.0 million. The accumulated deficit has resulted principally from costs incurred in our research and development programs, the write-off of goodwill and general operating expenses. We expect to make substantial expenditures and to incur increasing operating losses in the future in order to further develop and commercialize our product candidates, including costs and expenses to complete clinical trials, seek regulatory approvals and market our product candidates. This accumulated deficit may increase significantly as we expand development and clinical trial efforts.

Our losses have had, and are expected to continue to have, an adverse impact on our working capital, total assets and stockholders' equity. Our ability to achieve and sustain profitability depends upon obtaining regulatory approvals for and successfully commercializing our Technosphere Insulin System, either alone or with third parties. We do not currently have the required approvals to market any of our product candidates, and we may not receive them. We may not be profitable even if we succeed in commercializing any of our product candidates. As a result, we cannot be sure when we will become profitable, if at all.

If we fail to raise additional capital, our financial condition and business would suffer. *

It is costly to develop therapeutic product candidates and conduct clinical trials for these product candidates. Although we are currently focusing on our Technosphere Insulin System as our lead product candidate, we have begun to conduct clinical trials for additional product candidates. Our existing capital resources will not be sufficient to support the expense of completing development of our Technosphere Insulin System or any of our other product candidates.

In December 2006, we completed the sale of 23,000,000 shares of our common stock and $115.0 million of our 3.75% Senior Convertible Notes due 2013, raising aggregate net proceeds to us of approximately $496.0 million after expenses. On August 1, 2007, the $150.0 million loan arrangement with our principal stockholder was extended for an additional year. Under this renewed arrangement, we can borrow funds in one or more advances at any time through August 1, 2008 should our cash balance fall below its projected cash requirements for the subsequent three months, provided that each advance be no less than $10.0 million and provided that at no time shall the total principal amount borrowed exceed $150.0 million. Principal repayment is due and payable one year from the date of each advance. There currently is no balance outstanding under this loan arrangement.

Based upon our current expectations, we believe that our existing capital resources, including the net proceeds from our sale of common stock and senior convertible notes in December 2006 and the renewed loan arrangement with our principal stockholder, will enable us to continue planned operations into the second quarter of 2008. However, we cannot assure you that our plans will not change or that changed circumstances will not result in the depletion of our capital resources more rapidly than we currently anticipate. Accordingly, we plan to raise additional capital, either through the sale of equity and/or debt securities, a strategic business collaboration or the establishment of other funding facilities, in order to continue the development and commercialization of our Technosphere Insulin System and other product candidates and to support our other ongoing activities. On August 9, 2007, we filed a shelf registration statement with the SEC providing for the issuance of up to $350 million of equity and/or debt securities from time to time in one or more transactions. The shelf registration is intended to provide us with the flexibility to take advantage of financing opportunities when and if deemed appropriate by our management. The amount of additional funds we need will depend on a number of factors, including:

- the rate of progress and costs of our clinical trials and research and development activities, including costs of procuring clinical materials and expanding our own manufacturing facilities;
- our success in establishing strategic business collaborations and the timing and amount of any payments we might receive from any collaboration we are able to establish;
- actions taken by the FDA and other regulatory authorities affecting our products and competitive products;
- our degree of success in commercializing our Technosphere Insulin System or our other product candidates;

- the emergence of competing technologies and products and other adverse market developments;
- the timing and amount of payments we might receive from potential licensees;
- the costs of preparing, filing, prosecuting, maintaining and enforcing patent claims and other intellectual property rights or defending against claims of infringement by others; and
- the costs of discontinuing projects and technologies or decommissioning existing facilities, if we undertake those activities.

We have raised capital in the past primarily through the sale of equity securities and most currently through the sale of equity and debt securities. We may in the future pursue the sale of additional equity and/or debt securities, or the establishment of other funding facilities. Issuances of additional debt or equity securities or the conversion of any of our currently outstanding convertible debt securities into shares of our common stock could impact your rights as a holder of our common stock and may dilute your ownership percentage. Moreover, the establishment of other funding facilities may impose restrictions on our operations. These restrictions could include limitations on additional borrowing and specific restrictions on the use of our assets, as well as prohibitions on our ability to create liens, pay dividends, redeem our stock or make investments.

We also may seek to raise additional capital by pursuing opportunities for the licensing or sale of certain intellectual property and other assets, including our Technosphere technology platform. We cannot offer assurances, however, that any strategic collaborations, sales of securities or sales or licenses of assets will be available to us on a timely basis or on acceptable terms, if at all. We may be required to enter into relationships with third parties to develop or commercialize products or technologies that we otherwise would have sought to develop independently, and any such relationships may not be on terms as commercially favorable to us as might otherwise be the case.

In the event that sufficient additional funds are not obtained through strategic collaboration opportunities, sales of securities, licensing arrangements and/or asset sales on a timely basis, we may be required to reduce expenses through the delay, reduction or curtailment of our projects, including our Technosphere Insulin System development activities, or further reduction of costs for facilities and administration.

We have identified a material weakness in our internal control over financial reporting. If our internal controls over financial reporting are not considered effective, our business and stock price could be adversely affected. *

We have identified a material weakness in our internal control over financial reporting as a result of the failure of our controls to detect an overstatement of clinical trial liabilities. We recorded adjustments to correct the overstatement prior to the public release of our financial statements for the quarter ended June 30, 2007. We are in the process of implementing controls to remediate this material weakness.

Section 404 of the Sarbanes-Oxley Act of 2002 requires us to evaluate the effectiveness of our internal controls over financial reporting as of the end of each fiscal year, and to include a management report assessing the effectiveness of our internal controls over financial reporting in our annual report on Form 10-K for that fiscal year. Section 404 also requires our independent registered public accounting firm to attest to, and report on, management's assessment of our internal controls over financial reporting.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our internal controls over financial reporting will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud involving a company have been, or will be, detected. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and we cannot assure you that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. We cannot assure you that we or our independent registered public accounting firm will not identify additional material weaknesses in our internal controls in the future. A material weakness in our internal controls over financial reporting would require management and our independent registered public accounting firm to evaluate our internal controls as ineffective. If our internal controls over financial reporting are not considered effective, we may experience a loss of public confidence, which could have an adverse effect on our business and on the market price of our common stock.

We depend heavily on the successful development and commercialization of our lead product candidate, the Technosphere Insulin System, which is still in clinical development, and our other product candidates, which are in early clinical or preclinical development. *

To date, we have not completed the development of any product candidates through to commercialization. Our Technosphere Insulin System is currently undergoing clinical trials, while our other product candidates are generally in early clinical or preclinical development. We anticipate that in the near term, our ability to generate revenues will depend solely on the successful development and commercialization of our Technosphere Insulin System.

We have expended significant time, money and effort in the development of our lead product candidate, the Technosphere Insulin System, which has not yet received regulatory approval and which may never be commercialized. Before we can market and sell our Technosphere Insulin System, we will need to complete Phase 3 clinical trials and demonstrate in these trials that our Technosphere Insulin System is safe and effective. We have initiated all of our pivotal Phase 3 clinical trials as well as several special population studies for our Technosphere Insulin System, all of which will require additional time and substantial expenditure of resources. We must also receive the necessary approvals from the FDA and similar foreign regulatory agencies before this product candidate can be marketed in the United States or elsewhere. Even if we were to receive regulatory approval, we ultimately may be unable to gain market acceptance of our Technosphere Insulin System for a variety of reasons, including the treatment and dosage regimen, potential adverse effects, the availability of alternative treatments and cost effectiveness. If we fail to commercialize our Technosphere Insulin System, our business, financial condition and results of operations will be materially and adversely affected.

We are seeking to develop and expand our portfolio of product candidates through our internal research programs and through licensing or otherwise acquiring the rights to therapeutics in the areas of cancer and other indications. All of these product candidates will require additional research and development and significant preclinical, clinical and other testing prior to seeking regulatory approval to market them. Accordingly, these product candidates will not be commercially available for a number of years, if at all.

A significant portion of the research that we are conducting involves new and unproven compounds and technologies, including our Technosphere Insulin System, Technosphere platform technology and immunotherapy product candidates. Research programs to

identify new product candidates require substantial technical, financial and human resources. Even if our research programs identify candidates that initially show promise, these candidates may fail to progress to clinical development for any number of reasons, including discovery upon further research that these candidates have adverse effects or other characteristics that indicate they are unlikely to be effective. In addition, the clinical results we obtain at one stage are not necessarily indicative of future testing results. If we fail to successfully complete the development and commercialization of our Technosphere Insulin System or develop or expand our other product candidates, or are significantly delayed in doing so, our business and results of operations will be harmed and the value of our stock could decline.

If we do not achieve our projected development goals in the timeframes we announce and expect, our business would be harmed and the market price of our common stock could decline.

For planning purposes, we estimate the timing of the accomplishment of various scientific, clinical, regulatory and other product development goals, which we sometimes refer to as milestones. These milestones may include the commencement or completion of scientific studies and clinical trials and the submission of regulatory filings. From time to time, we publicly announce the expected timing of some of these milestones. All of these milestones are based on a variety of assumptions. The actual timing of the achievement of these milestones can vary dramatically compared to our estimates, in many cases for reasons beyond our control, depending on numerous factors, including:

- the rate of progress, costs and results of our clinical trial and research and development activities, which will be impacted by the level of proficiency and experience of our clinical staff;
- our ability to identify and enroll patients who meet clinical trial eligibility criteria;
- our ability to access sufficient, reliable and affordable supplies of components used in the manufacture of our product candidates, including insulin and other materials for our Technosphere Insulin System;
- the costs of expanding and maintaining manufacturing operations, as necessary;
- the extent of scheduling conflicts with participating clinicians and clinical institutions;
- the receipt of approvals by our competitors and by us from the FDA and other regulatory agencies; and
- other actions by regulators.

In addition, if we do not obtain sufficient additional funds through sales of securities, strategic collaborations or the license or sale of certain of our assets on a timely basis, we may be required to reduce expenses by delaying, reducing or curtailing our Technosphere Insulin System or other product development activities, which would impact our ability to meet milestones. If we fail to commence or complete, or experience delays in or are forced to curtail, our proposed clinical programs or otherwise fail to adhere to our projected development goals in the timeframes we announce and expect, our business and results of operations will be harmed and the market price of our common stock may decline.

We face substantial competition in the development and commercialization of our product candidates and may not be able to compete successfully, and our product candidates may be rendered obsolete by rapid technological change. *

We face intense competition in the development of our Technosphere Insulin System. In January 2006, the FDA and the European Commission approved Exubera, developed by Pfizer, Inc. in collaboration with Nektar Therapeutics, for the treatment of adults with type 1 and type 2 diabetes. Exubera has been launched in Germany, Ireland, the United Kingdom and, to a limited extent, the United States. Pfizer initiated a direct-to-consumer marketing campaign in the United States in June 2007. In July 2005, Eli Lilly and Company, in collaboration with Alkermes, Inc., initiated a pivotal Phase 3 safety trial of their AIR inhaled insulin system, which completed patient enrollment in June 2006. We believe Lilly plans to submit a New Drug Application, or NDA, for the AIR inhaled insulin system in 2009. In September 2006, Novo Nordisk A.S. began recruiting patients for a two-year Phase 3 safety trial of their AERx inhaled insulin system, after previously suspending clinical trials of the AERx product. In addition, a number of established pharmaceutical companies have or are developing technologies for the treatment of diabetes. We also face substantial competition for the development of our other product candidates.

Gaining favorable reimbursement is critical to the success of Technosphere Insulin. It will be necessary to demonstrate and communicate the clinical and economic benefits of Technosphere Insulin compared to alternative diabetes therapies. As the first company to commercialize an inhaled insulin system, Pfizer was expected to have an advantage in being able to gain reputation and market share as well as set parameters for the inhaled insulin market such as pricing and reimbursement strategies. However, Pfizer has reported slow acceptance of Exubera.

Many of our existing or potential competitors have, or have access to, substantially greater financial, research and development, production, and sales and marketing resources than we do and have a greater depth and number of experienced managers. As a result, our competitors may be better equipped than we are to develop, manufacture, market and sell competing products.

The rapid rate of scientific discoveries and technological changes could result in one or more of our product candidates becoming obsolete or noncompetitive. Our competitors may develop or introduce new products that render our technology and our Technosphere Insulin System less competitive, uneconomical or obsolete. Our future success will depend not only on our ability to develop our product candidates but to improve them and to keep pace with emerging industry developments. We cannot assure you that we will be able to do so.

We also expect to face increasing competition from universities and other non-profit research organizations. These institutions carry out a significant amount of research and development in the areas of diabetes and cancer. These institutions are becoming increasingly aware of the commercial value of their findings and are more active in seeking patent and other proprietary rights as well as licensing revenues.

If we fail to enter into a strategic collaboration with respect to our Technosphere Insulin System, we may not be able to execute on our business model. *

We have held extensive discussions with a number of pharmaceutical companies concerning a potential strategic business collaboration for our Technosphere Insulin System. To date, we have not reached agreement with any of these companies on a collaboration. While we are continuing to engage in such discussions, we believe that we will have to expend significant additional time and effort before we could reach agreement, and we cannot predict when, if ever, we could conclude such an agreement with a partner. There can be no assurance that any such collaboration will be available to us on a timely basis or on acceptable terms, if at all. If we are not able to enter into a collaboration on terms that are favorable to us, we could be required to undertake and fund product development, clinical trials, manufacturing and marketing activities solely at our own expense. We currently estimate that the capital required to continue the development of our Technosphere Insulin System over the next 12 months would be in the range of $300 to $400 million. However, this estimate may change based on how the program proceeds. Failure to enter into a collaboration with respect to our Technosphere Insulin System could substantially increase our requirements for capital, which might not be available on favorable terms, if at all. Alternatively, we would have to substantially reduce our development efforts, which would delay or otherwise impede the commercialization of our Technosphere Insulin System.

We will face similar challenges as we seek to develop our other product candidates. Our current strategy for developing, manufacturing and commercializing our other product candidates includes evaluating the potential for collaborating with pharmaceutical and biotechnology companies at some point in the drug development process and for these collaborators to undertake the advanced clinical development and commercialization of our product candidates. It may be difficult for us to find third parties that are willing to enter into collaborations on economic terms that are favorable to us, or at all. Failure to enter into a collaboration with respect to any other product candidate could substantially increase our requirements for capital and force us to substantially reduce our development effort.

If we enter into collaborative agreements with respect to our Technosphere Insulin System and if our third-party collaborators do not perform satisfactorily or if our collaborations fail, development or commercialization of our Technosphere Insulin System may be delayed and our business could be harmed.

We currently rely on clinical research organizations and hospitals to conduct, supervise or monitor some or all aspects of clinical trials involving our Technosphere Insulin System. Further, we may also enter into license agreements, partnerships or other collaborative arrangements to support the financing, development and marketing of our Technosphere Insulin System. We may also license technology from others to enhance or supplement our technologies. These various collaborators may enter into arrangements that would make them potential competitors. These various collaborators also may breach their agreements with us and delay our progress or fail to perform under their agreements, which could harm our business.

If we enter into collaborative arrangements, we will have less control over the timing, planning and other aspects of our clinical trials, and the sale and marketing of our Technosphere Insulin System and our other product candidates. We cannot offer assurances that we will be able to enter into satisfactory arrangements with third parties as contemplated or that any of our existing or future collaborations will be successful.

Testing of our Technosphere Insulin System or another product candidate may not yield successful results, and even if it does, we may still be unable to commercialize that product candidate. *

Our research and development programs are designed to test the safety and efficacy of our Technosphere Insulin System and our other product candidates through extensive nonclinical and clinical testing. We may experience numerous unforeseen events during, or as a result of, the testing process that could delay or prevent commercialization of our Technosphere Insulin System or any of our other product candidates, including the following:

- safety and efficacy results obtained in our nonclinical and initial clinical testing may be inconclusive or may not be predictive of results obtained in later-stage clinical trials or following long-term use, and we may as a result be forced to stop developing product candidates that we currently believe are important to our future;
- the data collected from clinical trials of our product candidates may not be sufficient to support FDA or other regulatory approval;
- after reviewing test results, we or any potential collaborators may abandon projects that we previously believed were promising; and
- our product candidates may not produce the desired effects or may result in adverse health effects or other characteristics that preclude regulatory approval or limit their commercial use if approved.

We have initiated a pivotal Phase 3 safety study of our Technosphere Insulin System to evaluate pulmonary function over a period of two years. Our Technosphere Insulin System is intended for multiple uses per day. Due to the size and timeframe over which existing and planned clinical trials are conducted, the results of clinical trials, including our existing Phase 3 trials, may not be indicative of the effects of the use of our Technosphere Insulin System over longer terms. If use of our Technosphere Insulin System results in adverse health effects or reduced efficacy or both, the FDA or other regulatory agencies may terminate our ability to market and sell our Technosphere Insulin System, may narrow the approved indications for use or otherwise require restrictive product labeling or marketing, or may require further clinical trials, which may be time-consuming and expensive and may not produce favorable results.

As a result of any of these events, the FDA, other regulatory authorities, any collaborator or we may suspend or terminate clinical trials or marketing of our Technosphere Insulin System at any time. Any suspension or termination of our clinical trials or marketing activities may harm our business and results of operations and the market price of our common stock may decline.

If we are unable to transition successfully from an early-stage development company to a company that commercializes therapeutics, our operations would suffer.

We are at a critical juncture in our development, having transitioned from an early-stage development company to one with multiple Phase 3 clinical trials. Phase 3 development of our Technosphere Insulin System is far more complex than the earlier phases. Overall, we plan to support a significant number of studies in the near term. We have not previously implemented the range of studies contemplated for our Phase 3 clinical program. Moreover, as a company, we have no previous experience in the Phase 3-through-NDA stage of product development.

We require a well-structured plan to make this transition. In the past year, we have added a significant number of new executive personnel, particularly in clinical development, regulatory and manufacturing production, including personnel with significant Phase 3-to-commercialization experience. We have aligned our management structure to accommodate the increasing complexity of our operations, and we are implementing the following measures, among others, to accommodate our transition, complete development of our Technosphere Insulin System and successfully implement our commercialization strategy for our Technosphere Insulin System:

- expand our manufacturing capabilities;
- develop comprehensive and detailed commercialization, clinical development and regulatory plans; and

- implement standard operating procedures, including those for protocol development.

If we are unable to accomplish these measures in a timely manner, we would be at considerable risk of failing to:

- complete our Phase 3 clinical trial program in a deliberate fashion, on time and within budget; and
- develop through our Phase 3 trials the key clinical data needed to obtain regulatory approval and compete successfully in the marketplace.

If our suppliers fail to deliver materials and services needed for the production of our Technosphere Insulin System in a timely and sufficient manner, or they fail to comply with applicable regulations, our business and results of operations would be harmed and the market price of our common stock could decline. *

For our Technosphere Insulin System to be commercially viable, we need access to sufficient, reliable and affordable supplies of insulin, our MedTone inhaler, the related cartridges and other materials. We currently have a long-term supply agreement with Diosynth B.V., now Organon Biosciences N.V., an independent supplier of insulin and a subsidiary of Akzo Nobel, which is currently our sole supplier for insulin. On March 11, 2007, Akzo Nobel received an offer for the purchase of Organon Biosciences N.V. from Schering-Plough Corporation. The transaction is expected to be completed in the second half of 2007. We are aware of several other suppliers of bulk insulin, but to date we have not entered into a commercial relationship with any of them. Currently we obtain our Technosphere pre-cursor raw material from Degussa AG, a major chemical manufacturer with facilities in Europe and North America. We utilize our in-house chemical manufacturing plant as a back up facility. We believe Degussa AG has the capacity to supply our current clinical and future commercial requirements. We entered into a long-term supply agreement with Vaupell, Inc., the supplier of our MedTone inhaler and cartridges. We must rely on our suppliers to comply with relevant regulatory and other legal requirements, including the production of insulin in accordance with current drug Good Manufacturing Practices, or cGMP, and the production of MedTone inhaler and related cartridges in accordance with device Quality System Regulations, or QSR. The supply of all of these materials may be limited or the manufacturer may not meet relevant regulatory requirements, and if we are unable to obtain these materials in sufficient amounts, in a timely manner and at reasonable prices, or if we should encounter delays or difficulties in our relationships with manufacturers or suppliers, the development or manufacturing of our Technosphere Insulin System may be delayed. Any such events would delay the submission of our Technosphere Insulin System for regulatory approval or market introduction and subsequent sales and, if so, our business and results of operations will be harmed and the market price of our common stock may decline.

We have never manufactured our Technosphere Insulin System or any other product candidate in commercial quantities, and if we fail to develop an effective manufacturing capability for our product candidates or to engage third-party manufacturers with this capability, we may be unable to commercialize these products. *

We currently obtain our Technosphere precursor raw material primarily from Degussa AG. We use our Danbury, Connecticut facility to formulate Technosphere Insulin, fill plastic cartridges with Technosphere Insulin and blister package the cartridges for our clinical trials. We presently intend to increase our formulation, fill and finishing capabilities at Danbury in order to accommodate our activities through initial commercialization. This expansion will involve a number of third-party suppliers of equipment and materials as well as engineering and construction services. Our suppliers may not deliver all of the required equipment, materials and services in a timely manner or at reasonable prices. If we encounter difficulties in our relationships with these suppliers, or if a supplier becomes unable to provide us with goods or services at the agreed-upon terms or schedule, our facilities expansion could be delayed or its costs increased.

We have never manufactured our Technosphere Insulin System or any other product candidate in commercial quantities. As our product candidates move through the regulatory process, we will need to either develop the capability of manufacturing on a commercial scale or engage third-party manufacturers with this capability, and we cannot offer assurances that we will be able to do either successfully. The manufacture of pharmaceutical products requires significant expertise and capital investment, including the development of advanced manufacturing techniques and process controls. Manufacturers of pharmaceutical products often encounter difficulties in production, especially in scaling up initial production. These problems include difficulties with production costs and yields, quality control and assurance and shortages of qualified personnel, as well as compliance with strictly enforced federal, state and foreign regulations. In addition, before we would be able to produce commercial quantities of Technosphere Insulin at our Danbury facility, it would have to undergo a pre-approval inspection by the FDA. The expansion process and preparation for the FDA's pre-approval inspection for commercial production at the Danbury facility could take an additional six months or longer. If we

use a third-party supplier to formulate Technosphere Insulin or produce raw material, the transition could also require significant start-up time to qualify and implement the manufacturing process. If we engage a third-party manufacturer, our third-party manufacturer may not perform as agreed or may terminate its agreement with us.

Additionally, if we manufacture commercial material at a different facility than the site of manufacture of clinical trial materials or if we manufacture commercial material on a significantly larger production scale than the production scale for clinical trial materials, we may be required by the FDA to establish that the results obtained from the clinical trials may reasonably be extrapolated to such commercial material.

Any of these factors could cause us to delay or suspend clinical trials, regulatory submissions, required approvals or commercialization of our product candidates, entail higher costs and result in our being unable to effectively commercialize our products. Furthermore, if we or a third-party manufacturer fail to deliver the required commercial quantities of any product on a timely basis, and at commercially reasonable prices and acceptable quality, and we were unable to promptly find one or more replacement manufacturers capable of production at a substantially equivalent cost, in substantially equivalent volume and quality on a timely basis, we would likely be unable to meet demand for such products and we would lose potential revenues.

We deal with hazardous materials and must comply with environmental laws and regulations, which can be expensive and restrict how we do business.

Our research and development work involves the controlled storage and use of hazardous materials, including chemical, radioactive and biological materials. In addition, our manufacturing operations involve the use of CBZ-lysine, which is stable and non-hazardous under normal storage conditions, but may form an explosive mixture under certain conditions. Our operations also produce hazardous waste products. We are subject to federal, state and local laws and regulations governing how we use, manufacture, store, handle and dispose of these materials. Moreover, the risk of accidental contamination or injury from hazardous materials cannot be completely eliminated, and in the event of an accident, we could be held liable for any damages that may result, and any liability could fall outside the coverage or exceed the limits of our insurance. Currently, our general liability policy provides coverage up to $1 million per occurrence and $2 million in the aggregate and is supplemented by an umbrella policy that provides a further $4 million of coverage; however, our insurance policy excludes pollution coverage and we do not carry a separate hazardous materials policy. In addition, we could be required to incur significant costs to comply with environmental laws and regulations in the future. Finally, current or future environmental laws and regulations may impair our research, development or production efforts.

When we purchased the facilities located in Danbury, Connecticut in 2001, there was a soil cleanup plan in process. As part of the purchase, we obtained an indemnification from the seller related to the remediation of the soil for all known environmental conditions that existed at the time the seller acquired the property. The seller is, in turn, indemnified for these known environmental conditions by the previous owner. We initiated the final stages of the soil cleanup plan which we estimate will cost approximately $1.5 to $3.0 million to complete by the end of 2007. We also received an indemnification from the seller for environmental conditions created during its ownership of the property and for environmental problems unknown at the time that the seller acquired the property. These additional indemnities are limited to the purchase price that we paid for the Danbury facilities. In the event that any cleanup costs are imposed on us and we are unable to collect the full amount of these costs and expenses from the seller or the party responsible for the contamination, we may be required to pay these costs and our business and results of operations may be harmed.

If we fail to enter into collaborations with third parties, we would be required to establish our own sales, marketing and distribution capabilities, which could impact the commercialization of our products and harm our business.*

A broad base of physicians, including primary care physicians, internists and endocrinologists, treat patients with diabetes. A large sales force will be required in order to educate and support these physicians. Therefore, we plan to enter into collaborations with one or more pharmaceutical companies to market, distribute and sell our Technosphere Insulin System, if it is approved. If we fail to enter into collaborations, we would be required to establish our own direct sales, marketing and distribution capabilities. Establishing these capabilities can be time-consuming and expensive and we estimate that establishing even a specialty sales force would cost more than $35 million. To further expand the potential of our Technosphere Insulin System and to reach the majority of existing patients with diabetes, it might be necessary to establish a primary-care sales force. Because of our relatively small size and as a new entrant into the diabetes market, we would be at a disadvantage to our potential competitors, all of which either are or have collaborated with large pharmaceutical companies that have substantially more resources than we do. For example, our competitors have existing sales forces in excess of 1,000 representatives targeting primary care physicians. As a result, we would not initially be able to field a sales force as large as our competitors or provide the same degree of market research or marketing support.

In addition, our competitors would have a greater ability to devote research resources toward expansion of the indications for their products. We cannot assure you that we will succeed in entering into acceptable collaborations, that any such collaboration will be successful or, if not, that we will successfully develop our own sales, marketing and distribution capabilities.

If any product that we may develop does not become widely accepted by physicians, patients, third-party payers and the healthcare community, we may be unable to generate significant revenue, if any.

Technosphere Insulin System and our other product candidates are new and unproven. Even if any of our product candidates obtain regulatory approvals, it may not gain market acceptance among physicians, patients, third-party payers and the healthcare community. Failure to achieve market acceptance would limit our ability to generate revenue and would adversely affect our results of operations.

The degree of market acceptance of our Technosphere Insulin System and our other product candidates will depend on many factors, including the:

- claims for which FDA approval can be obtained, including superiority claims;
- perceived advantages and disadvantages of competitive products;
- willingness and ability of patients and the healthcare community to adopt new technologies;
- ability to manufacture the product in sufficient quantities with acceptable quality and at an acceptable cost;
- perception of patients and the healthcare community, including third-party payers, regarding the safety, efficacy and benefits of the product compared to those of competing products or therapies;
- convenience and ease of administration of the product relative to existing treatment methods;
- pricing and reimbursement of the product relative to existing treatment therapeutics and methods; and
- marketing and distribution support for the product.

Physicians will not recommend a product until clinical data or other factors demonstrate the safety and efficacy of the product as compared to other treatments. Even if the clinical safety and efficacy of our product candidates is established, physicians may elect not to recommend these product candidates for a variety of factors, including the reimbursement policies of government and third-party payers and the effectiveness of our competitors in marketing their therapies. Because of these and other factors, any product that we may develop may not gain market acceptance, which would materially harm our business, financial condition and results of operations.

If third-party payers do not reimburse customers for our products, our products might not be used or purchased, which would adversely affect our revenues.

Our future revenues and potential for profitability may be affected by the continuing efforts of governments and third-party payers to contain or reduce the costs of healthcare through various means. For example, in certain foreign markets the pricing of prescription pharmaceuticals is subject to governmental control. In the United States, there has been, and we expect that there will continue to be, a number of federal and state proposals to implement similar governmental controls. We cannot be certain what legislative proposals will be adopted or what actions federal, state or private payers for healthcare goods and services may take in response to any healthcare reform proposals or legislation. Such reforms may make it difficult to complete the development and testing of our Technosphere Insulin System and our other product candidates, and therefore may limit our ability to generate revenues from sales of our product candidates and achieve profitability. Further, to the extent that such reforms have a material adverse effect on the business, financial condition and profitability of other companies that are prospective collaborators for some of our product candidates, our ability to commercialize our product candidates under development may be adversely affected.

In the United States and elsewhere, sales of prescription pharmaceuticals still depend in large part on the availability of reimbursement to the consumer from third-party payers, such as governmental and private insurance plans. Third-party payers are increasingly challenging the prices charged for medical products and services. In addition, because each third-party payer individually approves reimbursement, obtaining these approvals is a time-consuming and costly process. We would be required to provide scientific and clinical support for the use of any product to each third-party payer separately with no assurance that approval would be obtained. This process could delay the market acceptance of any product and could have a negative effect on our future revenues and operating results. Even if we succeed in bringing one or more products to market, we cannot be certain that any such products would be

considered cost-effective or that reimbursement to the consumer would be available, in which case our business and results of operations would be harmed and the market price of our common stock could decline.

If product liability claims are brought against us, we may incur significant liabilities and suffer damage to our reputation.

The testing, manufacturing, marketing and sale of our Technosphere Insulin System and our other product candidates expose us to potential product liability claims. A product liability claim may result in substantial judgments as well as consume significant financial and management resources and result in adverse publicity, decreased demand for a product, injury to our reputation, withdrawal of clinical trial volunteers and loss of revenues. We currently carry worldwide liability insurance in the amount of $10 million. We believe these limits are reasonable to cover us from potential damages arising from current and previous clinical trials of our Technosphere Insulin System. In addition, we carry local policies per trial in each country in which we conduct clinical trials that require us to carry coverage based on local statutory requirements. We intend to obtain product liability coverage for commercial sales in the future if our Technosphere Insulin System is approved. However, we may not be able to obtain insurance coverage that will be adequate to satisfy any liability that may arise, and because insurance coverage in our industry can be very expensive and difficult to obtain, we cannot assure you that we will be able to obtain sufficient coverage at an acceptable cost, if at all. If losses from such claims exceed our liability insurance coverage, we may ourselves incur substantial liabilities. If we are required to pay a product liability claim, we may not have sufficient financial resources to complete development or commercialization of any of our product candidates and, if so, our business and results of operations would be harmed and the market price of our common stock may decline.

If we lose any key employees or scientific advisors, our operations and our ability to execute our business strategy could be materially harmed.

In order to commercialize our product candidates successfully, we will be required to expand our work force, particularly in the areas of manufacturing, clinical trials management, regulatory affairs, business development, and sales and marketing. These activities will require the addition of new personnel, including management, and the development of additional expertise by existing personnel. We face intense competition for qualified employees among companies in the biotechnology and biopharmaceutical industries. Our success depends upon our ability to attract, retain and motivate highly skilled employees. We may be unable to attract and retain these individuals on acceptable terms, if at all.

The loss of the services of any principal member of our management and scientific staff could significantly delay or prevent the achievement of our scientific and business objectives. All of our employees are “at will” and we currently do not have employment agreements with any of the principal members of our management or scientific staff, and we do not have key person life insurance to cover the loss of any of these individuals. Replacing key employees may be difficult and time-consuming because of the limited number of individuals in our industry with the skills and experience required to develop, gain regulatory approval of and commercialize our product candidates successfully.

We have relationships with scientific advisors at academic and other institutions to conduct research or assist us in formulating our research, development or clinical strategy. These scientific advisors are not our employees and may have commitments to, and other obligations with, other entities that may limit their availability to us. We have limited control over the activities of these scientific advisors and can generally expect these individuals to devote only limited time to our activities. Failure of any of these persons to devote sufficient time and resources to our programs could harm our business. In addition, these advisors are not prohibited from, and may have arrangements with, other companies to assist those companies in developing technologies that may compete with our product candidates.

If our Chief Executive Officer is unable to devote sufficient time and attention to our business, our operations and our ability to execute our business strategy could be materially harmed.

Alfred Mann, our Chairman and Chief Executive Officer, is also serving as the Chairman and Co-Chief Executive Officer of Advanced Bionics Corporation, a wholly owned subsidiary of Boston Scientific Corporation. Mr. Mann is involved in many other business and charitable activities. As a result, the time and attention Mr. Mann devotes to the operation of our business varies, and he may not expend the same time or focus on our activities as other, similarly situated chief executive officers. If Mr. Mann is unable to devote the time and attention necessary to running our business, we may not be able to execute our business strategy and our business could be materially harmed.

Our facilities that are located in Southern California may be affected by man-made or natural disasters.

Our headquarters and some of our research and development activities are located in Southern California, where they are subject to a risk of man-made disasters such as terrorism and an enhanced risk of natural and other disasters such as power and telecommunications failures, mudslides, fires and earthquakes. An act of terrorism, fire, earthquake or other catastrophic loss that causes significant damage to our facilities or interruption of our business could harm our business. We do not carry insurance to cover losses caused by earthquakes, and the insurance coverage that we carry for fire damage and for business interruption may be insufficient to compensate us for any losses that we may incur.

RISKS RELATED TO REGULATORY APPROVALS

Our product candidates must undergo rigorous nonclinical and clinical testing and we must obtain regulatory approvals, which could be costly and time-consuming and subject us to unanticipated delays or prevent us from marketing any products. *

Our research and development activities, as well as the manufacturing and marketing of our product candidates, including our Technosphere Insulin System, are subject to regulation, including regulation for safety, efficacy and quality, by the FDA in the United States and comparable authorities in other countries. FDA regulations and the regulation of comparable foreign regulatory authorities are wide-ranging and govern, among other things:

- product design, development, manufacture and testing;
- product labeling;
- product storage and shipping;
- pre-market clearance or approval;
- advertising and promotion; and
- product sales and distribution.

Clinical testing can be costly and take many years, and the outcome is uncertain and susceptible to varying interpretations. Based on our discussions with the FDA and on our understanding of the interactions between the FDA and other pharmaceutical companies

developing inhaled insulin delivery systems, we expect, among other requirements, that we will need safety data covering at least two years from patients treated with our Technosphere Insulin System and that we must complete an additional six-month carcinogenicity study of Technosphere Insulin in rodents in order to obtain approval. We cannot be certain when or under what conditions we will undertake further clinical trials. The clinical trials of our product candidates may not be completed on schedule, the FDA or foreign regulatory agencies may order us to stop or modify our research, or these agencies may not ultimately approve any of our product candidates for commercial sale. The data collected from our clinical trials may not be sufficient to support regulatory approval of our various product candidates, including our Technosphere Insulin System. Even if we believe the data collected from our clinical trials are sufficient, the FDA has substantial discretion in the approval process and may disagree with our interpretation of the data. For example, even if we meet the statistical criteria for non-inferiority with respect to the primary endpoint in a pivotal clinical study (Study 102) of our Technosphere Insulin System, the FDA may deem the results uninterpretable because of issues related to the open-label, non-inferiority design of the study. Our failure to adequately demonstrate the safety and efficacy of any of our product candidates would delay or prevent regulatory approval of our product candidates, which could prevent us from achieving profitability.

The requirements governing the conduct of clinical trials and manufacturing and marketing of our product candidates, including our Technosphere Insulin System, outside the United States vary widely from country to country. Foreign approvals may take longer to obtain than FDA approvals and can require, among other things, additional testing and different clinical trial designs. Foreign regulatory approval processes include all of the risks associated with the FDA approval processes. Some of those agencies also must approve prices of the products. Approval of a product by the FDA does not ensure approval of the same product by the health authorities of other countries. In addition, changes in regulatory policy in the United States or in foreign countries for product approval during the period of product development and regulatory agency review of each submitted new application may cause delays or rejections.

The process of obtaining FDA and other required regulatory approvals, including foreign approvals, is expensive, often takes many years and can vary substantially based upon the type, complexity and novelty of the products involved. We are not aware of any precedent for the successful commercialization of products based on our technology. On January 26, 2006, the FDA approved the first pulmonary insulin product, Exubera. This approval has had an impact on and could still impact the development and registration of our Technosphere Insulin System in many ways, including: the approval of Exubera may have increased the difficulty of enrolling patients in our clinical trials; Exubera may be viewed as standard of care by the FDA and used as a reference for the safety/efficacy evaluations of our Technosphere Insulin System; and the approval standards set for Exubera have largely been applied to other products that follow including our Technosphere Insulin System. The FDA has advised us that it will regulate our Technosphere Insulin System as a “combination product” because of the complex nature of the system that includes the combination of a new drug (Technosphere Insulin) and a new medical device (the MedTone inhaler used to administer the insulin). The FDA indicated that the review of a future drug marketing application for our Technosphere Insulin System will involve three separate review groups of the FDA: (1) the Metabolic and Endocrine Drug Products Division; (2) the Pulmonary Drug Products Division; and (3) the Center for Devices and Radiological Health within the FDA that reviews medical devices. We currently understand that the Metabolic and Endocrine Drug Products Division will be the lead group and will obtain consulting reviews from the other two FDA groups. The FDA has not made an official final decision in this regard, however, and we can make no assurances at this time about what impact FDA review by multiple groups will have on the review and approval of our product or whether we are correct in our understanding of how our Technosphere Insulin System will be reviewed and approved.

Also, questions that have been raised about the safety of marketed drugs generally, including pertaining to the lack of adequate labeling, may result in increased cautiousness by the FDA in reviewing new drugs based on safety, efficacy, or other regulatory considerations and may result in significant delays in obtaining regulatory approvals. Such regulatory considerations may also result in the imposition of more restrictive drug labeling or marketing requirements as conditions of approval, which may significantly affect the marketability of our drug products. FDA review of our Technosphere Insulin System as a combination product therapy may lengthen the product development and regulatory approval process, increase our development costs and delay or prevent the commercialization of our Technosphere Insulin System.

We are developing our Technosphere Insulin System as a new treatment for diabetes utilizing unique, proprietary components. As a combination product, any changes to either the MedTone inhaler, the Technosphere material or the insulin, including new suppliers, could possibly result in FDA requirements to repeat certain clinical studies. This means, for example, that switching to an alternate delivery system could require us to undertake additional clinical trials and other studies, which could significantly delay the development and commercialization of our Technosphere Insulin System. Our product candidates that are currently in development for the treatment of cancer also face similar obstacles and costs.

We currently expect that our inhaler will be reviewed for approval as part of the NDA for our Technosphere Insulin System. No assurances exist that we will not be required to obtain separate device clearances or approval for use of our inhaler with our

Technosphere Insulin System. This may result in our being subject to medical device review user fees and to other device requirements to market our inhaler and may result in significant delays in commercialization. Even if the device component is approved as part of our NDA for our Technosphere Insulin System, numerous device regulatory requirements still apply to the device part of the drug-device combination.

We have only limited experience in filing and pursuing applications necessary to gain regulatory approvals, which may impede our ability to obtain timely approvals from the FDA or foreign regulatory agencies, if at all.

We will not be able to commercialize our Technosphere Insulin System or any other product candidates until we have obtained regulatory approval. We have no experience as a company in late-stage regulatory filings, such as preparing and submitting NDAs, which may place us at risk of delays, overspending and human resources inefficiencies. Any delay in obtaining, or inability to obtain, regulatory approval could harm our business.

If we do not comply with regulatory requirements at any stage, whether before or after marketing approval is obtained, we may be subject to criminal prosecution, fined or forced to remove a product from the market or experience other adverse consequences, including restrictions or delays in obtaining regulatory marketing approval.

Even if we comply with regulatory requirements, we may not be able to obtain the labeling claims necessary or desirable for product promotion. We may also be required to undertake post-marketing trials. In addition, if we or other parties identify adverse effects after any of our products are on the market, or if manufacturing problems occur, regulatory approval may be withdrawn and a reformulation of our products, additional clinical trials, changes in labeling of, or indications of use for, our products and/or additional marketing applications may be required. If we encounter any of the foregoing problems, our business and results of operations will be harmed and the market price of our common stock may decline.

Even if we obtain regulatory approval for our product candidates, such approval may be limited and we will be subject to stringent, ongoing government regulation. *

Even if regulatory authorities approve any of our product candidates, they could approve less than the full scope of uses or labeling that we seek or otherwise require special warnings or other restrictions on use or marketing or could require potentially costly post-marketing follow-up clinical trials. Regulatory authorities may limit the segments of the diabetes population to which we or others may market our Technosphere Insulin System or limit the target population for our other product candidates. Based on currently available clinical studies, we believe that our Technosphere Insulin System may have certain advantages over currently approved insulin products including its approximation of the natural early insulin secretion normally seen in healthy individuals following the beginning of a meal. Nonetheless, there are no assurances that these and other advantages, if any, of our Technosphere Insulin System have clinical significance or can be confirmed in head-to-head clinical trials against appropriate approved comparator insulin drug products. Such comparative clinical trials are required to make these types of superiority claims in labeling or advertising. These aforementioned observations and others may therefore not be capable of substantiation in comparative clinical trials prior to our NDA submission, if at all, or otherwise may not be suitable for inclusion in product labeling or advertising and, as a result, our Technosphere Insulin System may not have competitive advantages when compared to other insulin products.

The manufacture, marketing and sale of these product candidates will be subject to stringent and ongoing government regulation. The FDA may also withdraw product approvals if problems concerning safety or efficacy of the product occur following approval. In response to questions that have been raised about the safety of certain approved prescription products, including the lack of adequate warnings, the FDA and U.S. Congress are currently considering new regulatory and legislative approaches to advertising, monitoring and assessing the safety of marketed drugs, including legislation providing the FDA with authority to mandate labeling changes for approved pharmaceutical products, particularly those related to safety. We also cannot be sure that the current FDA and U.S. Congressional initiatives pertaining to ensuring the safety of marketed drugs or other developments pertaining to the pharmaceutical industry will not adversely affect our operations.

We also are required to register our establishments and list our products with the FDA and certain state agencies. We and any third-party manufacturers or suppliers must continually adhere to federal regulations setting forth requirements, known as cGMP (for drugs) and QSR (for medical devices), and their foreign equivalents, which are enforced by the FDA and other national regulatory bodies through their facilities inspection programs. If our facilities, or the facilities of our manufacturers or suppliers, cannot pass a preapproval plant inspection, the FDA will not approve the marketing of our product candidates. In complying with cGMP and foreign regulatory requirements, we and any of our potential third-party manufacturers or suppliers will be obligated to expend time, money and effort in production, record-keeping and quality control to ensure that our products meet applicable specifications and other

requirements. QSR requirements also impose extensive testing, control and documentation requirements. State regulatory agencies and the regulatory agencies of other countries have similar requirements. In addition, we will be required to comply with regulatory requirements of the FDA, state regulatory agencies and the regulatory agencies of other countries concerning the reporting of adverse events and device malfunctions, corrections and removals (e.g., recalls), promotion and advertising and general prohibitions against the manufacture and distribution of adulterated and misbranded devices. Failure to comply with these regulatory requirements could result in civil fines, product seizures, injunctions and/or criminal prosecution of responsible individuals and us. Any such actions would have a material adverse effect on our business and results of operations.

Our insulin supplier does not yet supply human recombinant insulin for an FDA-approved product and will likely be subject to an FDA preapproval inspection before the agency will approve a future marketing application for our Technosphere Insulin System. *

Our insulin supplier sells its product outside of the United States. However, we can make no assurances that our insulin supplier will be acceptable to the FDA. If we were required to find a new or additional supplier of insulin, we would be required to evaluate the new supplier's ability to provide insulin that meets our specifications and quality requirements, which would require significant time and expense and could delay the manufacturing and future commercialization of our Technosphere Insulin System. We also depend on suppliers for other materials that comprise our Technosphere Insulin System, including our MedTone inhaler and cartridges. All of our device suppliers must comply with relevant regulatory requirements including QSR. It also is likely that major suppliers will be subject to FDA preapproval inspections before the agency will approve a future marketing application for our Technosphere Insulin System. At the present time our insulin supplier is certified to the ISO9001:2000 Standard. There can be no assurance, however, that if the FDA were to conduct a preapproval inspection of our insulin supplier or other suppliers, that the agency would find that the supplier substantially comply with the QSR or cGMP requirements, where applicable. If we or any potential third-party manufacturer or supplier fails to comply with these requirements or comparable requirements in foreign countries, regulatory authorities may subject us to regulatory action, including criminal prosecutions, fines and suspension of the manufacture of our products.

Reports of side effects or safety concerns in related technology fields or in other companies' clinical trials could delay or prevent us from obtaining regulatory approval or negatively impact public perception of our product candidates.

At present, there are a number of clinical trials being conducted by us and other pharmaceutical companies involving insulin delivery systems. If we discover that our lead product candidate is associated with a significantly increased frequency of adverse events, or if other pharmaceutical companies announce that they observed frequent adverse events in their trials involving the pulmonary delivery of insulin, we could encounter delays in the timing of our clinical trials or difficulties in obtaining the approval of our Technosphere Insulin System. As well, the public perception of our lead product candidates might be adversely affected, which could harm our business and results of operations and cause the market price of our common stock to decline, even if the concern relates to another company's products or product candidates.

There are also a number of clinical trials being conducted by other pharmaceutical companies involving compounds similar to, or competitive with, our other product candidates. Adverse results reported by these other companies in their clinical trials could delay or prevent us from obtaining regulatory approval or negatively impact public perception of our product candidates, which could harm our business and results of operations and cause the market price of our common stock to decline.

RISKS RELATED TO INTELLECTUAL PROPERTY

If we are unable to protect our proprietary rights, we may not be able to compete effectively, or operate profitably.

Our commercial success depends, in large part, on our ability to obtain and maintain intellectual property protection for our technology. Our ability to do so will depend on, among other things, complex legal and factual questions, and it should be noted that the standards regarding intellectual property rights in our fields are still evolving. We attempt to protect our proprietary technology through a combination of patents, trade secrets and confidentiality agreements. We own a number of domestic and international patents, have a number of domestic and international patent applications pending and have licenses to additional patents. We cannot assure you that our patents and licenses will successfully preclude others from using our technologies, and we could incur substantial costs in seeking enforcement of our proprietary rights against infringement. Even if issued, the patents may not give us an advantage over competitors with similar alternative technologies.

Moreover, the issuance of a patent is not conclusive as to its validity or enforceability and it is uncertain how much protection, if any, will be afforded by our patents. A third party may challenge the validity or enforceability of a patent after its issuance by various proceedings such as oppositions in foreign jurisdictions or re-examinations in the United States. If we attempt to enforce our patents, they may be challenged in court where they could be held invalid, unenforceable, or have their breadth narrowed to an extent that would destroy their value.

We also rely on unpatented technology, trade secrets, know-how and confidentiality agreements. We require our officers, employees, consultants and advisors to execute proprietary information and invention and assignment agreements upon commencement of their relationships with us. We also execute confidentiality agreements with outside collaborators. There can be no assurance, however, that these agreements will provide meaningful protection for our inventions, trade secrets, know-how or other proprietary information in the event of unauthorized use or disclosure of such information. If any trade secret, know-how or other technology not protected by a patent were to be disclosed to or independently developed by a competitor, our business, results of operations and financial condition could be adversely affected.

If we become involved in lawsuits to protect or enforce our patents or the patents of our collaborators or licensors, we would be required to devote substantial time and resources to prosecute or defend such proceedings.

Competitors may infringe our patents or the patents of our collaborators or licensors. To counter infringement or unauthorized use, we may be required to file infringement claims, which can be expensive and time-consuming. In addition, in an infringement proceeding, a court may decide that a patent of ours is not valid or is unenforceable, or may refuse to stop the other party from using the technology at issue on the grounds that our patents do not cover its technology. A court may also decide to award us a royalty from an infringing party instead of issuing an injunction against the infringing activity. An adverse determination of any litigation or defense proceedings could put one or more of our patents at risk of being invalidated or interpreted narrowly and could put our patent applications at risk of not issuing.

Interference proceedings brought by the U.S. Patent and Trademark Office, or USPTO, may be necessary to determine the priority of inventions with respect to our patent applications or those of our collaborators or licensors. Litigation or interference proceedings may fail and, even if successful, may result in substantial costs and be a distraction to our management. We may not be able, alone or with our collaborators and licensors, to prevent misappropriation of our proprietary rights, particularly in countries where the laws may not protect such rights as fully as in the United States. We may not prevail in any litigation or interference proceeding in which we are involved. Even if we do prevail, these proceedings can be very expensive and distract our management.

Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation. In addition, during the course of this kind of litigation, there could be public announcements of the results of hearings, motions or other interim proceedings or developments. If securities analysts or investors perceive these results to be negative, the market price of our common stock may decline.

If our technologies conflict with the proprietary rights of others, we may incur substantial costs as a result of litigation or other proceedings and we could face substantial monetary damages and be precluded from commercializing our products, which would materially harm our business.

Over the past three decades the number of patents issued to biotechnology companies has expanded dramatically. As a result it is not always clear to industry participants, including us, which patents cover the multitude of biotechnology product types. Ultimately, the courts must determine the scope of coverage afforded by a patent and the courts do not always arrive at uniform conclusions.

A patent owner may claim that we are making, using, selling or offering for sale an invention covered by the owner’s patents and may go to court to stop us from engaging in such activities. Such litigation is not uncommon in our industry. For example, in August 2006, Novo Nordisk filed a lawsuit against Pfizer claiming that Pfizer’s product Exubera infringes certain patents owned by Novo Nordisk that cover inhaled insulin treatment for diabetes. In its lawsuit, Novo Nordisk is seeking compensatory damages and permanent injunctive relief. Novo Nordisk had also filed a motion for a preliminary injunction, and while it was not granted, it could have substantially impacted Pfizer’s ability to commercialize Exubera while the lawsuit is in progress had it been granted.

Patent lawsuits can be expensive and would consume time and other resources. There is a risk that a court would decide that we are infringing a third party’s patents and would order us to stop the activities covered by the patents, including the commercialization of

our products. In addition, there is a risk that we would have to pay the other party damages for having violated the other party's patents (which damages may be increased, as well as attorneys' fees ordered paid, if infringement is found to be willful), or that we will be required to obtain a license from the other party in order to continue to commercialize the affected products, or to design our products in a manner that does not infringe a valid patent. We may not prevail in any legal action, and a required license under the patent may not be available on acceptable terms or at all, requiring cessation of activities that were found to infringe a valid patent. We also may not be able to develop a non-infringing product design on commercially reasonable terms, or at all.

Although we own a number of domestic and foreign patents and patent applications relating to our Technosphere Insulin System and cancer vaccine products under development, we have identified certain third-party patents having claims relating to chemical compositions of matter and pulmonary insulin delivery that may trigger an allegation of infringement upon the commercial manufacture and sale of our Technosphere Insulin System. We have also identified third-party patents disclosing methods of use and compositions of matter related to DNA-based vaccines that also may trigger an allegation of infringement upon the commercial manufacture and sale of our cancer therapy. If a court were to determine that our insulin products or cancer therapies were infringing any of these patent rights, we would have to establish with the court that these patents were invalid or unenforceable in order to avoid legal liability for infringement of these patents. However, proving patent invalidity or unenforceability can be difficult because issued patents are presumed valid. Therefore, in the event that we are unable to prevail in an infringement or invalidity action we will have to either acquire the third-party patents outright or seek a royalty-bearing license. Royalty-bearing licenses effectively increase production costs and therefore may materially affect product profitability. Furthermore, should the patent holder refuse to either assign or license us the infringed patents, it may be necessary to cease manufacturing the product entirely and/or design around the patents, if possible. In either event, our business would be harmed and our profitability could be materially adversely impacted.

Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation. In addition, during the course of this kind of litigation, there could be public announcements of the results of hearings, motions or other interim proceedings or developments. If securities analysts or investors perceive these results to be negative, the market price of our common stock may decline.

In addition, patent litigation may divert the attention of key personnel and we may not have sufficient resources to bring these actions to a successful conclusion. At the same time, some of our competitors may be able to sustain the costs of complex patent litigation more effectively than we can because they have substantially greater resources. An adverse determination in a judicial or administrative proceeding or failure to obtain necessary licenses could prevent us from manufacturing and selling our products or result in substantial monetary damages, which would adversely affect our business and results of operations and cause the market price of our common stock to decline.

We may not obtain trademark registrations for our potential trade names.

We have not selected trade names for some of our products and product candidates; therefore, we have not filed trademark registrations for our potential trade names for our products in all jurisdictions, nor can we assure that we will be granted registration of those potential trade names for which we have filed. Although we intend to defend any opposition to our trademark registrations, no assurance can be given that any of our trademarks will be registered in the United States or elsewhere or that the use of any of our trademarks will confer a competitive advantage in the marketplace. Furthermore, even if we are successful in our trademark registrations, the FDA has its own process for drug nomenclature and its own views concerning appropriate proprietary names. It also has the power, even after granting market approval, to request a company to reconsider the name for a product because of evidence of confusion in the marketplace. We cannot assure you that the FDA or any other regulatory authority will approve of any of our trademarks or will not request reconsideration of one of our trademarks at some time in the future.

RISKS RELATED TO OUR COMMON STOCK

Our stock price is volatile. *

The stock market, particularly in recent years, has experienced significant volatility particularly with respect to pharmaceutical and biotechnology stocks, and this trend may continue. The volatility of pharmaceutical and biotechnology stocks often does not relate to the operating performance of the companies represented by the stock. Our business and the market price of our common stock may be influenced by a large variety of factors, including:

- the progress and results of our clinical trials;

- announcements by us or our competitors concerning clinical trial results, acquisitions, strategic alliances, technological innovations, newly approved commercial products or other developments;
- the availability of critical materials used in developing and manufacturing our Technosphere Insulin System or other product candidates;
- developments or disputes concerning our patents or proprietary rights;
- the expense and time associated with, and the extent of our ultimate success in, securing regulatory approvals;
- announcements by us concerning our financial condition or operating performance;
- changes in securities analysts' estimates of our financial condition or operating performance;
- general market conditions and fluctuations for emerging growth and pharmaceutical market sectors;
- sales of large blocks of our common stock, including sales by our executive officers, directors and significant stockholders;
- discussion of our Technosphere Insulin System, our other product candidates, competitors' products, or our stock price by the financial and scientific press, the healthcare community and online investor communities such as chat rooms; and
- general economic, political or stock market conditions.

Any of these risks, as well as other factors, could cause the market price of our common stock to decline.

If other biotechnology and biopharmaceutical companies or the securities markets in general encounter problems, the market price of our common stock could be adversely affected.

Public companies in general and companies included on the Nasdaq Global Market in particular have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. There has been particular volatility in the market prices of securities of biotechnology and other life sciences companies, and the market prices of these companies have often fluctuated because of problems or successes in a given market segment or because investor interest has shifted to other segments. These broad market and industry factors may cause the market price of our common stock to decline, regardless of our operating performance. We have no control over this volatility and can only focus our efforts on our own operations, and even these may be affected due to the state of the capital markets.

In the past, following periods of large price declines in the public market price of a company's securities, securities class action litigation has often been initiated against that company. Litigation of this type could result in substantial costs and diversion of management's attention and resources, which would hurt our business. Any adverse determination in litigation could also subject us to significant liabilities.

Our Chief Executive Officer and principal stockholder can individually control our direction and policies, and his interests may be adverse to the interests of our other stockholders. After his death, his stock will be left to his funding foundations for distribution to various charities, and we cannot assure you of the manner in which those entities will manage their holdings. *

At June 30, 2007, Mr. Mann beneficially owned approximately 41.0% of our outstanding shares of capital stock. We believe members of Mr. Mann's family beneficially owned at least an additional 1.4% of our outstanding shares of common stock, although Mr. Mann does not have voting or investment power with respect to these shares. By virtue of his holdings, Mr. Mann can and will continue to be able to effectively control the election of the members of our board of directors, our management and our affairs and prevent corporate transactions such as mergers, consolidations or the sale of all or substantially all of our assets that may be favorable from our standpoint or that of our other stockholders or cause a transaction that we or our other stockholders may view as unfavorable.

Subject to compliance with U.S. federal and state securities laws, Mr. Mann is free to sell the shares of our stock he holds at any time. Upon his death, we have been advised by Mr. Mann that his shares of our capital stock will be left to the Alfred E. Mann Medical Research Organization, or AEMMRO, and AEM Foundation for Biomedical Engineering, or AEMFBE, not-for-profit medical research foundations that serve as funding organizations for Mr. Mann's various charities, including the Alfred Mann Foundation, or AMF, and the Alfred Mann Institute at the University of Southern California, the Technion-Israel Institute of Technology, and at

Purdue University, and that may serve as funding organizations for any other charities that he may establish. The AEMMRO is a membership foundation consisting of six members, including Mr. Mann, his wife, three of his children and Dr. Joseph Schulman, the chief scientist of the AEMFBE. The AEMFBE is a membership foundation consisting of five members, including Mr. Mann, his wife, and the same three of his children. Although we understand that the members of AEMMRO and AEMFBE have been advised of Mr. Mann's objectives for these foundations, once Mr. Mann's shares of our capital stock become the property of the foundations, we cannot assure you as to how those shares will be distributed or how they will be voted.

The future sale of our common stock or the conversion of our senior convertible notes into common stock could negatively affect our stock price. *

As of June 30, 2007, we had approximately 73.5 million shares of common stock outstanding. Substantially all of these shares are available for public sale, subject in some cases to volume and other limitations or delivery of a prospectus. If our common stockholders sell substantial amounts of common stock in the public market, or the market perceives that such sales may occur, the market price of our common stock may decline. Likewise the issuance of additional shares of our common stock upon the conversion of some or all of our senior convertible notes could adversely affect the trading price of our common stock. In addition, the existence of these notes may encourage short selling of our common stock by market participants. Furthermore, if we were to include in a company-initiated registration statement shares held by our stockholders pursuant to the exercise of their registrations rights, the sale of those shares could impair our ability to raise needed capital by depressing the price at which we could sell our common stock.

In addition, we will need to raise substantial additional capital in the future to fund our operations. On August 9, 2007, we filed a shelf registration statement with the SEC providing for the issuance of up to $350 million of equity and/or debt securities from time to time in one or more transactions. If we raise additional funds by issuing equity securities or additional convertible debt, the market price of our common stock may decline and our existing stockholders may experience significant dilution.

Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of us, which may be beneficial to our stockholders, more difficult and may prevent attempts by our stockholders to replace or remove our current management.

We are incorporated in Delaware. Certain anti-takeover provisions under Delaware law and in our certificate of incorporation and amended and restated bylaws, as currently in effect, may make a change of control of our company more difficult, even if a change in control would be beneficial to our stockholders. Our anti-takeover provisions include provisions such as a prohibition on stockholder actions by written consent, the authority of our board of directors to issue preferred stock without stockholder approval, and supermajority voting requirements for specified actions. In addition, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which generally prohibits stockholders owning 15% or more of our outstanding voting stock from merging or combining with us in certain circumstances. These provisions may delay or prevent an acquisition of us, even if the acquisition may be considered beneficial by some of our stockholders. In addition, they may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management.

Because we do not expect to pay dividends in the foreseeable future, you must rely on stock appreciation for any return on your investment.

We have paid no cash dividends on any of our capital stock to date, and we currently intend to retain our future earnings, if any, to fund the development and growth of our business. As a result, we do not expect to pay any cash dividends in the foreseeable future, and payment of cash dividends, if any, will also depend on our financial condition, results of operations, capital requirements and other factors and will be at the discretion of our board of directors. Furthermore, we may in the future become subject to contractual restrictions on, or prohibitions against, the payment of dividends. Accordingly, the success of your investment in our common stock will likely depend entirely upon any future appreciation. There is no guarantee that our common stock will appreciate in value after the offering or even maintain the price at which you purchased your shares, and you may not realize a return on your investment in our common stock.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

There were no sales of equity securities by us that were not registered under the Securities Act of 1933, as amended, during the second quarter of 2007.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Our 2007 Annual Meeting of Stockholders was held on May 24, 2007.

The following matters were voted on at our 2007 Annual Meeting of Stockholders:

1. The election of nine nominees to serve on our board of directors until the 2008 Annual Meeting of Stockholders. The following nine individuals were elected to our board of directors by the votes indicated:

	Affirmative Votes	Votes Withheld
Alfred E. Mann	60,411,891	63,594
Hakan S. Edstrom	60,429,675	45,810
A. E. Cohen	60,280,432	195,053
Ronald J. Consiglio	60,418,823	56,662
Michael Friedman, M.D.	59,899,803	575,682
Heather May Murren	60,428,083	47,402
Kent Kresa	59,909,935	565,550
David H. MacCallum	60,428,958	46,527
Henry L. Nordhoff	59,910,003	565,482

2. The approval of an amendment to our Amended and Restated Certificate of Incorporation to increase the authorized number of shares of common stock from 90 million shares to 150 million shares. The amendment of the Amended and Restated Certificate of Incorporation was approved by the following vote: 59,470,160 votes for and 1,003,738 votes against, with 46,455 votes abstaining and zero broker non-votes.

3. The ratification of Deloitte & Touche LLP as independent auditor for the fiscal year ending December 31, 2007. Deloitte & Touche, LLP was appointed as independent auditor by the following vote: 60,430,078 votes for and 27,877 votes against, with 17,530 votes abstaining and zero broker non-votes.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Description of Document
3.1(1)	Amended and Restated Certificate of Incorporation
3.2	Certificate of Amendment of Amended and Restated Certificate of Incorporation
3.3(1)	Amended and Restated Bylaws.
10.1	Agreement made as of the 13th day of September, 2006 between MannKind Corporation and Torcon, Inc.

Exhibit Number	Description of Document
31.1	Certification of the Chief Executive Officer Pursuant to Rules 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of the Chief Financial Officer Pursuant to Rules 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as amended.
32	Certifications of the Chief Executive Officer and Chief Financial Officer Pursuant to Rules 13a-14(b) or 15d-14(b) of the Securities Exchange Act of 1934, as amended and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. § 1350).

(1) Incorporated by reference to MannKind's registration statement on Form S-1 (File No. 333-115020), filed with the SEC on April 30, 2004, as amended.

SIGNATURE

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

Dated: August 9, 2007

MANNKIND CORPORATION

By: /s/ Richard L. Anderson
Richard L. Anderson
Corporate Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 3.2

State of Delaware
Secretary of State
Division of Corporations
Delivered 05:42 PM 05/25/2007
FILED 05:11 PM 05/25/2007
SRV 070626217 — 2254871 FILE

CERTIFICATE OF AMENDMENT OF
AMENDED AND RESTATED CERTIFICATE OF INCORPORATION OF
MANNKIND CORPORATION

MannKind Corporation, a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the ***"DGCL"***), does hereby certify:

First: The original name of the corporation was Pharmaceutical Discovery Corporation. The date on which the corporation's original Certificate of Incorporation was filed with the Secretary of State of the State of Delaware is February 14, 1991.

Second: This Certificate of Amendment amends certain provisions of the Amended and Restated Certificate of Incorporation of the corporation (the ***"Restated Certificate"***) and has been duly adopted by the Board of Directors of the corporation acting in accordance with the provisions of Section 242 of the DGCL, and further adopted in accordance with the provisions of Sections 211 and 242 of the DGCL by the stockholders of the Corporation and shall become effective upon filing with the Secretary of State of the State of Delaware.

Third: Paragraph A of Article IV of the Restated Certificate is hereby amended and restated to read in its entirety as follows:

A. This Corporation is authorized to issue two classes of stock to be designated, respectively, "*Common Stock*" and "*Preferred Stock.*" The total number of shares which the Corporation is authorized to issue is one hundred sixty million (160,000,000) shares. One hundred fifty million (150,000,000) shares shall be Common Stock, each having a par value of one cent ($.01). Ten million (10,000,000) shares shall be Preferred Stock, each having a par value of one cent ($.01).

In Witness Whereof, MannKind Corporation has caused this Certificate of Amendment to be signed by its Chairman of the Board and Chief Executive Officer, May 24, 2007.

MannKind Corporation

By: /s/ Alfred Mann
Alfred Mann
Chairman of the Board and Chief Executive Officer

Exhibit 10.1

AIA® Document A111 ™ – 1997

Standard Form of Agreement Between Owner and Contractor
where the basis for payment is the COST OF THE WORK PLUS A FEE with a negotiated Guaranteed Maximum Price

AGREEMENT made as of the 13th day of September in the year 2006
(In words, indicate day, month and year)

BETWEEN the Owner:
(Name, address and other information)

MannKind Corporation
One Casper Street
Danbury, CT 06810
Phone: (203) 796-3423
Fax: (203) 798-7740

and the Contractor:
(Name, address and other information)

Torcon, Inc.
328 Newman Springs Road
Red Bank, NJ 07701
Phone: (732) 704-9800
Fax: (732) 704-9811

The Project is:
(Name and location)

Inhaleable Insulin Manufacturing Facility
Danbury, CT

The Engineer is:
(Name, address and other information)

CRB Consulting Engineers, Inc.
20 West Germantown Pike, Suite 170
Plymouth Meeting, PA 19426

The Architect (consultant to Engineer) is:
Kling
2301 Chestnut Street
Philadelphia, PA 19103

The Owner and Contractor agree as follows.

ADDITIONS AND DELETIONS: The author of this document has added information needed for its completion. The author may also have revised the text of the original AIA standard form. An *Additions and Deletions Report* that notes added information as well as revisions to the standard form text is available from the author and should be reviewed.

This document has important legal consequences. Consultation with an attorney is encouraged with respect to its completion or modification.

This document is not intended for use in competitive bidding.

AIA Document A201-1997, General Conditions of the Contract for Construction, is adopted in this document by reference. Do not use with other general conditions unless this document is modified.

This document has been approved and endorsed by the Associated General Contractors of America

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ARTICLE 1 THE CONTRACT DOCUMENTS

The Contract Documents consist of this Agreement, Conditions of the Contract (General, Supplementary and other Conditions), Drawings, Specifications, Addenda issued prior to execution of this Agreement, other documents listed in Article 15 of this Agreement and Modifications issued after execution of this Agreement; these form the Contract, and are as fully a part of the Contract as if attached to this Agreement or repeated herein. The Contract represents the entire and integrated agreement between the parties hereto and supersedes prior negotiations, representations or agreements, either written or oral. An enumeration of the Contract Documents, other than Modifications, appears in Article 15. If anything in the other Contract Documents is inconsistent with this Agreement, this Agreement shall govern. In the event of a conflict between any of the Contract Documents other than this Agreement, the Contract Document bearing the later date shall control.

ARTICLE 2 THE WORK OF THIS CONTRACT

§2.1 The Contractor shall fully execute the Work described in this Agreement and in the Contract Documents or reasonably inferable by Contractor to produce the results intended by the Contract Documents, except to the extent specifically indicated in the Contract Documents to be the responsibility of others. The Work shall be executed in a good and workmanlike manner and in accordance with the intent and meaning of the Contract Documents as well as any additional Contract Documents (including, without limitation, plans and specifications) that Owner may furnish or approve for use in the Work, all of which when so furnished or approved by Owner shall be deemed to be a part of the Contract.

ARTICLE 3 RELATIONSHIP OF THE PARTIES

The Contractor accepts the relationship of trust and confidence established by this Agreement and covenants with the Owner to cooperate with the Engineer and Architect and exercise the Contractor's skill and judgment in furthering the interests of the Owner; to furnish efficient business administration and supervision; to furnish at all times an adequate supply of workers and materials; and to perform the Work in an expeditious and economical manner consistent with the Owner's interests and with the Work Progress Schedule described herein and all applicable budgets and work progress schedules (whether bar, CPM, PERT or any modifications or combinations thereof, as chosen by Owner), which Contractor agrees to prepare for the Owner's and Engineer's review. The Owner agrees to furnish and approve, in a timely manner, information required by the Contractor and to make payments to the Contractor in accordance with the requirements of the Contract Documents.

ARTICLE 4 DATE OF COMMENCEMENT AND SUBSTANTIAL COMPLETION

§ 4.1 The date of commencement of the Work shall be December 11, 2006.
(Insert the date of commencement, if it differs from the date of this Agreement or, if applicable, state that the date will be fixed in a notice to proceed.)

If, prior to commencement of the Work, the Owner requires time to file mortgages, mechanic's liens and other security interests, the Owner's time requirement shall be as follows:

Not applicable

§ 4.2 The Contract Time shall be measured from the date of commencement.

§ 4.3 The Contractor shall achieve Substantial Completion of all mechanical systems (including all testing and validation) in accordance with the following schedule:

Central Utility Building: Not later than January 30, 2008
Building 2A: Not later than March 17, 2008
Building 2B: Not later than July 9, 2008

Contractor shall achieve Substantial Completion of the entire Work not later than November 28, 2008.
(Insert number of calendar days. Alternatively, a calendar date may be used when coordinated with the date of commencement. Unless stated elsewhere in the Contract Documents, insert any requirements for earlier Substantial Completion of certain portions of the Work.)

Portion of Work **Substantial Completion date**

, subject to adjustments of this Contract Time as provided in the Contract Documents.
(Insert provisions, if any, for liquidated damages relating to failure to complete on time, or for bonus payments for early completion of the Work.)

§4.4 Prior to start of construction the Contractor shall prepare and submit for the Owner's review a detailed construction progress schedule for the Work ("Project Schedule"), which shall be related to the entire Project and shall indicate the estimated dates for the starting and completion of each of the various stages of construction of the Work. The initial Project Schedule prepared by Contractor and reviewed by Owner is attached to this Agreement as Exhibit "B." With the advance review of the Owner, it shall be revised as required by the conditions of the Work, but not less frequently than monthly.

The Project Schedule shall show:

§4.4.1 A sequence of operations mutually agreeable to the Owner and the Contractor;

§4.4.2 Shop drawing submittal schedule for the various items of the Work.

§4.4.3 The dates of proposed commencement and completion of each of the various items of the Work; and

§4.4.4 Expected delivery dates for all materials and equipment.

The Project Schedule shall include a complete itemized breakdown of the Work.

It shall be the Contractor's responsibility to use its best efforts to maintain the progress of the Work in accordance with the Project Schedule. If Contractor requests an extension of the Contract Time, the request shall be accompanied by a revised Project Schedule showing all necessary adjustments consistent with the requested extension.

If the Contractor shall fail in any respect to prosecute the Work with promptness and diligence, or if the progress of the Work is such that in Owner's opinion its completion within the Contract Time (as adjusted under the terms of the Contract Documents) is improbable, the Contractor shall, if Owner so requests, use such overtime labor as shall be necessary to insure the completion of the Work within the time specified above, but the Contractor shall have no claim for any adjustment of the Contractor's Fee or the Guaranteed Maximum Price (as defined below), nor for reimbursement because of the extra expenses thereby occasioned.

In executing this Agreement, Contractor represents the Contract Time (as may be adjusted under the Contract Documents) appears to be reasonable, taking into consideration the current status of the Contract Documents, the type of construction planned and the site conditions, climatic conditions and industrial conditions (including, without limitation, labor conditions) prevailing in the area of the Project.

§ 4.5 Time is of the essence in the performance of this Agreement. The Contractor acknowledges and recognizes that the Owner is entitled to full and beneficial occupancy and use of the completed Work following expiration of the Contract Time. The Contractor further acknowledges and agrees that if the Contractor fails to achieve Substantial Completion of the Work within the Contract Time, the Owner will sustain extensive damages and serious loss as a result of such failure.

ARTICLE 5 BASIS FOR PAYMENT

§ 5.1 CONTRACT SUM

§ 5.1.1 The Owner shall pay the Contractor the Contract Sum in current funds for the Contractor's performance of the Contract. The Contract Sum is the Cost of the Work as defined in Article 7 plus the Contractor's Fee.

§ 5.1.2 The Contractor's Fee is: One point two five percent (1.25%) of the Cost of the Work

(State a lump sum, percentage of Cost of the Work or other provision for determining the Contractor's Fee, and describe the method of adjustment of the Contractor's Fee for changes in the Work.)

The Contractor's Fee on changes in the Work as defined in Article 7 of AIA Document A201-1997 shall be one point two five percent (1.25%) of the cost of performing the change in the Work as determined by such Article 7, and ten percent (10%) of such cost as compensation in full for the Contractor's General Conditions costs as defined in Section 5.2.1, below.

§ 5.2 GUARANTEED MAXIMUM PRICE

§ 5.2.1 The sum of the Cost of the Work and the Contractor's Fee is guaranteed by the Contractor not to exceed One Hundred and Fourteen Million, Twenty Two Thousand, Five Hundred and Seventy-Eight Dollars ($114,022,578.00), based on the terms and conditions of the Torcon Control Estimate (Revised) dated February 28, 2007 (attached as Exhibit "C" and sometimes referred to herein as the "GMP Estimate"), subject to additions and deductions by Change Order as provided in the Contract Documents. Such maximum sum is referred to in the Contract Documents as the Guaranteed Maximum Price. Costs which would cause the Guaranteed Maximum Price to be exceeded shall be paid by the Contractor without reimbursement by the Owner. Contractor has provided Owner with a detailed Guaranteed Maximum Price (GMP) Estimate which includes a breakdown of all anticipated Costs of the Work, including Contractor's General Conditions costs. As used herein, "General Conditions" costs shall mean the costs of those facilities and services necessary for the proper execution and completion of the Work but which are not incorporated in the Work, such as the salaries, bonuses and expenses of field office personnel, the costs of temporary facilities, the costs of implementing and executing safety programs, premiums for insurance required by this Agreement, and the costs of the Contractor's demobilization, clean-up and removal of field office. In the event of any conflict between the terms of the GMP Estimate and the terms of this Agreement or of the accompanying General Conditions of the Contract for Construction, AIA Document A201-1997, as modified ("AIA Document A201-1997"), the terms of this Agreement and AIA Document A201-1997 shall govern.

§ 5.2.2 The Guaranteed Maximum Price is based on the following alternates, if any, which are described in the Contract Documents and are hereby accepted by the Owner:
(State the numbers or other identification of accepted alternates. If decisions on other alternates are to be made by the Owner subsequent to the execution of this Agreement, attach a schedule of such other alternates showing the amount for each and the date when the amount expires.)

§ 5.2.3 Unit prices, if any, are as follows:

Description	Units	Price ($ 0.00)

§ 5.2.4 Allowances, if any, are as follows
(Identify and state the amounts of any allowances, and state whether they include labor, materials, or both.)

Allowance	Amount ($ 0.00)	Included items

§ 5.2.5 Assumptions, if any, on which the Guaranteed Maximum Price is based are as follows:

§ 5.2.6 To the extent that the Drawings and Specifications are anticipated to require further development by the Engineer or Architect, the Contractor has provided in the Guaranteed Maximum Price for such further development consistent with the Contract Documents and reasonably inferable therefrom. Such further development does not include such things as changes in scope, systems, kinds and quality of materials, finishes or equipment, all of which, if required, shall be incorporated by Change Order.

§.5.2.7 The Guaranteed Maximum Price shall include a fixed contingency line item which includes a design contingency as well as a construction contingency (the "Contingency") in the amount of Seven Million, Five

Hundred and Forty-Six Thousand, One Hundred Dollars ($7,546,100.00) as detailed in the Torcon Control Estimate (Revised) dated February 28, 2007. The parties intend that the Contingency is to be used for Costs of the Work not anticipated by the Contractor at the time the GMP was established, whether resulting from errors or omissions of the Contractor, the failure of Subcontractors to fully perform, increases in the prices of materials, or from development or evolution of the design of the Project but shall not be used for Changes in the Work. A separate contingency will be established by the Owner to fund the cost of Changes in the Work. Subject to Owner review and approval (which approval shall not be unreasonably withheld), Contractor may access and bill against this Contingency line item whenever Contractor's actual costs for any other line items exceeds the costs reflected in the GMP Budget for those line items, and Owner shall pay or reimburse Contractor pursuant to Article 12 for such contingency billings provided that such payment or reimbursement is for a Cost of the Work item, and does not cause the Guaranteed Maximum Price to be exceeded. Notwithstanding anything to the contrary, Contingency funds cannot be used to pay for the cost of Work performed by a "Related Party" as that term is defined in Section 10.4 below ("Self-Performed Work"). Any increases in the price of materials required to perform the Work that are not anticipated by Contractor at the time the GMP was established shall be paid from the Contingency. If the Contingency has been fully depleted, the GMP shall be increased by Change Order for the amount of any such increases in the price of materials that are not paid out of the Contingency.

Whenever Contractor's estimate for any given line item in its GMP Budget (with the exception of any line items associated with Costs of Self-Performed Work) exceeds the cost to complete the Work under that line item, Contractor may transfer the excess to the Contingency line item, subject to Owner review and approval, and thereafter seek Owner's approval to access and bill against the Contingency line item as provided in the immediately preceding paragraph. Concurrently with its pay applications, Contractor will provide Owner with all documentation Owner reasonably requires to identify each transfer included in the application and the effect of the transfer, if any, on the cost to complete the Work. Any line item transfers approved by Owner under this Section 5.2.7 must be documented in a "no cost" Change Order signed by Owner.

ARTICLE 6 CHANGES IN THE WORK

§6.1 Adjustments to the Guaranteed Maximum Price on account of changes in the Work (also referred to herein as a "Change") may be determined by any of the methods listed in Section 7.3.3 of AIA Document A201-1997 Change Orders.

§6.1.1 Owner, without invalidating the Contract, may order Changes in the Work within the general scope of the Contract consisting of additions, deletions or other revisions of the Work, with the Guaranteed Maximum Price and/or the Contract Time being adjusted accordingly. Contractor acknowledges and agrees that it shall not be entitled to adjust the Guaranteed Maximum Price or the Contract Time except as provided in this Contract. All such Changes in the Work shall be authorized by Change Order or Construction Change Directive, and shall be performed under the applicable conditions of the Contract Documents.

§6.1.2 Upon issuance of a Change Order by Owner, Contractor and its Subcontractors will perform the Change(s) in the Work incorporated by the Change Order. In the event the Change Order results in an increased Cost of the Work, Owner shall pay Contractor for such Change(s) in the Work in the time and manner set forth in Article 12.

§6.1.3 Any difference between the Drawings and Specifications and any revised drawings and specifications shall not constitute a Change in the Work unless such differences are not reasonably inferable from the Drawings and Specifications.

§6.1.4 Notwithstanding and pending resolution of any adjustment in the Guaranteed Maximum Price or Contract Time with respect to a Change, Contractor shall promptly proceed with Work required by any Change Order or Construction Change Directive issued by Owner.

§6.2 Minor Changes in the Work

§6.2.1 Engineer, with Owner's concurrence, will have authority to order minor Changes in the Work not involving an adjustment to the Guaranteed Maximum Price or an extension of the Contract Time and not inconsistent with the intent of the Contract Documents. Such minor changes shall be effected by written order, and shall be binding on Contractor, who shall carry out such written orders promptly.

§6.3 Limitation of Entitlement

§6.3.1 Nothing in this Article 6 shall excuse Contractor from proceeding with the Contract as modified. Nothing contained in this Article 6 shall operate to limit or extinguish any right or defense of Owner or Contractor contained elsewhere in the Contract Documents.

ARTICLE 7 COSTS TO BE REIMBURSED

§ 7.1 COST OF THE WORK

The term Cost of the Work shall mean costs necessarily incurred by the Contractor in the proper performance of the Work. Such costs shall be at rates not higher than the standard paid at the place of the Project except with prior consent of the Owner. The Cost of the Work shall include only the items set forth in this Article 7.

§ 7.2 LABOR COSTS

§ 7.2.1 Wages of construction workers directly employed by the Contractor to perform the construction of the Work at the site or, with the Owner's approval, at off-site workshops.

§ 7.2.2 Wages or salaries and bonuses of the Contractor's supervisory, project executive and administrative personnel when stationed at the field office, in whatever capacity employed. Any field office personnel in addition to a superintendent, assistant superintendent and watchman must be approved by Owner, and will be charged for only such time as is actually spent on the job as well as when Contractor's staff is performing Project specific tasks off site.
(If it is intended that the wages or salaries of certain personnel stationed at the Contractor's principal or other offices shall be included in the Cost of the Work, identify in Article 14 the personnel to be included and whether for all or only part of their time, and the rates at which their time will be charged to the Work.)

§ 7.2.3 Wages and salaries of the Contractor's supervisory or administrative personnel engaged at factories, workshops or on the road, in expediting the production or transportation of materials or equipment required for the Work, but only for that portion of their time required for the Work.

§ 7.2.4 Wages and salaries included in the Cost of the Work under Sections 7.2.1 through 7.2.3 paid or incurred by the Contractor shall be multiplied by a factor of two point two five (2.25) for taxes, insurance, contributions, assessments and benefits required by law or collective bargaining agreements and, for personnel not covered by such agreements, customary benefits such as sick leave, medical and health benefits, holidays, vacations and pensions..

§ 7.3 SUBCONTRACT COSTS

§ 7.3.1 Payments made by the Contractor to Subcontractors in accordance with the requirements of the subcontracts.

§ 7.4 COSTS OF MATERIALS AND EQUIPMENT INCORPORATED IN THE COMPLETED CONSTRUCTION

§ 7.4.1 Costs, including transportation and storage, of materials and equipment incorporated or to be incorporated in the completed construction. Such materials not incorporated or consumed on the Project will remain the property of the Owner. Contractor must submit an ongoing accounting (including cost) of these materials and a final material reconciliation prior to final Application for Payment.

§ 7.4.2 Costs of materials described in the preceding Section 7.4.1 in excess of those actually installed to allow for reasonable waste and spoilage. Unused excess materials, if any, shall become the Owner's property at the completion of the Work or, at the Owner's option, shall be sold by the Contractor. Any amounts realized from such sales shall be credited to the Owner as a deduction from the Cost of the Work.

§ 7.5 COSTS OF OTHER MATERIALS AND EQUIPMENT, TEMPORARY FACILITIES AND RELATED ITEMS

§ 7.5.1 Costs, including transportation and storage, installation, maintenance, dismantling and removal of materials, supplies, temporary facilities, machinery, equipment, and hand tools not customarily owned by construction workers, that are provided by the Contractor at the site and fully consumed in the performance of the Work; and cost (less salvage value) of such items which are used but not fully consumed, which remain the property of the Contractor.

§ 7.5.2 Rental charges for temporary facilities, machinery, equipment, and hand tools not customarily owned by construction workers that are provided by the Contractor at the site, whether rented from the Contractor or others, including installation, minor repairs and replacements, dismantling, removal, transportation and delivery costs

thereof, at rental charges not to exceed AGC or CRG Rates for Contractor's owned equipment and AED or bluebook rates when rented from others.

§ 7.5.3 Costs of removal of construction-generated debris from the site.

§ 7.5.4 Costs of document reproductions, facsimile transmissions and long-distance telephone calls, postage and parcel delivery charges, telephone service at the site and reasonable petty cash expenses of the site office.

§ 7.5.5 That portion of the reasonable (economy class) transportation, traveling, living and hotel expenses of the Contractor or of his officers or employees in discharge of duties connected directly and solely with the Work, when traveling more than thirty-five (35) miles one way from the Project. Costs for mileage shall not exceed $0.485/mile.

§ 7.5.6 Costs of materials and equipment suitably stored off the site at a mutually acceptable location, if approved in advance by the Owner.

§ 7.6 MISCELLANEOUS COSTS

§ 7.6.1 Except as excluded by Sections 8.1.9 and 8.1.10, that portion of insurance and bond premiums that can be directly attributed to this Contract:

§ 7.6.2 Sales, use, lease, gross receipt or similar taxes imposed by a governmental authority that are related to the Work.

§ 7.6.3 Fees and assessments for the building permit and for other permits, licenses and inspections for which the Contractor is required by the Contract Documents to pay.

§ 7.6.4 Fees of laboratories for tests required by the Contract Documents, except those related to defective or nonconforming Work for which reimbursement is excluded by Section 13.5.3 of AIA Document A201-1997 or other provisions of the Contract Documents, and which do not fall within the scope of Section 7.7.3.

§ 7.6.5 Royalties and license fees paid for the use of a particular design, process or product required by the Contract Documents; the cost of defending suits or claims for infringement of patent rights arising from such requirement of the Contract Documents; and payments made in accordance with legal judgments against the Contractor resulting from such suits or claims and payments of settlements made with the Owner's consent. However, such costs of legal defenses, judgments and settlements shall not be included in the calculation of the Contractor's Fee or subject to the Guaranteed Maximum Price. If such royalties, fees and costs are excluded by other provisions of the Contract Documents, then they shall not be included in the Cost of the Work.

§ 7.6.6 Data processing costs related to the Work.

§ 7.6.7 Permit fees, royalties and deposits lost for causes other than the Contractor's negligence or failure to fulfill a specific responsibility to the Owner as set forth in the Contract Documents.

§ 7.6.8 Legal, mediation and arbitration costs, including attorneys' fees, other than those arising from disputes between the Owner and Contractor, reasonably incurred by the Contractor in the performance of the Work and with the Owner's prior written approval; which approval shall not be unreasonably withheld.

§ 7.6.9 Expenses incurred in accordance with the Contractor's standard personnel policy for relocation and temporary living allowances of personnel required for the Work, if approved by the Owner in writing.

§ 7.7 OTHER COSTS AND EMERGENCIES

§ 7.7.1 Other costs incurred in the performance of the Work if and to the extent approved in advance in writing by the Owner.

§ 7.7.2 Costs due to emergencies incurred in taking action to prevent threatened damage, injury or loss in case of an emergency affecting the safety of persons and property, as provided in Section 10.6 of AIA Document A201-1997.

§ 7.7.3 Costs of repairing or correcting damaged or nonconforming Work executed by the Contractor, Subcontractors or suppliers, provided that such damaged or nonconforming Work was not caused by negligence or failure to fulfill a specific responsibility of the Contractor and only to the extent that the cost of repair or correction is not recoverable by the Contractor from insurance, sureties, Subcontractors or suppliers.

§7.7.4 Losses and expenses, not compensated by insurance or otherwise, sustained by the Contractor in connection with the Work, provided they have resulted from causes other than the fault or neglect of the Contractor, any subcontractor, or anyone directly or indirectly employed by any of them or for whose acts any of them may be liable. Such losses shall include settlements made with the written consent and approval of the Client.

§7.7.5 Costs of water, power, fuel, first aid, temporary facilities, winter protection, OSHA protection, blueprints, photographs, and field office supplies.

§7.7.6 General Conditions costs as set forth in the GMP Estimate as described in Section 5.2.1 and attached as Exhibit “C”.

§7.7.7 The cost of all glass protection shall be a Cost of the Work. The Contractor shall also replace all broken or otherwise damaged glass before Substantial Completion of the Work. The cost of breakage or other such damage to the glass shall be a Cost of the Work, if such breakage or damage cannot be determined to be the fault of the Contractor or a specifically identifiable Subcontractor, provided that such costs shall not increase the Guaranteed Maximum Cost.

§7.7.8 Any cost referred to in Section 8.1.6 of this Agreement that cannot be determined to be the fault of the Contractor or any specifically identifiable Subcontractor or other person or persons referred to in that provision shall be a Cost of the Work, provided that the GMP shall not be increased because of such costs.

§7.7.9 If requested by Owner, the cost of a final certified audit of the Contractor’s Cost of the Work for any project unless such audit reveals an overcharge in excess of the GMP.

ARTICLE 8 COSTS NOT TO BE REIMBURSED

§ 8.1 The Cost of the Work shall not include:

§ 8.1.1 Salaries and other compensation of the Contractor’s personnel stationed at the Contractor’s principal office or offices other than the site office, except as specifically provided in Sections 7.2.2 and 7.2.3.

§ 8.1.2 Expenses of the Contractor’s principal office and offices other than the field office.

§ 8.1.3 Overhead and general expenses of any kind, except as may be expressly included in Article 7.

§ 8.1.4 The Contractor’s capital expenses, including interest on the Contractor’s capital employed for the Work.

§ 8.1.5 Rental costs of machinery and equipment, except as specifically provided in Section 7.5.2.

§ 8.1.6 Costs due to the negligence or failure to fulfill a specific responsibility of the Contractor, Subcontractors and suppliers or anyone directly or indirectly employed by any of them or for whose acts any of them may be liable, including but not limited to the cost to correct defective or nonconforming Work, dispose of materials and equipment wrongly supplied, or making good any damage to property.

§ 8.1.7 Any cost not specifically and expressly described in Article 7.

§ 8.1.8 Costs, other than costs included in Change Orders approved by the Owner, that would cause the Guaranteed Maximum Price to be exceeded.

§8.1.9 Cost of Contractor’s general fidelity insurance, and any losses sustained by Contractor in connection with theft, robbery, or embezzlement caused by defalcation of Contractor’s employees.

§8.1.10 The cost of insurance on equipment owned by Contractor.

§8.1.11 Contractor's entertainment expense.

§8.1.12 Any of Contractor's income, excess profits, franchise taxes, and the cost of any licenses obtained or other taxes or levies imposed in connection with the general conduct of Contractor's business.

§8.1.13 Any of the Contractor's travel expenses within seventy (70) miles or less of the Project except as Owner hereafter may specifically authorize in writing.

§8.1.14 Office supplies and office equipment and furniture, except as used at the field office.

§8.1.15 Dues and/or assessments of construction organizations, unions or associations.

§8.1.16 Any costs resulting from unacceptable work by the Contractor or anyone directly employed by him, making good on damaged property, corrective work, or excess costs for material or labor or otherwise, as may be determined by the Engineer or Owner shall be borne by the Contractor without reimbursement or liability by the Owner. Such work shall be performed and completed when so directed by Owner in accordance with Article 12 of the General Conditions.

§8.1.17 Costs incurred or paid to perform pursuant to warranties and guarantees.

§8.1.18 Legal costs (including attorney's fees), except as provided in Section 7.6.8.

§8.1.19 General Conditions costs incurred after the Final Completion of the Work, as defined in Article 9 of the General Conditions.

ARTICLE 9 DISCOUNTS, REBATES, REFUNDS AND PURCHASE/LEASE DECISIONS

§ 9.1 All trade discounts, cash discounts earned through advance or prompt payment, proceeds from insurance or the sale of surplus materials and equipment, and the fair market value of any tools, supplies or equipment purchased for the Work but not incorporated therein or sold, refunds of insurance or bond premiums, and to the extent permitted by law, fees, commissions, and gratuities received by Contractor, or any subsidiary or affiliate, in connection with the Work shall be for the benefit of Owner and shall reduce the Cost of the Work. Contractor shall require all of its subcontractors and suppliers, and shall itself use best efforts to obtain the most favorable quantity and cash discounts and rebates in making purchases of materials, supplies, equipment and tools, and except in the case of fixed price subcontracts, all such discounts and rebates shall be credited to the Owner and shall reduce the Cost of the Work.

§9.2 The Contractor is to determine the economic feasibility of purchasing or leasing the equipment over the life of the applicable Project. If the decision, with the Owner's approval, is to lease, the rental rates should be in accordance with the current rates in the Associated Equipment Dealers book. If the decision, with the Owner's approval, is to purchase the equipment, the equipment will be returned to the Owner at the end of the Project in clean and good working order. The Contractor may be given an option to purchase the equipment for the Owner at a mutually acceptable discounted rate at the end of the Project. All equipment, machinery and tools expressly purchased by the Contractor for each Project, under the General Conditions, shall be accounted for and remain on site and become the property of the Owner, unless agreed to in advance in writing between the Owner and Contractor.

§ 9.3 Amounts that accrue to the Owner in accordance with the provisions of Section 9.1 shall be credited to the Owner as a deduction from the Cost of the Work.

ARTICLE 10 SUBCONTRACTS AND OTHER AGREEMENTS

§ 10.1 Those portions of the Work that the Contractor does not customarily perform with the Contractor's own personnel shall be performed under subcontracts or by other appropriate agreements with the Contractor. The Owner may designate specific persons or entities from whom the Contractor shall obtain bids. The Contractor shall make every effort to obtain at least three (3) responsive bids from Subcontractors and from suppliers of materials or equipment fabricated especially for the Work and shall deliver such bids to the Owner. The Owner shall then determine, with the advice of the Contractor and the Engineer, which bids will be accepted. The Contractor shall not be required to contract with anyone to whom the Contractor has reasonable objection.

§ 10.2 If a specific bidder among those whose bids are delivered by the Contractor to the Owner or Engineer (1) is recommended to the Owner by the Contractor; (2) is qualified to perform that portion of the Work; and (3) has submitted a bid that conforms to the requirements of the Contract Documents without reservations or exceptions, but the Owner requires that another bid be accepted, then the Contractor may require that a Change Order be issued to adjust the Guaranteed Maximum Price by the difference between the bid of the person or entity recommended to the Owner by the Contractor and the amount of the subcontract or other agreement actually signed with the person or entity designated by the Owner.

§ 10.3 Subcontracts or other agreements shall conform to the applicable payment provisions of this Agreement, and shall not be awarded on the basis of cost plus a fee without the prior consent of the Owner.

§ 10.4 Contractor shall not enter into any contract, subcontract, purchase order or other such agreement in connection with the Work with any Related Party, as defined below, unless (i) Contractor has satisfied the requirements of this Article 10 with respect to such arrangement and (ii) such arrangement has been approved in writing by Owner, after full disclosure in writing by Contractor to Owner of such affiliation or relationship and all details relating to the proposed agreement. The terms of any such agreement must conform to the requirements of the Contract Documents. “Related Party” means (a) with respect to any officer, employee, or owner of the Contractor, an individual who is a relative or an entity owned or managed by a relative, and (b) any party or entity related to or affiliated with the Contractor or in which the Contractor has direct or indirect ownership or control, including, without limitation, (i) any entity owned in whole or in part by the Contractor, (ii) any party or entity with more than five percent (5%) interest in the Contractor, and (iii) any entity in which any officer, director, employee, partner or shareholder (or member of the family of any of the foregoing persons) of the Contractor or any entity owned by the Contractor has a direct or indirect interest. “Relative” means father, mother, son, daughter, brother, sister, uncle, aunt, first cousin, nephew, niece, husband, wife, father-in-law, mother-in-law, sister-in-law, brother-in-law, stepfather, stepmother, stepson, stepdaughter, stepbrother, stepsister, half brother, or half sister.

ARTICLE 11 ACCOUNTING RECORDS

The Contractor shall keep full and detailed accounts and exercise such controls as may be necessary for proper financial management under this Contract, and the accounting and control systems shall be satisfactory to the Owner. The Owner and the Owner’s accountants shall be afforded access to, and shall be permitted to audit and copy, the Contractor’s records, books, correspondence, instructions, drawings, receipts, subcontracts, purchase orders, vouchers, memoranda and other data relating to this Contract, and the Contractor shall preserve these for a period of three years after final payment, or for such longer period as may be required by law.

ARTICLE 12 PAYMENTS

§ 12.1 PROGRESS PAYMENTS

§ 12.1.1 Based upon Applications for Payment submitted to the Owner by the Contractor, the Owner shall make progress payments on account of the Contract Sum to the Contractor as provided below and elsewhere in the Contract Documents.

§ 12.1.2 The period covered by each Application for Payment shall be one calendar month ending on the last day of the month, or as follows:

§ 12.1.3 Provided that an Application for Payment and all supporting documentation required hereunder is received by the Owner not later than the first day of a month, the Owner shall make payment to the Contractor of undisputed amounts not later than the thirtieth day of the same month. If an Application for Payment is received by the Owner after the application date fixed above, payment of undisputed amounts shall be made by the Owner not later than thirty (30) days after the Owner receives the Application for Payment and all supporting documentation.

§ 12.1.4 With each Application for Payment, the Contractor shall submit payrolls, petty cash accounts, receipted invoices or invoices with check vouchers attached, partial lien waivers in form acceptable to Owner from the Contractor, its subcontractors and sub-subcontractors and all material suppliers, and any other evidence required by the Owner, Owner’s lender or Engineer to demonstrate that cash disbursements already made by the Contractor on account of the Cost of the Work equal or exceed (1) progress payments already received by the Contractor; less (2)

that portion of those payments attributable to the Contractor's Fee; plus (3) payrolls for the period covered by the present Application for Payment.

§ 12.1.5 Each Application for Payment shall be based on the most recent schedule of values submitted by the Contractor in accordance with the Contract Documents. The schedule of values shall allocate the entire Guaranteed Maximum Price among the various portions of the Work, except that the Contractor's Fee shall be shown as a single separate item. The schedule of values shall be prepared in such form and supported by such data to substantiate its accuracy as the Owner may require. This schedule, unless objected to by the Owner, shall be used as a basis for reviewing the Contractor's Applications for Payment.

§ 12.1.6 Applications for Payment shall show the percentage of completion of each portion of the Work as of the end of the period covered by the Application for Payment. The percentage of completion shall be the lesser of (1) the percentage of that portion of the Work which has actually been completed; or (2) the percentage obtained by dividing (a) the expense that has actually been incurred by the Contractor on account of that portion of the Work for which the Contractor has made or intends to make actual payment prior to the next Application for Payment by (b) the share of the Guaranteed Maximum Price allocated to that portion of the Work in the schedule of values.

§ 12.1.7 Subject to other provisions of the Contract Documents, the amount of each progress payment shall be computed as follows:

.1 take that portion of the Guaranteed Maximum Price properly allocable to completed Work as determined by multiplying the percentage of completion of each portion of the Work by the share of the Guaranteed Maximum Price allocated to that portion of the Work in the schedule of values. Pending final determination of cost to the Owner of changes in the Work, amounts not in dispute shall be included as provided in Section 7.3.8 of AIA Document A201-1997;

.2 add that portion of the Guaranteed Maximum Price properly allocable to materials and equipment delivered and suitably stored at the site for subsequent incorporation in the Work, or if approved in advance by the Owner, suitably stored off the site at a location agreed upon in writing;

.3 add the Contractor's Fee, computed as described in Section 5.1.2, and subtract ten percent (10%) retention; provided, however, that retention shall not be withheld from the Contractor's Fee. The Contractor's Fee shall be computed upon the Cost of the Work described in the two preceding Clauses at the rate stated in Section 5.1.2;

.4 subtract the aggregate of previous payments made by the Owner;

.5 subtract the shortfall, if any, indicated by the Contractor in the documentation required by Section 12.1.4 to substantiate prior Applications for Payment, or resulting from errors subsequently discovered by the Owner's accountants in such documentation; and

.6 subtract amounts, if any, for which the Owner has withheld or nullified approval of payment as provided in Section 9.5 of AIA Document A201-1997.

§ 12.1.8 Except with the Owner's prior approval, payments to Subcontractors shall be subject to retainage of ten percent (10%). The Owner and the Contractor shall agree upon a mutually acceptable procedure for review and approval of payments and retention for Subcontractors.

§ 12.1.9 After approval by the Owner, the monthly payment shall be paid directly to Contractor for distribution to subcontractors and suppliers who have furnished labor, materials, services or equipment forming the basis of the Application for Payment.

§ 12.2 FINAL PAYMENT

§ 12.2.1 Final payment, constituting the entire unpaid balance of the Contract Sum, shall be made by the Owner to the Contractor when:

.1 the Contractor has fully performed the Contract, including the requirements of Section 9.10 of AIA Document A201-1997, except for the Contractor's responsibility to correct Work as provided in Section 12.2.2 of AIA Document A201-1997, and to satisfy other requirements, if any, which extend beyond final payment;

.2 all governmental, insurance and testing agencies have issued all certificates, licenses and approvals that are preconditions to the Owner's use of the Project. In this regard, Contractor shall obtain and submit to Owner two (2) copies of the Certificate of Occupancy (if applicable);

.3 the Owner shall have received two (2) copies of final conditional lien releases from all persons furnishing labor, materials, services or equipment under Contractor entitled to a lien on the Work Site, Building Project or any part thereof, or, alternatively, has received from Contractor a bond or bonds to release the Project and the Owner from the effects of any liens. In this regard, no later than two (2) weeks after final payment, Contractor shall furnish Owner with two (2) copies of final unconditional lien releases from all such persons,

.4 the Owner shall have received from the Contractor an assignment of warranties and guarantees from all of the Subcontractors and suppliers, as well as two (2) copies of all such warranties, guarantees and operation and maintenance manuals;

.5 the Owner shall have received one (1) reproducible and one (1) copy of Construction Record Drawings (or approved copies thereof), including CAD as-built drawings stored in electronic format.

§ 12.2.2 The Owner's final payment to the Contractor shall be made within the time provided by Section 12.2.3. In the event Owner elects to forego the final accounting described in that section, Owner shall make final payment no later than forty-five (45) days after the satisfaction of the conditions in Section 12.2.1. Subject to receiving the consent of Owner's lender, if any, Owner may release final payment, including retention, prior to this date for portions of the Work fully completed by certain subcontractors or suppliers, when Owner and Contractor so agree.

§ 12.2.3 The Owner's accountants will review and report in writing on the Contractor's final accounting within 30 days after delivery of the final accounting to the Owner by the Contractor. Based upon such Cost of the Work as the Owner's accountants report to be substantiated by the Contractor's final accounting, and provided the other conditions of Section 12.2.1 have been met, the Owner will, within seven days after receipt of the written report of the Owner's accountants, either issue to the Contractor final payment or notify the Contractor in writing of the Owner's reasons for withholding all or any portion of the final payment as provided in Section 9.5.1 of the AIA Document A201-1997. The time periods stated in this Section 12.2.3 supersede those stated in Section 9.4.1 of the AIA Document A201-1997.

§ 12.2.4 If the Owner's accountants report the Cost of the Work as substantiated by the Contractor's final accounting to be less than claimed by the Contractor, the Contractor shall be entitled to have the dispute resolved in a court of competent jurisdiction. Pending a final resolution the Owner shall pay the Contractor the undisputed portion of such Final Application for Payment.

§ 12.2.5 If, subsequent to final payment and at the Owner's request, the Contractor incurs costs described in Article 7 and not excluded by Article 8 to correct defective or nonconforming Work, the Owner shall reimburse the Contractor such costs and the Contractor's Fee applicable thereto on the same basis as if such costs had been incurred prior to final payment, but not in excess of the Guaranteed Maximum Price. If the Contractor has participated in savings as provided in Section 5.2, the amount of such savings shall be recalculated and appropriate credit given to the Owner in determining the net amount to be paid by the Owner to the Contractor.

ARTICLE 13 TERMINATION OR SUSPENSION

§ 13.2 The Contract may be terminated by the Owner for cause as provided in Article 14 of AIA Document A201-1997. The amount, if any, to be paid to the Contractor under Section 14.2.4 of AIA Document A201-1997 shall not cause the Guaranteed Maximum Price to be exceeded, nor shall it exceed an amount calculated as follows:

§ 13.2.1 Take the Cost of the Work incurred by the Contractor to the date of termination;

§ 13.2.2 Add the Contractor's Fee computed upon the Cost of the Work to the date of termination at the rate stated in Section 5.1.2 or, if the Contractor's Fee is stated as a fixed sum in that section, an amount that bears the same ratio to that fixed-sum Fee as the Cost of the Work at the time of termination bears to a reasonable estimate of the probable Cost of the Work upon its completion; and

§ 13.2.3 Subtract the aggregate of previous payments made by the Owner.

§ 13.3 The Owner shall also pay the Contractor fair compensation, either by purchase or rental at the election of the Owner, for any equipment owned by the Contractor that the Owner elects to retain and that is not otherwise included in the Cost of the Work under Section 13.2.1. To the extent that the Owner elects to take legal assignment of subcontracts and purchase orders (including rental agreements), the Contractor shall, as a condition of receiving the payments referred to in this Article 13, execute and deliver all such papers and take all such steps, including the legal assignment of such subcontracts and other contractual rights of the Contractor, as the Owner may require for the purpose of fully vesting in the Owner the rights and benefits of the Contractor under such subcontracts or purchase orders.

§ 13.4 The Work may be suspended by the Owner as provided in Article 14 of AIA Document A201-1997; in such case, the Guaranteed Maximum Price and Contract Time shall be increased as provided in Section 14.3.2 of AIA Document A201-1997 except that the term "profit" shall be understood to mean the Contractor's Fee as described in Section 5.1.2 and Section 6.4 of this Agreement.

ARTICLE 14 MISCELLANEOUS PROVISIONS

§ 14.1 Where reference is made in this Agreement to a provision AIA Document A201-1997 or another Contract Document, the reference refers to that provision as amended or supplemented by other provisions of the Contract Documents.

§ 14.2 Payments due and unpaid under the Contract shall bear interest from the date payment is due at the rate stated below, or in the absence thereof, at the legal rate prevailing from time to time at the place where the Project is located.

(Insert rate of interest agreed upon, if any.)

Five percent (5%) per annum

(Usury laws and requirements under the Federal Truth in Lending Act, similar state and local consumer credit laws and other regulations at the Owner's and Contractor's principal places of business, the location of the Project and elsewhere may affect the validity of this provision. Legal advice should be obtained with respect to deletions or modifications, and also regarding requirements such as written disclosures or waivers.)

§ 14.3 The Owner's representative is:
(Name, address and other information.)

Carl Monti
MannKind Corporation
One Casper Street
Danbury, CT 06810
Phone: (203) 796-3423
Fax: (203) 798-7740
cmonti@mannkindcorp.com

§ 14.4 The Contractor's representative is:

(Name, address and other information.)

Jerry Agresti, Senior Project Manager
Torcon, Inc.
328 Newman Springs Road
Red Bank, NJ 07701
Phone: (732) 704-9800
Fax: (732) 704-9811
gagresti@torcon.com

§ 14.5 Neither the Owner's nor the Contractor's representative shall be changed without ten days' written notice to the other party.

§ 14.6 ASSIGNMENT. No assignment of or subcontract under this Agreement or any portion thereof or any money due or which may become due hereunder will be made by Contractor without the prior written consent of Owner. In addition to constituting a default under this Agreement, any assignment or attempted assignment made in violation of this section will be null and void and the assignee will acquire no rights thereunder. If Owner does consent in writing to an assignment of or subcontract under this Agreement, the assignee or subcontractor will be bound to the terms of this Agreement, including specifically and without limitation the insurance provisions contained herein. If any assignment or subcontract is made in breach of this Agreement, Contractor will be liable to Owner for all damages resulting therefrom. Notwithstanding anything to the contrary contained herein, Owner may assign this Agreement without the consent of Contractor. In connection with the sale or financing of the Project, Contractor shall execute and deliver, and (if appropriate) acknowledge, any and all documents and instruments reasonably required by Owner or any purchaser or lender, including but not limited to, reasonable modifications to this Agreement, consents, estoppel certificates, and subordination of any rights, interests and claims under this Agreement, at law or otherwise, to the liens, benefits, rights and privileges of (i) any deed of trust of record at the time of execution of this Agreement, and (ii) the primary construction lender for the Project. Contractor subordinates all of its lien rights that it may have or acquire under this Agreement or otherwise as to the Work or the Project to the lien and security interest securing payment of sums now or hereafter borrowed by Owner from any lender. Contractor shall execute such additional documents as may be requested from time to time by the Owner or any lender to evidence the provisions hereof, and shall in its subcontracts obtain an agreement from Subcontractors and any other parties furnishing labor or materials for the Work to subordinate their liens to such aforesaid sums. Subject to Contractor's reasonable approval, the provisions of the Contract Documents shall be superseded in whole or in part by any conflicting provision of the loan agreement entered into in good faith by Owner relative to the construction financing of the Project

§ 14.7 ENTIRE AGREEMENT. This Agreement, together with the Contract Documents which are incorporated herein by reference, constitute the entire Agreement between the parties. Neither this Agreement nor the Contract Documents may be amended or supplemented except by written instrument duly executed by both parties hereto. No estimates or bids of Contractor preceding this Agreement and no verbal agreement or conversation with any representative of Owner, either before or after execution of this Agreement, will affect or modify any of the terms or provisions contained in this Agreement or the Contract Documents..

§ 14.8 WAIVER. No consent or waiver, express or implied, by either party to this Agreement relating to any breach or default by the other in the performance of any obligation hereunder will be deemed or construed to be a consent to or waiver of any other breach or default by such party. Failure on the part of either party to complain of any act or failure to act of the other party or to declare the other party in default irrespective of how long such failure continues will not constitute a waiver of the rights of such party.

§ 14.9 TIME. Time is of the essence of this Agreement and each provision herein contained.

§ 14.10 WORDS AND HEADINGS. Words used herein will include the plural as well as the singular. Words used in the masculine gender include the feminine and neuter. The section headings used herein are for convenience only and will have no affect upon the construction or interpretation of any part of this document.

§ 14.11 INDEPENDENT CONTRACTOR. Contractor will be an independent contractor with respect to the Work, and neither Contractor nor anyone employed by Contractor will be deemed for any purpose to be the agent, employee,

servant or representative of Owner in the performance of the Work. Contractor acknowledges and agrees that Owner will have no direction or control over the means, methods, procedures or manner of the Work performed by Contractor or any of it subcontractors, or any of their employees, vendors or suppliers.

§ 14.12 SEVERABILITY. If any section, sentence, clause or phrase contained in this Agreement shall become illegal, null or void, against public policy or otherwise unenforceable for any reason, or shall be held by any court of competent jurisdiction to be illegal, null or void, against public policy, or otherwise unenforceable, the remaining sections, sentences, clauses or phrases contained in this Agreement shall not be affected thereby.

§ 14.13 REPRESENTATIONS AND WARRANTIES. The Contractor represents and warrants the following to Owner (in addition to any other representations and warranties contained in the Contract Documents) as a material inducement to the Owner to execute this Agreement, which representations and warranties shall survive the execution and delivery of this Agreement, any termination of this Agreement and the final completion of the Work:

.1 the Contractor is financially solvent, able to pay all debts as they mature and possessed of sufficient working capital to complete the Work, perform all obligations hereunder and comply with all Applicable Laws;

.2 the Contract contains a Contract Sum and a Guaranteed Maximum Price sufficient to allow the Contractor to comply with all Applicable Laws;

.3 the Contractor is able to furnish the plant, tools, materials, supplies, equipment and labor required to complete the Work and perform its obligations hereunder and has sufficient experience and competence to do so;

.4 the Contractor is authorized to do business in the State of Connecticut and is properly licensed by all necessary governmental and public and quasi-public authorities having jurisdiction over the Contractor and over the Work and the Project;

.5 the Contractor's execution of this Agreement and performance thereof is within the Contractor's duly authorized powers;

.6 the Contractor's duly authorized representative has visited the site of the Project and is familiar with the local conditions under which the Work is to be performed and has correlated observations with the requirements of the Contract Documents;

.7 the Contractor is a sophisticated contractor who possesses a high level of experience and expertise in the business administration, construction, construction management and superintendence of projects of the size, complexity and nature of this particular Project and will perform the Work with the care, skill and diligence of such a contractor;

.8 the Project as designed in the Contract Documents; (a) is capable of being constructed as contemplated thereby and (b) shall be constructed in conformity with all governmental regulations, the Contract Documents and generally accepted industry standards, practices and principles in effect at the time of performance; and

.9 As of the date of issuance of a Certificate of Substantial Completion for the Work, that the Project as constructed:

(a) meets and complies in all material respects with all applicable state and local building codes and all other governmental regulations as required by the Contract Documents;

(b) does not violate in any material respect any governmental regulations;

(c) contains no Hazardous Substances which are not permitted by governmental regulations;

(d) fully meets all requirements of the Contract Documents; and

(e) including, without limitation, materials, articles and equipment furnished by the General Contractor under this Contract, will be free of deficiencies and defects for the period set forth in Section 3.5 of the General Conditions or as otherwise specified in the Contract Documents.

§ 14.14 COUNTERPARTS. For the convenience of the parties to the Contract Documents, this Agreement may be executed in several original counterparts, each of which shall together constitute but one and the same Agreement.

§ 14.15 NEUTRAL INTERPRETATION. This Agreement is deemed to be jointly prepared by all the parties hereto and shall not be construed against any particular party. Rather, this Agreement shall be construed as if it were jointly prepared by all the parties.

§ 14.16 EXHIBITS AND ADDENDA. All exhibits, riders or addenda attached hereto are incorporated herein by reference.

§ 14.17 CONFIDENTIALITY. Contractor agrees that it will not, without the prior written approval of the Owner, publicize the fact that the Owner has entered into this Contract, or disclose, confirm or deny any details of the Contract Documents. Contractor agrees that it will not use Owner's name in connection with Contractor's publicity with respect to the Project without the prior review and written approval in each instance by the Owner. Contractor shall also insert the terms of this provision in all contracts and/or agreements executed in connection with the services to be performed under the Contract Documents and require that its Subcontractors do the same.

§ 14.18 EXCULPATION. Contractor agrees to look solely to the assets of Owner in the Project for the enforcement of any claims against Owner, and Contractor further agrees that none of the officers, directors, employees, partners, members, managers or shareholders of Owner assume any personal liability for any of the obligations under the Contract Documents entered into on behalf of Owner, and the obligations hereunder are not binding upon, nor shall resort be had to the private property of any of the foregoing.

ARTICLE 15 ENUMERATION OF CONTRACT DOCUMENTS

§ 15.1 The Contract Documents, except for Modifications issued after execution of this Agreement, are enumerated as follows:

§ 15.1.1 The Agreement is this executed 1997 edition of the Standard Form of Agreement Between Owner and Contractor, AIA Document A111-1997.

§ 15.1.2 The General Conditions are the 1997 edition of the General Conditions of the Contract for Construction, AIA Document A201-1997.

§ 15.1.3 The Supplementary and other Conditions of the Contract are those contained in the Project Manual dated , and are as follows:

Document	Title	Pages

§ 15.1.4 The Specifications are those contained in the Project Manual dated as in Section 15.1.3, and are as follows:
(Either list the Specifications here or refer to an exhibit attached to this Agreement.)

Title of Specifications exhibit:

§ 15.1.5 The Drawings are as follows, and are dated unless a different date is shown below:
(Either list the Drawings here or refer to an exhibit attached to this Agreement.)

Title of Drawings exhibit:

§ 15.1.6 The Addenda, if any, are as follows:

Number	Date	Pages

Portions of Addenda relating to bidding requirements are not part of the Contract Documents unless the bidding requirements are also enumerated in this Article 15.

§ 15.1.7 *Other Documents, if any, forming part of the Contract Documents are as follows:(List here any additional documents, such as a list of alternates that are intended to form part of the Contract Documents. AIA Document A201-1997 provides that bidding requirements such as advertisement or invitation to bid, Instructions to Bidders, sample forms and the Contractor's bid are not part of the Contract Documents unless enumerated in this Agreement. They should be listed here only if intended to be part of the Contract Documents.)*

Exhibit "A" – General Conditions of the Contract for Construction (AIA Document A201-1997, as modified)
Exhibit "B" – Project Schedule
Exhibit "C" – GMP Estimate/Schedule of Values
Exhibit "D" – List of Allowances
Exhibit "E" – List of Plan Sheets

ARTICLE 16 INSURANCE AND BONDS
(List required limits of liability for insurance and bonds. AIA Document A201-1997 gives other specific requirements for insurance and bonds.)

Type of insurance **Limit of liability ($ 0.00)**

§ 16.1 Without limiting Contractor's liability to Owner or third parties hereunder, Contractor agrees to maintain the following insurance coverages with insurance carriers with A.M. Best rating of at least A-VII or otherwise acceptable to Owner, in Owner's sole discretion:

§16.1.1 All insurance coverages required by federal, state or local laws and statutes, including Worker's Compensation Insurance and Employers' Liability Insurance. The Employers' Liability Insurance shall have a minimum coverage of at least $500,000 for each person;

§16.1.2 Comprehensive or Commercial General Liability Insurance, including coverage for Products and Completed Operations, Errors and Omissions, and Blanket Contractual Liability for obligations undertaken by Contractor to Owner under this Agreement. Such Comprehensive General Liability Insurance shall provide for minimum Combined Bodily Injury and Property Damage Coverage Limits of at least $3,000,000, per occurrence, and name Owner as Additional Insured;

§16.1.3 Comprehensive Automobile Liability Insurance including coverage for Hired & Non-Owned Automobile Liability, with Combined Bodily Injury and Property Damage Coverage Limits, per occurrence, of at least $1,000,000, naming Owner as Additional Insured; and

§16.1.4 Comprehensive Crime Policy, including Employees Dishonest/Fidelity coverage for all Contractor's employees, officers and agents, and On-Premises (Loss Inside the Premises) and In-Transit (Loss Outside the Premises) Coverage shall have a minimum of at least $2,000,000, per occurrence.

§16.1.5 Contractor agrees to require all Subcontractors who are providing design services as part of their scope of the Work to maintain professional liability (errors and omissions) coverage for a minimum coverage of at least $2,000,000 per occurrence. If such insurance is furnished as part of a "claims made" policy, Contractor agrees to require the Subcontractor furnishing such insurance to renew the coverage annually for a period of three (3) years following Substantial Completion of the Work.

§16.2 All insurance must include a Primary & Non-Contributing Endorsement.

§16.3 Prior to performance of any services or commencement of any Work under this Agreement, Contractor shall furnish to Owner Certificates of Insurance evidencing such required insurance coverages and naming Owner as Additional Insured (for coverages required by items 16.1.2 and 16.1.3 above). Said Certificates will include a

provision whereby the Insurance Carrier is required to provide, directly to Owner, thirty (30) days advance written notice before termination, change or cancellation or coverage take effect for such policies evidenced on such Certificates, regardless of whether cancelled by the Contractor, Insured, or Insurance Carrier.

Language to the effect that "Insurance Carrier will endeavor to provide advance notice of cancellation or termination and failure to mail such notice shall impose no obligation or liability of any kind upon the Insurance Carrier, its agents or representatives," is not acceptable.

The insurer of each policy shall waive (by written endorsement where necessary), and Contractor hereby waives, all rights of recovery or subrogation against Owner which might arise with regard to damage or loss which is insured against under any insurance policies in force and effect at the time of the damage or loss.

[Signatures on next page]

This Agreement is entered into as of the day and year first written above and is executed in at least two original copies, of which one is to be delivered to the Contractor and the other to the Owner.

OWNER

MannKind Corporation

By: /s/ Hakan S. Edstrom
Name: Hakan S. Edstrom
Title: President and Chief Operating Officer

By: /s/ Alfred E. Mann
Name: Alfred E. Mann
Title: Chairman of the Board and Chief Executive Officer

CONTRACTOR

Torcon, Inc.

By: /s/ Ben Torcivia, Jr.
Name: Ben Torcivia, Jr.
Title: Co-President

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, Alfred E. Mann, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the three months ended June 30, 2007 of MannKind Corporation;

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: August 9, 2007

/s/ Alfred E. Mann
Alfred E. Mann
Chief Executive Officer (Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED

I, Richard L. Anderson, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the three months ended June 30, 2007 of MannKind Corporation;

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: August 9, 2007

/s/ Richard L. Anderson
Richard L. Anderson
Chief Financial Officer (Principal Financial Officer)

EXHIBIT 32

CERTIFICATION OF
CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
RULE 13a-14(b) OR 15d-14(b) OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED AND SECTION 1350 OF
CHAPTER 63 OF TITLE 18 OF THE UNITED STATES CODE (18 U.S.C. § 1350)

In connection with the filing of the quarterly report of MannKind Corporation (the "Company") on Form 10-Q for the quarterly period ended June 30, 2007, as filed with the Securities and Exchange Commission on or about the date hereof to which this certification is attached as Exhibit 32 (the "Report") and pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), Alfred E. Mann, Chief Executive Officer of MannKind Corporation (the "Company"), and Richard L. Anderson, Chief Financial Officer of the Company, each hereby certifies that to the best of his knowledge:

1. The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 9, 2007

In witness whereof, the undersigned have set their hands hereto as of the 9th day of August, 2007.

/s/ Alfred E. Mann	/s/ Richard L. Anderson
Alfred E. Mann	Richard L. Anderson
Chief Executive Officer	Chief Financial Officer

This certification is being furnished solely to accompany this quarterly report on Form 10-Q pursuant to 18 U.S.C. Section 1350, and shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended or the Securities Act of 1933, as amended, into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language contained in such filing.