SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

FOR THE QUARTER ENDED SEPTEMBER 30, 2002

Commission file number 1-12584

SHEFFIELD PHARMACEUTICALS, INC.
(Exact name of registrant as specified in its Charter)

<Table>
<S> <C>
DELAWARE 13-3808303
(State of Incorporation) (IRS Employer Identification Number)
</Table>

<Table>
<S> <C> <C>
14528 SOUTH OUTER FORTY ROAD 63017 (314) 579-9899
ST. LOUIS, MISSOURI (Zip Code) (Registrant's telephone,
(Address of principal executive offices) including area code)
</Table>

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

<Table>
<S> <C>
Title of Class Name of each exchange on which registered
Common Stock. $.01 par value American Stock Exchange
</Table>

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

None

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 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.
[X] Yes [ ] No

The number of shares outstanding of the Registrant's Common Stock is 29,563,712 shares as of November 14, 2002.

SHEFFIELD PHARMACEUTICALS, INC. AND SUBSIDIARIES
(a development stage enterprise)

FORM 10-Q
For the Quarter Ended September 30, 2002

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PART I: FINANCIAL INFORMATION

Item 1. Financial Statements

SHEFFIELD PHARMACEUTICALS, INC. AND SUBSIDIARIES
(a development stage enterprise)
CONSOLIDATED BALANCE SHEETS

<Table>
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	September 30, 2002	December 31, 2001
	(unaudited)	

<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	$ 348,137	$ 859,298
Clinical supplies	499,422	427,550
Prepaid expenses and other current assets	215,867	86,080
Total current assets	1,063,426	1,372,928
Property and equipment:		
Laboratory equipment	462,949	431,920
Office equipment	245,019	245,019
Leasehold improvements	25,309	25,309
Total at cost	733,277	702,248
Less accumulated depreciation and amortization	(460,717)	(355,014)
Property and equipment, net	272,560	347,234
Patent costs, net of accumulated amortization of $31,862 and $20,216, respectively	426,317	308,203
Other assets	27,913	27,913
Total assets	$ 1,790,216	$ 2,056,278
LIABILITIES AND STOCKHOLDERS' EQUITY (NET CAPITAL DEFICIENCY)		
Current liabilities:		
Accounts payable	$ 2,354,989	$ 856,216
Accrued liabilities	416,554	441,778
Sponsored research payable	235,757	235,757
Note payable	475,000	4,000,000
Total current liabilities	3,482,300	5,533,751
Convertible promissory note	2,000,000	2,000,000
Long-term debt	9,500,000	3,000,000
Other long-term liabilities	1,200,484	608,803
Commitments and contingencies	--	--
Total liabilities	16,182,784	11,142,554
Minority interest in subsidiary	--	--
Stockholders' equity (net capital deficiency):		
Preferred stock, $.01 par value, authorized 3,000,0000 shares:		
Series C cumulative convertible preferred stock, authorized 23,000 shares; issued and outstanding 15,501 and 14,708 shares at September 30, 2002 and December 31, 2001, respectively	155	147
Series D cumulative convertible exchangeable preferred stock, authorized 21,000 shares; issued and outstanding 14,287 and 13,799 shares at September 30, 2002 and December 31, 2001, respectively	143	138
Series E cumulative convertible non-exchangeable preferred stock, authorized 9,000 shares; issued and outstanding 3,231 and 2,124 shares at September 30, 2002 and December 31, 2001, respectively	32	21
Series F convertible non-exchangeable preferred stock, 5,000 shares authorized; 5,000 shares issued and outstanding at September 30, 2002 and December 31, 2001	50	50
Common stock, $.01 par value, authorized 100,000,000 shares; issued and outstanding 29,563,712 and 29,001,602 shares at September 30, 2002 and December 31, 2001, respectively	295,637	290,016
Additional paid-in capital	86,811,679	83,120,316
Other comprehensive income	--	--
Deficit accumulated during development stage	(101,500,264)	(92,496,964)
Total stockholders' equity (net capital deficiency)	(14,392,568)	(9,086,276)
Total liabilities and stockholders' equity (net capital deficiency)	$ 1,790,216	$ 2,056,278

</Table>

See notes to consolidated financial statements.

SHEFFIELD PHARMACEUTICALS, INC. AND SUBSIDIARIES
(a development stage enterprise)

CONSOLIDATED STATEMENTS OF OPERATIONS
For the Three and Nine Months Ended September 30, 2002
and 2001 and for the Period from October 17, 1986
(inception) to September 30, 2002
(Unaudited)

<Table>
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	Three Months Ended September 30,		Nine Months Ended September 30,		October 17, 1986 (inception) to September 30,
	2002	2001	2002	2001	2002
<S>	<C>	<C>	<C>	<C>	<C>
Revenues:					
Contract research revenue	$ --	$ --	$ 5,000	$ 869,095	$ 1,775,045
Sublicense revenue	--	--	5,000	5,000	1,375,000
Total revenues	--	--	10,000	874,095	3,150,045
Expenses:					
Acquisition of research and development in-process technology	--	--	--	--	29,975,000
Research and development	531,104	1,686,046	3,307,030	4,666,181	38,079,585
General and administrative	607,769	1,031,562	3,989,169	2,909,362	32,875,915
Total expenses	1,138,873	2,717,608	7,296,199	7,575,543	100,930,500
Loss from operations	(1,138,873)	(2,717,608)	(7,286,199)	(6,701,448)	(97,780,455)
Interest income	883	4,362	7,901	55,127	797,288
Interest expense	(195,949)	(95,039)	(526,706)	(204,286)	(1,600,276)
Realized gain (loss) on sale of marketable securities	--	79,706	--	79,706	(5,580)
Minority interest in loss of subsidiary	31,207	135,758	191,793	318,260	3,710,486
Net loss	$ (1,302,732)	$ (2,592,821)	$ (7,613,211)	$ (6,452,641)	$ (94,878,537)
Preferred stock dividends	(602,321)	(539,465)	(1,743,898)	(1,532,193)	(7,473,418)
Accretion of mandatorily redeemable preferred stock	--	--	--	--	(103,400)
Net loss - attributable to common shares	$ (1,905,053)	$ (3,132,286)	$ (9,357,109)	$ (7,984,834)	$ (102,455,355)
Weighted average common shares outstanding-basic and diluted	29,563,712	29,052,998	29,378,534	28,949,802	11,499,681
Net loss per share of common stock -					

basic and diluted	$ (0.06)	$ (0.11)	$ (0.32)	$ (0.28)	$ (8.91)

</Table>

See notes to consolidated financial statements.

SHEFFIELD PHARMACEUTICALS, INC. AND SUBSIDIARIES
(a development stage enterprise)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (NET CAPITAL DEFICIENCY)
For the Period from October 17, 1986 (Inception) to September 30, 2002
(Unaudited)

<Table>
<Caption>

	Preferred stock	Common Stock	Notes receivable in connection with sale of stock	Additional paid-in capital
<S>	<C>	<C>	<C>	<C>
Balance at October 17, 1986	$ --	$ --	$ --	$ --
Common stock issued	--	11,484,953	100,000	30,539,185
Reincorporation in Delaware at $.01 par value	--	(11,220,369)	--	11,220,369
Common stock subscribed	--	--	(110,000)	--
Common stock issued	--	2,504	10,000	89,059
Common stock options and warrants issued	--	--	--	444,320
Issuance of common stock in connection with acquisition of Camelot Pharmacal, L.L.C	--	6,000	--	1,644,000
Common stock options extended	--	--	--	215,188
Accretion of issuance costs for Series A preferred stock	--	--	--	--
Series C preferred stock issued	115	--	--	11,499,885
Series C preferred stock dividends	13	--	--	1,279,987
Series D preferred stock issued	120	--	--	12,014,880
Series F preferred stock issued	50	--	--	4,691,255
Comprehensive income (loss):				
Unrealized gain on marketable securities	--	--	--	--
Net loss	--	--	--	--
Comprehensive loss	--	--	--	--
Balance at December 31, 1999	298	273,088	--	73,638,128
Common stock issued	--	15,738	--	3,796,072
Repurchase and retirement of common stock	--	(910)	--	(312,279)
Series C preferred stock dividends	9	--	--	931,991
Series D preferred stock dividends	9	--	--	854,991
Series E preferred stock issued	10	--	--	999,990
Series E preferred stock dividends	--	--	--	4,000
Common stock warrants issued	--	--	--	195,202
Comprehensive income (loss):				
Unrealized loss on marketable securities	--	--	--	--
Net loss	--	--	--	--
Comprehensive loss	--	--	--	--
Balance at December 31, 2000	326	287,916	--	80,108,095
Common stock issued	--	4,251	--	481,201
Repurchase and retirement of common stock	--	(2,151)	--	(640,691)
Series C preferred stock dividends	10	--	--	995,990
Series D preferred stock dividends	9	--	--	928,991
Series E preferred stock issued	10	--	--	999,990
Series E preferred stock dividends	1	--	--	119,999
Common stock warrants issued	--	--	--	126,741
Comprehensive income (loss):				
Unrealized loss on marketable securities	--	--	--	--
Net loss	--	--	--	--
Comprehensive loss	--	--	--	--

Balance December 31, 2001	356	290,016	--	83,120,316
Common stock issued	--	5,621	--	1,001,379
Series C preferred stock dividends	8	--	--	792,992
Series D preferred stock dividends	5	--	--	487,995
Series E preferred stock issued	10	--	--	999,990
Series E preferred stock dividends	1	--	--	106,999
Common stock warrants issued	--	--	--	302,008
Net loss	--	--	--	--
Balance September 30, 2002	$ 380	$ 295,637	$ --	$ 86,811,679

<Caption>

	Other comprehensive income (loss)	Deficit accumulated during development stage	Total stockholders' equity (net capital deficiency)
<S>	<C>	<C>	<C>
Balance at October 17, 1986	$ --	$ --	$ --
Common stock issued	--	--	42,124,138
Reincorporation in Delaware at $.01 par value	--	--	--
Common stock subscribed	--	--	(110,000)
Common stock issued	--	--	101,563
Common stock options and warrants issued	--	--	444,320
Issuance of common stock in connection with acquisition of Camelot Pharmacal, L.L.C	--	--	1,650,000
Common stock options extended	--	--	215,188
Accretion of issuance costs for Series A preferred stock	--	(103,400)	(103,400)
Series C preferred stock issued	--	--	11,500,000
Series C preferred stock dividends	--	(1,283,389)	(3,389)
Series D preferred stock issued	--	--	12,015,000
Series F preferred stock issued	--	--	4,691,305
Comprehensive income (loss):			
Unrealized gain on marketable securities	169,387	--	--
Net loss	--	(72,023,039)	--
Comprehensive loss	--	--	(71,853,652)
Balance at December 31, 1999	169,387	(73,409,828)	671,073
Common stock issued	--	--	3,811,810
Repurchase and retirement of common stock	--	--	(313,189)
Series C preferred stock dividends	--	(934,045)	(2,045)
Series D preferred stock dividends	--	(855,750)	(750)
Series E preferred stock issued	--	--	1,000,000
Series E preferred stock dividends	--	(4,750)	(750)
Common stock warrants issued	--	--	195,202
Comprehensive income (loss):			
Unrealized loss on marketable securities	(11,920)	--	--
Net loss	--	(5,763,151)	--
Comprehensive loss	--	--	(5,775,071)
Balance at December 31, 2000	157,467	(80,967,524)	(413,720)
Common stock issued	--	--	485,452
Repurchase and retirement of common stock	--	--	(642,842)
Series C preferred stock dividends	--	(999,278)	(3,278)
Series D preferred stock dividends	--	(929,603)	(603)
Series E preferred stock issued	--	--	1,000,000
Series E preferred stock dividends	--	(121,422)	(1,422)
Common stock warrants issued	--	--	126,741
Comprehensive income (loss):			
Unrealized loss on marketable securities	(157,467)	--	--
Net loss	--	(9,479,137)	--
Comprehensive loss	--	--	(9,636,604)
Balance December 31, 2001	--	(92,496,964)	(9,086,276)
Common stock issued	--	--	1,007,000

Series C preferred stock dividends	--	(794,616)	(1,616)
Series D preferred stock dividends	--	(488,331)	(331)
Series E preferred stock issued	--	--	1,000,000
Series E preferred stock dividends	--	(107,142)	(142)
Common stock warrants issued	--	--	302,008
Net loss	--	(7,613,211)	(7,613,211)
Balance September 30, 2002	$ --	$ (101,500,264)	$ (14,392,568)

</Table>

See notes to consolidated financial statements.

SHEFFIELD PHARMACEUTICALS, INC. AND SUBSIDIARIES
(a development stage enterprise)

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2002 and 2001 and for the Period from October 17, 1986 (inception) to September 30, 2002
(Unaudited)

<Table>
<Caption>

	Nine Months Ended September 30,		October 17, 1986 (inception) to September 30,
	2002	2001	2002
<S>	<C>	<C>	<C>
Cash outflows from operating activities:			
Net loss	$ (7,613,211)	$ (6,452,641)	$ (94,878,537)
Adjustments to reconcile net loss to net cash used by development stage activities:			
Issuance of common stock, stock options/warrants for services	302,008	126,741	3,121,376
Depreciation and amortization	117,349	96,533	846,239
Non-cash acquisition of research and development in-process technology	--	--	1,650,000
(Gain) loss on sale of marketable securities	--	(79,706)	5,580
(Increase) decrease in clinical supplies, prepaid expenses & other current assets	(201,659)	18,224	(774,330)
Decrease in milestone advance receivable	--	1,000,000	--
Increase in other assets	(129,760)	(49,332)	(427,052)
Increase in accounts payable and accrued liabilities	1,742,169	38,018	2,896,317
Increase in sponsored research payable	--	--	812,827
Other	327,288	(149,043)	552,991
Net cash used by operating activities	(5,455,816)	(5,451,206)	(86,194,589)
Cash flows from investing activities:			
Proceeds from sale of marketable securities	--	249,661	844,420
Acquisition of laboratory and office equipment, and leasehold improvements	(31,029)	(110,466)	(903,419)
Other	--	--	(57,087)
Net cash provided (used) by investing activities	(31,029)	139,195	(116,086)
Cash flows from financing activities:			
Payments on debt and capital leases	(6,316)	(5,471)	(856,352)
Net proceeds from issuance of:			

Debt	2,975,000	3,000,000	15,025,000
Common stock	--	--	23,433,660
Preferred stock	1,000,000	1,000,000	35,741,117
Proceeds from exercise of warrants/stock options	1,007,000	393,683	14,770,358
Repurchase and retirement of common stock	--	--	(956,031)
Other	--	--	(500,024)
Net cash provided by financing activities	4,975,684	4,388,212	86,657,728
Net (decrease) increase in cash and cash equivalents	(511,161)	(923,799)	347,053
Cash and cash equivalents at beginning of period	859,298	3,041,948	1,084
Cash and cash equivalents at end of period	$ 348,137	$ 2,118,149	$ 348,137
Noncash investing and financing activities:			
Common stock, stock options/warrants issued for services	$ 302,008	$ 126,741	$ 3,121,376
Common stock redeemed in payment of notes receivable	--	--	10,400
Acquisition of research and development in-process technology	--	--	1,655,216
Common stock issued for intellectual property rights	--	--	866,250
Common stock issued to retire debt	--	--	600,000
Common stock issued to redeem convertible securities	--	--	5,353,368
Securities acquired under sublicense agreement	--	--	850,000
Equipment acquired under capital lease	--	--	121,684
Notes payable converted to common stock	--	--	749,976
Stock dividends	1,390,090	1,239,000	6,881,764
Supplemental disclosure of cash flow information:			
Interest paid	$ 1,514	$ 1,560	$ 287,834

</Table>

See notes to consolidated financial statements.

SHEFFIELD PHARMACEUTICALS, INC. AND SUBSIDIARIES
(a development stage enterprise)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2002
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q of the Securities and Exchange Commission and should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001. In the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary to present fairly the financial position, results of operations, stockholders' equity and cash flows at September 30, 2002 and for all periods presented have been made. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. The results of operations for the three and nine months ended September 30, 2002 and 2001 are not necessarily indicative of the operating results for the full years.

The consolidated financial statements include the accounts of Sheffield Pharmaceuticals, Inc. and its wholly owned subsidiaries, Systemic Pulmonary Delivery, Ltd., Ion Pharmaceuticals, Inc., and CP Pharmaceuticals, Inc., and its 80.1% owned subsidiary, Respiratory Steroid Delivery, Ltd., ("RSD") and are herein referred to as "Sheffield" or the "Company." All significant intercompany transactions are eliminated in consolidation.

The Company is focused on the development and commercialization of later stage pharmaceutical products that utilize the Company's unique proprietary pulmonary delivery technologies. The Company is in the development stage and to date has been principally engaged in research, development and licensing efforts.

The accompanying consolidated financial statements have been prepared on a going concern basis that contemplates the realization of assets and satisfaction of liabilities and commitments in the normal course of business. The Company has generated minimal operating revenue, sustained significant net operating losses, and requires additional capital that the Company intends to obtain through out-licensing of rights to its technology, as well as through equity and debt offerings, to continue to operate its business. Unless the Company is able to raise significant capital ($1 million to $2.5 million) within the next 30-60 days, management believes that it is unlikely that the Company will be able to meet its obligations as they become due and to continue as a going concern. To meet this capital requirement, the Company is evaluating various financing alternatives including private offerings of its securities, debt financings, collaboration and licensing arrangements with other companies, and the sale of non-strategic assets and/or technologies to third parties. Should the Company be unable to meet its capital requirement through one or more of the above-mentioned financing alternatives, the Company may file for bankruptcy or similar protection under the 1978 Bankruptcy Code and the basis of presentation of the Company's financial statements will be adjusted to reflect a liquidation basis of accounting.

Additionally, the Company's ability to meet its obligations as they become due and to continue as a going concern must be considered in light of the expenses, difficulties and delays frequently encountered in developing a new business, particularly since the Company will focus on product development that may require a lengthy period of time and substantial expenditures to complete. Even if the Company is able to successfully develop new products, there can be no assurance that the Company will generate sufficient revenues from the sale or licensing of such products to be profitable.

2. BASIC LOSS PER COMMON SHARE

Basic net loss per share is calculated in accordance with Statement of Financial Accounting Standards No. 128, Earnings Per Share. Basic net loss per share is based upon the weighted average common stock outstanding during each period. Potentially dilutive securities such as stock options, warrants, convertible debt and preferred stock, have not been included in any periods presented as their effect is antidilutive.

3. NOTES PAYABLE

On September 6, 2002, the Company entered into a $.5 million unsecured debt financing with certain shareholders of the Company. The promissory notes provide for interest at the rate of 7% per annum and mature on January 1, 2003.

Upon maturity, the Company will repay principal and accrued interest on each note, and at the Company's discretion, either a premium of approximately 14% of the principal amount, or a warrant to purchase the number of shares of Sheffield common stock equal to the principal amount each note. Any warrants to be issued under the notes would have an exercise price equal to $.60 per share, the closing price of the Company's common stock on the closing date of the notes. The outstanding principal balance of the promissory notes at September 30, 2002 was $.5 million.

4. LONG-TERM DEBT

On August 14, 2001, the Company entered into a Note Purchase Agreement ("Agreement") with Elan Pharma International Ltd. ("Elan Pharma"), pursuant to which Elan Pharma agreed to lend the Company up to $4 million. On April 4, 2002, the Company amended the Agreement. Under the terms of the amended Agreement, Elan Pharma agreed to increase the principal amount of the loan available from $4 million to $5 million and extend the maturity date from November 14, 2002 to April 4, 2004. On April 5, 2002, the Company received proceeds on the loan of $1 million, increasing the total borrowings to $5 million. All borrowings under the Agreement are evidenced by a $5 million unsecured promissory note of the Company that provides for interest on principal and semi-annually compounded interest at a fixed rate of 10% per annum. The outstanding principal balance of the Agreement at September 30, 2002, and December 31, 2001, was $5 million and $4 million, respectively. Due to the modification of the maturity date, the borrowings under the Agreement, totaling $5 million at September 30, 2002, have been classified in the Company's balance sheet as long-term debt.

In September 2001, in connection with the amendment of its 1998 agreement with Zambon Group SpA ("Zambon"), the Company entered into a Loan and Security Agreement ("Loan Agreement") with Zambon, pursuant to which Zambon agreed to lend the Company $2.5 million. The Company received $1.0 million upon signing of the Loan Agreement, $1.0 million on January 2, 2002 and $.5 million on April 5, 2002. The Loan Agreement provides for interest on principal and annually compounded interest at a fixed rate of 2% per annum and is secured by certain security interests in respiratory products developed in the Premaire. One third of the principal balance, together with interest, is payable by the Company upon the Company's execution of an agreement with one or more third parties to develop, co-promote and/or sell certain products in North America, with all remaining unpaid principal and interest due on December 31, 2005. The outstanding principal balance of the Loan Agreement at September 30, 2002, and December 31, 2001, was $2.5 million and $1.0 million, respectively.

5. SUBSEQUENT EVENT

On November 8, 2002 the Company entered into an agreement with Elan Pharma. Under the terms of the agreement, the Company received proceeds of $.5 million evidenced by an unsecured demand promissory note of the Company that provides for interest on principal and semi-annually compounded interest at a fixed rate of 10% per annum. Also as part of the agreement, the parties terminated the 1999 license agreement for the Elan NanoCrystal technology made between Elan Pharma and RSD. As provided in the 1999 license agreement, upon termination of this license, all intellectual property of RSD was transferred to and jointly owned by Elan and Sheffield.

6. RECLASSIFICATIONS

Certain amounts in the prior year financial statements and notes have been reclassified to conform to the current year presentation.

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

The following contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. All forward-looking statements involve risks and uncertainty. Although the Company believes that the assumptions underlying the forward-looking statements contained herein are reasonable, any of the assumptions could be inaccurate, and therefore, there can be no assurance that the forward-looking statements included in this report will prove to be accurate. The Company's actual results may differ materially from the results

anticipated in the forward-looking statements. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Important Factors that May Affect Future Results" included herein for a discussion of factors that could contribute to such material differences. In light of the significant uncertainties inherent in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by the Company or any other person that the objectives and plans of the Company will be achieved. The Company disclaims any obligation to update or revise the information provided in this report to reflect future events.

OVERVIEW

We provide innovative, cost-effective pharmaceutical therapies by combining state-of-the-art pulmonary drug delivery technologies with existing and emerging therapeutic agents. We are developing a range of products to treat respiratory and systemic diseases in our proprietary Premaire(R) Delivery System ("Premaire") and Tempo(TM) Inhaler ("Tempo"). We are in the development stage and, as such, have been principally engaged in the development of our pulmonary delivery systems.

In 1997, we acquired the Premaire, a portable nebulizer-based pulmonary delivery system, through a worldwide exclusive license and supply arrangement with Siemens AG ("Siemens"). During the second half of 1998, we acquired the rights to an additional pulmonary delivery technology, Tempo, from a subsidiary of Aeroquip-Vickers, Inc. ("Aeroquip-Vickers"). The Tempo technology is a new generation propellant-based pulmonary delivery system. Additionally, during 1998, we licensed from Elan Corporation, plc ("Elan") the Ultrasonic Pulmonary Drug Absorption System ("UPDAS"), a novel disposable unit dose nebulizer system, and Elan's Absorption Enhancing Technology ("Enhancing Technology"), a therapeutic agent to increase the systemic absorption of drugs. In October 1999, we licensed Elan's Nanocrystal(TM) technology to be used in developing certain inhaled steroid products.

Our lead drug delivery technology, the Premaire, is a patented, multi-dose nebulizer delivery system. The pocket-sized inhaled drug delivery system features an ultrasonic nebulizer that emits high-frequency sound waves that turn liquid medication into a fine cloud or soft mist. The Premaire combines the therapeutic benefits of nebulization with the convenience of pressurized metered dose inhalers, or pMDIs, in one patient-friendly device. The Premaire is comprised of a hand-held ultrasonic nebulizer and drug-filled cartridges that are inserted into the inhaler unit. The cartridges provide patients who must take multiple respiratory medications with a single, easy-to-use system. We believe the soft mist created by the Premaire provides multiple drug administration advantages over the high-velocity pMDIs and dry powder inhalers. Furthermore, the Premaire system is fast and portable as compared to conventional tabletop nebulizers, which are large, cumbersome and more time consuming to use. The Premaire system targets younger and older asthma patients, as well as older chronic obstructive pulmonary disease patients who have difficulty using pMDIs and currently depend on tabletop nebulizers for delivery of their medications.

Our Tempo is a patented, new generation pMDI that we believe has significant efficiency and performance advantages over standard pMDIs. The Tempo technology utilizes a standard aerosol pMDI canister, encased in a compact device that provides an aerosol flow-control chamber and a synchronized triggering mechanism. The aerosol flow-control chamber allows the patient to inhale through the device at a normal breathing rate, instead of a forced breath. The inspiratory breath establishes flow fields within the device that mix and uniformly disperse the drug in the breath. At the mouthpiece, nearly all the propellant is evaporated leaving only drug particles to be inspired, allowing a significant increase in the amount of drug delivered to the lungs. The Tempo system, like the Premaire system, is designed to reduce patient coordination problems and enhance compliance with the prescribed treatment.

In June 1998, we sublicensed to Zambon Group SpA ("Zambon") worldwide marketing and development rights to respiratory products to be delivered by the Premaire in return for an equity investment in the Company (approximately 10%). From June 1998 to September 2001, Zambon funded the development costs for the respiratory compounds delivered by Premaire. In September 2001, we amended our 1998 agreement with Zambon whereby we regained the rights to the Premaire previously granted to Zambon. As part of the amended agreement, Zambon provided a low-interest, $2.5 million loan to us to progress the development

of the Premaire respiratory program. Upon commercialization, Zambon will be entitled to certain royalties on payments received by us for albuterol, ipratropium and cromolyn sales for specified periods.

In 1998, the systemic applications of Premaire and Tempo were licensed to Systemic Pulmonary Delivery, Ltd. ("SPD"), one of our wholly owned subsidiaries. In addition, two Elan technologies, UPDAS(TM) and the Enhancing Technology, were also licensed to SPD. We retained exclusive rights outside of the strategic alliance to respiratory disease applications utilizing the Tempo technology and the two Elan technologies. On August 21, 2002 we ended this strategic alliance with Elan and regained all intellectual property rights to the systemic applications of Premaire and Tempo that were licensed to SPD. In addition, as part of the termination of this alliance, we will enter into a separate agreement with Elan to license exclusively the UPDAS(TM) and the Enhancing Technology. We have also granted to Elan an ongoing right to receive royalties on commercialization of two products, morphine delivered by Premaire and ergotamine tartrate delivered by Tempo.

In addition to the above alliance with Elan, in 1999, we and Elan formed a joint venture, Respiratory Steroid Delivery, Ltd. ("RSD"), to develop certain inhaled steroid products to treat respiratory diseases using Elan's NanoCrystal technology. Currently, RSD is developing a solution-based unit-dose-packaged steroid formulation for delivery using a conventional tabletop nebulizer, and a solution-based steroid formulation for delivery using the Premaire. On November 8, 2002, as part of an agreement between Elan and RSD, the parties terminated the license for the Elan NanoCrystal technology to RSD. As provided in the 1999 license agreement, upon termination of this license, all intellectual property of RSD was transferred to and jointly owned by Elan and Sheffield.

RESULTS OF OPERATIONS

Revenue

Contract research revenues primarily represent revenues earned from a collaborative research agreement with Zambon relating to the development of respiratory applications of Premaire. There were no contract research revenues for the third quarter of 2002 and 2001. For the first nine months of 2002 and 2001, contract research revenues were $5,000 and $869,095, respectively. The decrease for the first nine months of 2002 was due to the Company no longer performing development work for Zambon as a result of our regaining the Premaire respiratory rights in the third quarter of 2001. Costs of contract research revenue approximated such revenues in 2001 and were included in research and development expenses. Future contract research revenues and expenses are anticipated to fluctuate depending, in part, on obtaining additional collaborative agreements and upon the success of current clinical studies.

Our ability to generate material revenues is contingent on the successful commercialization of our technologies and other technologies and products that we may acquire, followed by the successful marketing and commercialization of such technologies through licenses, joint ventures and other arrangements.

Research and Development

Research and development ("R&D") expenses were $.5 million and $1.7 million for the third quarter of 2002 and 2001, respectively. The decrease of $1.2 million for the third quarter of 2002 was primarily due to lower Premaire development costs associated with finalizing the to-be-marketed device in December 2001 as well as reduced formulation work on the Premaire budesonide product ($.4 million), higher development expenses in the third quarter of 2001 related to the anticipation of a Phase I trial of RSD's unit dose product ($.4 million), lower Tempo development costs resulting from finalizing the industrialization of the device in the first half of 2002 for Phase I and II trials and reduced formulation work on certain respiratory products ($.2 million), lower new product development in the area of polypeptides ($.1 million) and reduced R&D administrative costs ($.1 million). For the nine months ended September 30, 2002

and 2001, R&D costs were $3.3 million and $4.7 million, respectively. The decrease of $1.4 million was primarily due to lower design and development costs associated with finalizing the to-be-marketed Premaire device in December 2001 ($.8 million), lower Tempo development costs resulting from finalizing the industrialization of the device in the first half of 2002 for Phase I and II trials and reduced formulation work on certain respiratory products ($.6 million), higher development expenses in the third quarter of 2001 related to the anticipation of a Phase I trial of RSD's unit dose product ($.5 million), and lower new product development work in the area of polypeptides ($.3 million). These decreases were partially offset by higher expenses related to formulation work on the Tempo dihydroergotamine ("DHE") product ($.8 million).

The following details the status of each of our development programs as of September 30, 2002:

Premaire Respiratory Program:

As a result of our regaining from Zambon the rights to the respiratory applications to the Premaire in September 2001, the sponsorship of the Premaire respiratory development programs was transferred to us from Zambon with the Food and Drug Administration ("FDA") being notified accordingly. In the fourth quarter of 2001, we reviewed all of the development work completed-to-date, identifying a number of deficiencies in the Zambon development program. To address these issues, we made a number of internal management changes and moved the program to a group of highly experienced pulmonary clinical and regulatory experts. The Premaire device is currently in a to-be-marketed form and fully industrialized. As of September 30, 2002, we had spent $3.8 million on developing the respiratory products discussed below.

Our strategy is to out license the U.S. rights to the Premaire respiratory products to a third party which we anticipate concluding in 2003. As a result, we estimate a U.S. commercial launch of our first products in Premaire to occur in the last half of 2005 or first half of 2006. Subject to obtaining additional financing from debt and/or equity placements, we intend to fund the continued development work for the Premaire respiratory products up through the period of outlicensing, currently estimated at approximately $10 million, after which time it is anticipated that the licensee would assume funding responsibility for further development work.

Albuterol Sulfate. Zambon initiated a Phase II clinical trial in December 1999 that compared the Premaire-albuterol sulfate to a conventional albuterol-pMDI. Findings from Phase II studies indicated that Premaire-albuterol and pMDI-albuterol were comparable in improving lung function in the 24 adult patients. An end of Phase II meeting was held in February 2002 with the FDA where the results of the development activities-to-date, specifically the results of the Phase II trial, were reviewed. We are currently reviewing the FDA's comments and recommendations, integrating the information into the plans for the Phase III trial and NDA submission. Subject to obtaining additional funding by the end of 2002, we anticipate to begin pivotal clinical trials for the albuterol sulfate program at the beginning of 2003.

Budesonide. Preclinical formulation development work is currently underway. A formulation developed by Nanosystems has proven a feasible candidate for delivery in the Premaire. The formulation is dependent on a proprietary nanocrystaline dispersion of budesonide in an aqueous carrier. Two other alternative formulation approaches are also under evaluation. Upon scale-up and production of clinical batches released under CMC protocol, an Investigational New Drug Application ("IND") will be prepared for filing with the FDA, which is currently planned for the first half of 2003.

Ipratropium Bromide. Zambon initiated a Phase I/II clinical trial in Europe in January 2000 assessing the safety and efficacy

compared to a commercially available ipratropium bromide product delivered by a pMDI and placebo in patients with chronic obstructive pulmonary disease ("COPD"). The results of the study indicated that both Premaire-ipratropium bromide and pMDI-ipratropium were tolerated and improved lung function in the COPD patients. An IND was filed by Zambon with the FDA in May 2000. During 2001, the IND was transferred to the us. We do not intend to further develop this product on our own as the program has progressed to the point where a potential licensing partner would be in a position to take the product into clinical studies.

Sodium Cromoglycate. An IND was filed by Zambon with the FDA in July 2000. No further development work is anticipated to be completed on this product as the projected market opportunity for sodium cromoglycate is currently deemed too small to justify further progression.

Premaire Systemic Program:

Through our development alliance with Elan and SPD formed in 1998, we evaluated certain drugs for systemic treatment by pulmonary delivery through Premaire. By identifying a market opportunity for a rapid-acting, non-invasive treatment for breakthrough pain, the first drug to be tested for delivery in Premaire was morphine. In July 1999, we completed a gamma scintigraphy/pharmacokinetic trial comparing morphine delivered using the Premaire to subcutaneous injection. The Premaire demonstrated good pulmonary deposition and very rapid absorption, more rapid peak blood levels vs. subcutaneous injection and low oral and throat deposition. As part of the development alliance with Elan, Elan had the first right of refusal on the development of any product developed by the joint venture. Elan chose not to license this product from the joint venture. In August 2002, we regained all intellectual property rights to the systemic applications of Premaire from SPD and ended the joint venture relationship with Elan. As such, we now continue to seek to attract a partner for the continued development and commercialization of this product. Upon

commercialization, Elan will be entitled to certain royalties on payments received. We have spent $.4 million to date to develop this product and do not anticipate incurring any future costs for further development until such time as a licensing partner is secured.

Tempo Respiratory Program:

In September 2000, we completed a pilot study using the Tempo to deliver an undisclosed, patented respiratory drug used to treat asthma. The study measured the distribution of this respiratory drug delivered by Tempo compared to the distribution of this same drug delivered through a commercially available pMDI in 12 healthy volunteers. Results of this study demonstrated that Tempo significantly increased drug deposition in all regions of the lung. Tempo delivered approximately 200% more drug to the lungs, deposited approximately 75% less drug in the mouth, and increased dosing consistency by approximately 55% compared to the currently marketed form of this same drug. As of September 30, 2002, we had incurred approximately $.9 million to-date on this study. We are using the results of this study as a basis for conducting discussions for feasibility work and/or clinical studies with potential collaboration partners.

Tempo Systemic Program:

The development of systemic drugs using Tempo was being conducted as part of our alliance with Elan. The initial product developed was targeted to address migraine headaches. We utilized ergotamine tartrate as a proof-of-principle product. In December 1999, we completed a gamma scintigraphy/pharmacokinetic trial comparing the Tempo to a conventional pMDI. The trial showed successful delivery of the drug to

all regions of lung with significantly reduced mouth and throat deposition, and rapid drug absorption. As part of the development alliance with Elan, Elan had the first right of refusal on the development of any product developed by the joint venture. Elan chose not to license this product from the joint venture. In August 2002, we regained all intellectual property rights to the systemic applications of Tempo from SPD and ended the joint venture relationship with Elan. As such, we now continue to seek to attract a partner for the continued development and commercialization of this product. Upon commercialization, Elan will be entitled to certain royalties on payments received. As of September 30, 2002, we had spent $1.0 million to date to develop this product and do not anticipate incurring any future costs for further development until such time as a licensing partner is secured.

As a result of the work performed on the ergotamine product noted above, in April 2002, we announced the initiation of a pulmonary migraine therapy program with Inhale Therapeutic Systems ("Inhale"), a world-renowned expert in particle design. We will combine Inhale's supercritical fluid technology with our proprietary drug delivery technologies to develop a systemically acting DHE administered through the pulmonary route. We plan to study DHE in sub-categories of migraine where DHE administered by injection is often used to relieve migraine symptoms. These sub-categories are the more serious forms of migraine and often require either hospitalization or treatment in pain or headache clinics. Under the terms of the agreement, Inhale will supply the particle engineering technology and receive R&D funding, milestone payments, and royalties upon commercialization. We are responsible for all other aspects of clinical development and marketing of the product. As part of this agreement, Inhale will produce DHE particles using Good Manufacturing Practices ("GMP") for clinical development and commercial sale. The treatment of migraine represents a worldwide prescription market estimated at approximately $2.4 billion. As of September 30, 2002, we had incurred-to-date approximately $1.0 million related to this project. Future costs related to this project are dependent upon, among other factors, the timing of securing a development partner. Subject to obtaining additional financing from debt and/or equity placements in 2002, we do not estimate incurring any costs related to the development of the DHE project until the beginning of 2003.

Unit Dose Nebulizer Program:

As part of an alliance with Elan, RSD is developing a product for inhalation delivery in a standard commercial tabletop device using the steroid budesonide, formulated using the NanoCrystal technology. A Phase I, double-blind safety and pharmacokinetic study of nebulized nanobudesonide in 16 healthy volunteers was satisfactorily completed at Thomas Jefferson University Hospital in February 2002. This study compared single doses of Pulmicort Respules ("Pulmicort"), our proprietary nanobudesonide in two different single dose strengths and placebo. The study resulted in no significant adverse events with either of our dosage strengths or the Pulmicort reference drug. Data from the study is currently undergoing final data and statistical analysis. After such data has been analyzed, we plan on initiating discussions with potential partners regarding the outlicensing of this opportunity. As of September 30, 2002, we incurred-to-date approximately $2.9 million on this project. On November 8, 2002, as part of an agreement between Elan and RSD, we and Elan terminated the license for the Elan NanoCrystal technology to RSD. As provided in the 1999 license agreement,

upon termination of this license, all intellectual property of RSD was transferred to and jointly owned by Elan and Sheffield. Subject to disposition of the property rights, we do not intend to incur any additional development costs related to this product.

General and Administrative

General and administrative expenses were $.6 million for the third quarter of 2002 as compared to $1.0 million for the third quarter of 2001. The decrease of $.4 million from 2001 was primarily due to cost reduction efforts to conserve cash while various financing alternatives are evaluated, including lower legal and consulting fees ($.2 million), reduced administrative headcount ($.1 million), and lower public relations expenditures ($.1 million). For the nine months ended September 30, 2002 and 2001, general and administrative expenses were $4.0 million and $2.9 million, respectively. The increase of $1.1 million from 2001 was primarily due to higher consulting costs, legal fees and severance-related costs in the first six months of 2002. The higher consulting costs and legal fees were associated with expanded business development, and merger and acquisition activities in the area of licensing and partnering of our delivery systems, as well as potential acquisitions of complementary pulmonary delivery technologies and companies ($.7 million). The severance costs were associated with the resignation of three executive officers in 2002 and include costs incurred pursuant to their respective separation agreements for severance payments and ongoing benefit coverage ($.6 million) and modification of the terms of certain stock options ($.2 million). These increases were partially offset by the above-noted cost reduction efforts during third quarter of 2002 ($.4 million).

Interest

Interest income was $883 and $4,362 for the third quarter of 2002 and 2001, respectively, and $7,901 and $55,127 for the first nine months of 2002 and 2001, respectively. The decrease in interest income for both the third quarter and first nine months of 2002 was primarily due to less cash available for investment and lower yields on those investments.

Interest expense was $195,949 and $95,039 for the third quarter of 2002 and 2001, respectively, and $526,706 and $204,286 for the first nine months of 2002 and 2001, respectively. The increase for both the third quarter and first nine months of 2002 resulted primarily from interest associated with the borrowings on the August 2001 Note Purchase Agreement with Elan Pharma. The borrowings totaled $5 million as of September 30, 2002, compared to total borrowings of $2 million as of September 30, 2001.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2002, we had $.3 million in cash and cash equivalents compared to $.9 million at December 31, 2001. The decrease of $.6 million reflects cash disbursements of $5.6 million used primarily to fund operating activities, partially offset by the receipt of $1.0 million from the issuance of 1,000 shares of our Series E Cumulative Convertible Preferred Stock, $1.5 million from the proceeds of a secured loan from Zambon, $1.0 million from the proceeds of an unsecured promissory note from Elan Pharma, $.5 million from the proceeds of unsecured promissory notes from certain shareholders and $1.0 million in proceeds from the exercise of a portion of a common stock warrant by Elan International Services, Ltd.

Cash available for funding our operations as of September 30, 2002 was $.3 million. As of such date, we had trade payables and accrued liabilities of $2.8 million, and current research obligations of $.2 million. In addition, committed and/or anticipated funding of research and development after September 30, 2002 is estimated at approximately $.2 million, of which $.1 million has been committed to be funded by Elan through the issuance of our Series E cumulative convertible preferred stock, which funds are required to be used by us to fund our portion of RSD's operating and development costs. As of November 14, 2002, we had cash and equivalents of approximately $.7 million, of which $.1 million is committed to fund our portion of RSD's expenditures. As of such date, we had trade payables and accrued liabilities of approximately $2.9 million. Unless the Company is able to raise significant capital ($1 million to $2.5 million) within the next 30-60 days, management believes that it is unlikely that the Company will be able to meet its obligations as they become due and to continue as a going concern. To meet this capital requirement, we are evaluating various financing alternatives including private offerings of our securities, debt financings, collaboration and licensing arrangements with other companies, and the sale of non-strategic assets and/or technologies to third parties. Should the Company be unable to meets it capital requirement through one or more of the above-mentioned financing alternatives, we may file for bankruptcy or

similar protection under the 1978 Bankruptcy Code.

Because we do not expect to generate significant cash flows from operations for at least the next few years, we will require additional funds to meet our current obligations and future costs. In an effort to meet both our short- and long-term capital requirements, we are currently evaluating various financing alternatives including private offerings of our securities, debt financings, and collaboration and licensing arrangements with other companies. There can be no assurance that we will be able to obtain such additional funds or enter into such collaborative and licensing arrangements on terms favorable to us, if at all. Our development programs will be stopped if future financings are not completed.

On November 8, 2002 the Company entered into an agreement with Elan Pharma, whereby among other items, the Company received proceeds of $.5 million evidenced by an unsecured demand promissory note. The promissory note provides for interest on principal and semi-annually compounded interest at a fixed rate of 10% per annum.

On September 6, 2002, we entered into a $.5 million unsecured debt financing with certain of our shareholders. The promissory notes provide for interest at the rate of 7% per annum and mature on January 1, 2003. Upon maturity, we will repay principal and accrued interest on each note, and at our discretion, either a premium of approximately 14% of the principal amount, or a warrant to purchase the number of shares of Sheffield common stock equal to the principal amount each note. Any warrants to be issued under the notes would have an exercise price equal to $.60 per share, the closing price of our common stock on the closing date of the notes. The outstanding principal balance of the promissory notes at September 30, 2002 was $.5 million.

On April 5, 2002, Elan International Services, Ltd. exercised a portion of a warrant that it had received in June 1998 as part of a strategic alliance with us and purchased 495,000 shares of our common stock at $2.00 per share. We received approximately $1.0 million in proceeds as a result of the exercise of a portion of this warrant.

On August 14, 2001, we entered into a Note Purchase Agreement ("Agreement") with Elan Pharma, pursuant to which Elan Pharma agreed to lend us up to $4 million. On April 4, 2002, we amended the Agreement. Under the terms of the amended Agreement, Elan Pharma agreed to increase the principal amount of the loan available from $4 million to $5 million and extend the maturity date from November 14, 2002 to April 4, 2004. On April 5, 2002, we received proceeds on the loan of $1 million, increasing the total borrowings to $5 million. All borrowings under the Agreement are evidenced by our $5 million unsecured promissory note that provides for interest on principal and semi-annually compounded interest at a fixed rate of 10% per annum. Due to the modification of the maturity date, the borrowings under the Agreement, totaling $5 million at September 30, 2002, have been classified in our balance sheet as long-term debt.

In September 2001, in connection with the amendment of our 1998 agreement with Zambon, we entered into a Loan and Security Agreement ("Loan Agreement") with Zambon, pursuant to which Zambon agreed to lend us $2.5 million. We received $1.0 million upon signing of the Loan Agreement, $1.0 million on January 2, 2002 and $.5 million on April 5, 2002. The Loan Agreement provides for interest on principal and annually compounded interest at a fixed rate of 2% per annum and is secured by certain security interests in respiratory products developed in the Premaire. One third of the principal balance, together with interest, is payable by us upon our execution of an agreement with one or more third parties to develop, co-promote and/or sell certain products in North America, with all remaining unpaid principal and interest due on December 31, 2005. On October 17, 2001, as part of the amendment of our 1998 agreement with Zambon, we repurchased from Zambon, 214,997 shares of common stock for $3.0233 per share ("Repurchase Price"). In addition, we received an option, expiring December 31, 2002, to repurchase the remaining shares of our common stock held by Zambon at the Repurchase Price. In the event we complete a sublicense for the North American rights or a sublicense for the non-North American rights to certain Premaire respiratory products prior to December 31, 2002, we will repurchase from Zambon

882,051 shares of our common stock on each of the events.

In October 1999, as part of a licensing agreement with Elan, we received gross proceeds of $17,015,000 related to the issuance to Elan of 12,015 shares of Series D Cumulative Convertible Exchangeable Preferred Stock and 5,000 shares of Series F Convertible Non-Exchangeable Preferred Stock. In turn, we made an equity investment of $12,015,000 in a joint venture, RSD, representing an initial 80.1% ownership. The remaining proceeds from this preferred stock issuance will be utilized for general operating purposes. As part of the agreement, Elan also committed to purchase, on a drawdown basis, up to an additional $4.0 million of our Series E Preferred Stock. Although only $3 million has been drawndown under the Series E Preferred Stock, as part of the November 8, 2002 Note Agreement with Elan, Elan is no longer obligated to provide us with the remaining $1 million in funding.

In May 1999, in conjunction with the completion of its Phase I/II Premaire-albuterol trial, Zambon provided us with a $1.0 million interest-free advance against future milestone payments. In January 2001, we received an additional $1.0 million interest-free milestone advance resulting from the demonstration of the technical feasibility of delivering an inhaled steroid formulation in Premaire. The proceeds from these advances are not restricted as to their use by us. As part of the amendment of its 1998 agreement with Zambon, the terms of the milestone advances were modified in that we shall repay $1.0 million of the advance milestone payments upon the earlier of December 31, 2003, or upon the first regulatory approval for either albuterol or an inhaled steroid delivered in the Premaire. The remaining $1.0 million advance shall be repaid by us on the earlier of

December 31, 2005, or the regulatory approval of the second product (albuterol or an inhaled steroid) delivered in the Premaire. Due to the modification in the repayment terms, the advances have been reclassified in our balance sheet as long-term debt.

CERTAIN RISK FACTOR THAT MAY AFFECT FUTURE RESULTS, FINANCIAL CONDITION AND MARKET PRICE OF SECURITIES

The following are some of the factors that could affect the Company's future results. They should be considered in connection with evaluating forward-looking statements contained in this report and otherwise made by us or on our behalf, because these factors could cause actual results and conditions to differ materially from those projected in forward-looking statements.

We will need additional financing, which if not available, could prevent us from funding or expanding our operations.

Unless the Company is able to raise significant capital ($1 million to $2.5 million) within the next 30-60 days, management believes that it is unlikely that the Company will be able to meet its obligations as they become due and to continue as a going concern. To meet this immediate capital requirement, we are evaluating various financing alternatives including private offerings of our securities, debt financings, collaboration and licensing arrangements with other companies, and the sale of non-strategic assets and/or technologies to third parties. Should the Company be unable to meet its capital requirement through one or more of the above-mentioned financing alternatives, we may file for bankruptcy or similar protection under the 1978 Bankruptcy Code.

Provided immediate funding is secured, we will still need to raise substantial additional capital in the very near-term to fund our operations in an effort to continue to meet our obligations as they become due and to continue as a going concern. The development of our technologies and proposed products will require a commitment of substantial funds to conduct costly and time-consuming research, preclinical and clinical testing, and to bring any such products to market. Our future capital requirements will depend on many factors, including continued progress in developing and out-licensing our pulmonary delivery technologies, our ability to establish and maintain collaborative arrangements with others and

to comply with the terms thereof, receipt of payments due from partners under research and development agreements, progress with preclinical and clinical trials, the time and costs involved in obtaining regulatory approvals, the cost involved in preparing, filing, prosecuting, maintaining and enforcing patent claims, the need to acquire licenses to new technology and the status of competitive products. We are currently seeking such additional funding through collaborative or partnering arrangements, the extension of existing arrangements, or through public or private equity or debt financings. Additional financing may not be available on acceptable terms or at all. If we raise additional funds by issuing equity securities, stockholders may be further diluted and such equity securities might have rights, preferences and privileges senior to those of our current stockholders. If adequate funds are not available over the longer-term, we may be required to delay, reduce the scope of, or eliminate one or more of our research or development programs or obtain funds through arrangements with collaborative partners or others that may require us to relinquish rights to certain of our technologies, product candidates or products that we would otherwise seek to develop or commercialize. If adequate funds are not available from operations or additional sources of funding, our business will suffer a material adverse effect.

We have experienced significant operating losses throughout our history and expect these losses to continue for the foreseeable future.

Our operations to date have consumed substantial amounts of cash and we have generated to date only limited revenues from contract research and licensing activities. We have incurred approximately $97.8 million of operating losses since our inception, including $7.3 million during the nine months ended September 30, 2002. Our operating losses and negative cash flow from operations are expected to continue in the foreseeable future. The Company expects that it will continue to have a high level of operating expenses, negative cash flow from operations and will be required to make significant up-front expenditures in connection with its product development activities. As a result, we anticipate additional operating losses for the remainder of 2002 and that such losses will continue thereafter until such time, if ever, as we are able to generate sufficient revenues to sustain our operations. The independent auditors' report dated February 12, 2002, on our consolidated financial statements for the year ended December 31, 2001 stated that we have incurred recurring operating losses and have a working capital deficiency and that these conditions raise substantial doubt about our ability to continue as a going concern.

If our common stock is delisted from the American Stock Exchange, the price of our common stock and its liquidity could decline.

Our common stock is listed for trading on the American Stock Exchange, or AMEX, under the symbol "SHM". We do not satisfy AMEX standards for continued listing, including a standard that a listed company that has sustained losses from continuing operations and/or net losses in its five most recent fiscal years, have stockholders' equity of at least $6,000,000. We

had a net capital deficiency of $14.4 million at September 30, 2002. We submitted a plan advising the AMEX of the action we will take that will bring us into compliance with continued listing standards. On September 11, 2002, the AMEX notified us that it had accepted our plan of compliance and granted us an extension through the 2002 year-end reporting period to regain compliance with the continued listing standards. We will be subject to periodic review by the AMEX staff during the extension period. Failure to make progress consistent with the plan or to regain compliance with the continued listing standards by the end of the extension period could result in our being delisted from the AMEX. There can be no assurance that we will be able to meet the objectives outlined in the plan, which may result in the AMEX initiating delisting procedures. If our common stock were delisted from AMEX, trading of our common stock, if any, would thereafter likely be conducted in the over-the-counter market, unless we were able to list our common stock on The Nasdaq Stock Market or another national securities exchange, which cannot be assured. If our common stock were to trade in the over-the-counter market it may be more difficult for investors to dispose

of, or to obtain accurate quotations as to the market value of our common stock. In addition, it may become more difficult for us to raise funds through the sale of our securities.

In the event of the delisting of our common stock from the AMEX and our inability to list our common stock on The Nasdaq Stock Market or another national securities exchange, the regulations of the SEC under the Securities Exchange Act of 1934, as amended, require additional disclosure relating to the market for penny stocks. SEC regulations generally define a penny stock to be an equity security that has a market price of less than $5.00 per share, subject to certain exceptions. A disclosure schedule explaining the penny stock market and the risks associated therewith is required to be delivered to a purchaser and various sales practice requirements are imposed on broker-dealers who sell penny stocks to persons other than established customers and accredited investors (generally institutions). In addition, the broker-dealer must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction and monthly account statements showing the market value of each penny stock held in the customer's account. If our securities become subject to the regulations applicable to penny stocks, the market liquidity for our securities could be severely affected. In such an event, the regulations on penny stocks could limit the ability of broker-dealers to sell our securities.

Our products are still in development and we may be unable to bring our products to market.

We have not yet begun to generate revenues from the sale of products. Our products will require significant additional development, clinical testing and investment prior to their commercialization. We do not expect regulatory approval for commercial sales of any of our products in the immediate future. Potential products that appear to be promising at early stages of development may not reach the market for a number of reasons. Such reasons include the possibility that products will not be proven to be safe and efficacious in clinical trials, that they will not be able to meet applicable regulatory standards or obtain required regulatory approvals, that they cannot be produced in commercial quantities at reasonable costs or that they fail to be successfully commercialized or fail to achieve market acceptance.

If our products are not accepted by the medical community, our business will suffer.

Commercial sales of our products will substantially depend upon the products' efficacy and on their acceptance by the medical community. Widespread acceptance of our products will require educating the medical community as to the benefits and reliability of the products. Our products may not be accepted and, even if accepted, we are unable to estimate the length of time it would take to gain such acceptance.

We will be required to make royalty payments on products we may develop, reducing the amount of revenues with which we could fund ongoing operations.

The owners and licensors of the technology rights acquired by us are entitled to receive a certain percentage of all revenues received by us from commercialization, if any, of products in respect of which we hold licenses. Accordingly, in addition to our substantial investment in product development, we will be required to make substantial payments to others in connection with revenues derived from commercialization of products, if any, developed under licenses we hold. Consequently, we will not receive the full amount of any revenues that may be derived from commercialization of products to fund ongoing operations.

Our dependence on third parties for rights to technology and the development of our products could harm our business.

Under the terms of existing license agreements, we are obligated to make certain payments to our licensors. In the event that we default on the payment of an installment under the terms of an existing licensing agreement, our rights there under could be forfeited. As a consequence, we could lose all rights under a license agreement to the related licensed technology, notwithstanding the total investment made through the date of the default. Unforeseen obligations or contingencies may deplete our financial resources and, accordingly, sufficient resources may not be available to fulfill our commitments. If we were to lose our rights to technology, we may be unable to replace the licensed technology or

be unable to do so on commercially

reasonable terms, which would materially adversely affect our ability to bring products based on that technology to market. In addition, we depend on our licensors for assistance in developing products from licensed technology. If these licensors fail to perform or their performance is not satisfactory, our ability to successfully bring products to market may be delayed or impeded.

We face intense competition and rapid technological changes and our failure to successfully compete or adapt to changing technology could make it difficult to successfully bring products to market.

The medical field is subject to rapid technological change and innovation. Pharmaceutical and biomedical research and product development are rapidly evolving fields in which developments are expected to continue at a rapid pace. Reports of progress and potential breakthroughs are occurring with increasing frequency. Our success will depend upon our ability to develop and maintain a competitive position in the research, development and commercialization of products and technologies in our areas of focus. Competition from pharmaceutical, chemical, biomedical and medical companies, universities, research and other institutions is intense and is expected to increase. All, or substantially all, of these competitors have substantially greater research and development capabilities, experience, and manufacturing, marketing, financial and managerial resources. Further, acquisitions of competing companies by large pharmaceutical or other companies could enhance such competitors' financial, marketing and other capabilities. Developments by others may render our products or technologies obsolete or not commercially viable and we may not be able to keep pace with technological developments.

We are subject to significant government regulation and failure to achieve regulatory approval for our products would severely harm our business.

Our ongoing research and development projects are subject to rigorous FDA approval procedures. The preclinical and clinical testing requirements to demonstrate safety and efficacy in each clinical indication (the specific condition intended to be treated) and regulatory approval processes of the FDA can take a number of years and will require us to expend substantial resources. We may be unable to obtain FDA approval for our products, and even if we do obtain approval, delays in such approval would adversely affect the marketing of products to which we have rights and our ability to receive product revenues or royalties. Moreover, even if FDA approval is obtained, a marketed product, its manufacturer and its manufacturing facilities are subject to continual review and periodic inspections by the FDA, and a later discovery of previously unknown problems with a product, manufacturer or facility may result in restrictions on such product or manufacturer. Failure to comply with the applicable regulatory requirements can, among other things, result in fines, suspensions of regulatory approvals, product recalls, operating restrictions and criminal prosecution. Additional government regulation may be established which could prevent or delay regulatory approval of our products. Sales of pharmaceutical products outside the United States are subject to foreign regulatory requirements that vary widely from country to country. Even if FDA approval has been obtained, approval of a product by comparable regulatory authorities of foreign countries must be obtained prior to the commencement of marketing the product in those countries. The time required to obtain such approval may be longer or shorter than that required for FDA approval. We have no experience in manufacturing or marketing in foreign countries nor in matters such as currency regulations, import-export controls or other trade laws. To date, we have not received final regulatory approval from the FDA or any other comparable foreign regulatory authority for any of our products or technologies.

Our failure to meet product release schedules would make it difficult to predict our quarterly results and may cause our operating results to vary significantly.

Delays in the planned release of our products may adversely affect forecasted revenues and create operational inefficiencies resulting from staffing levels designed to support the forecasted revenues. Our failure to introduce new

products on a timely basis could delay or hinder market acceptance and allow competitors to gain greater market share.

If our intellectual property and proprietary rights are infringed, or infringe upon the rights of others, our business will suffer.

Our success will depend in part on our ability to obtain patent protection for our technologies, products and processes and to maintain trade secret protection and operate without infringing the proprietary rights of others. The degree of patent protection to be afforded to pharmaceutical, biomedical or medical inventions is an uncertain area of the law. In addition, the laws of foreign countries do not protect our proprietary rights to the same extent as do the laws of the United States. We may not develop or receive sublicenses or other rights related to proprietary technology that are patentable, patents that are pending may be not issued, and any issued patents may not provide us with any competitive advantages and may be challenged by third parties. Furthermore, others may independently duplicate or develop similar products or technologies to those developed by or licensed to us. If we are required to defend against charges of patent infringement or to protect our own proprietary rights against third parties, substantial costs will be incurred and we could lose rights to certain products and technologies or be required to enter into costly royalty or licensing agreements.

We do not have any marketing or manufacturing capabilities and will likely rely on third parties for these capabilities in order to bring products to market.

We do not currently have our own sales force or an agreement with another pharmaceutical company to market all of our products that are in development. When appropriate, we may build or otherwise acquire the necessary marketing capabilities to promote our products. However, we may not have the resources available to build or otherwise acquire our own marketing capabilities, and we may be unable to reach agreements with other pharmaceutical companies to market our products on terms acceptable to us, if at all.

In addition, we do not intend to manufacture our own products. While we have already entered into two manufacturing and supply agreements related to the Premaire system and one related to the Tempo, these manufacturing and supply agreements may not be adequate and we may not be able to enter into future manufacturing and supply agreements on acceptable terms, if at all. Our reliance on independent manufacturers involves a number of risks, including the absence of adequate capacity, the unavailability of, or interruptions in, access to necessary manufacturing processes and reduced control over product quality and delivery schedules. If our manufacturers are unable or unwilling to continue manufacturing our products in required volumes, we will have to identify acceptable alternative manufacturers. The use of a new manufacturer may cause significant interruptions in supply if the new manufacturer has difficulty manufacturing products to our specifications. Further, the introduction of a new manufacturer may increase the variation in the quality of our products.

Healthcare reimbursement policies are uncertain and may adversely impact the sale of our products.

Our ability to commercialize human therapeutic and diagnostic products may depend in part on the extent to which costs for such products and technologies are reimbursed by private health insurance or government health programs. The uncertainty regarding reimbursement may be especially significant in the case of newly approved products. Reimbursement price levels may be insufficient to provide a return to us on our investment in new products and technologies. In the United States, government and other third-party payers have sought to contain healthcare costs by limiting both coverage and the level of reimbursement for new pharmaceutical products approved for marketing by the FDA, including some cases of refusal to cover such approved products. Healthcare reform may increase these cost containment efforts. We believe that managed care organizations may seek to restrict the use of new products, delay authorization to use new products or limit coverage and the level of reimbursement for new products. Internationally, where national healthcare systems are prevalent, little if any funding may be available for new products, and cost containment

and cost reduction efforts can be more pronounced than in the United States.

We may become subject to product liability claims and our product liability insurance may be inadequate.

The use of our proposed products and processes during testing, and after approval, may entail inherent risks of adverse effects that could expose us to product liability claims and associated adverse publicity. Although we currently maintain general liability insurance, the coverage limits of our insurance policies may not be adequate. We currently maintain clinical trial product liability insurance of $2.0 million per event for certain clinical trials and intend to obtain insurance for future clinical trials of products under development. However, we may be unable to obtain or maintain insurance for any future clinical trials. Such insurance is expensive, difficult to obtain and may not be available in the future on acceptable terms, or at all. A successful claim brought against us in excess of our insurance coverage would have a material adverse effect upon us and our financial condition. We intend to require our licensees to obtain adequate product liability insurance. However, licensees may be unable to maintain or obtain adequate product liability insurance on acceptable terms and such insurance may not provide adequate coverage against all potential claims.

The price of biotechnology/pharmaceutical company stocks has been volatile which could result in substantial losses to our stockholders.

The market price of securities of companies in the biotechnology/pharmaceutical industries has tended to be volatile. Announcements of technological innovations by us or our competitors, developments concerning proprietary rights and concerns about safety and other factors may have a material effect on our business or financial condition. The market price of our common stock may be significantly affected by announcements of developments in the medical field generally or our research areas specifically. The stock market has experienced volatility in market prices of companies similar to us that has been unrelated to the operating results of such companies. This volatility may have a material adverse effect on the market price of our common stock.

Our ability to issue "blank check" preferred stock may make it more difficult for a change in our control.

Our certificate of incorporation authorizes the issuance of "blank check" preferred stock with such designations, rights and preferences as may be determined from time to time by the Board of Directors, without shareholder approval. In the event of issuance, such preferred stock could be utilized, under certain circumstances, as a method of discouraging, delaying or preventing a change in our control and preventing shareholders from receiving a premium for their shares in connection with a change of control. We issued Series A and Series B cumulative convertible redeemable preferred stock in connection with private placements in February 1997 and April 1998, respectively. All of the Series A preferred stock was converted into common stock during 1998. On July 31, 1998, all of the Series B Preferred stock was redeemed for cash. We also issued shares of our Series C cumulative convertible preferred stock in connection with the consummation of an agreement with Elan International Services, Ltd. ("Elan International") in June 1998. In October 1999, in conjunction with a licensing agreement with Elan International, we issued shares of our Series D cumulative convertible exchangeable preferred stock and Series F cumulative convertible preferred stock. Except for the additional shares of Series C, D and E preferred stock that may be payable as dividends to Elan International, as holder of the outstanding Series C, D and E preferred stock, we have no present intention to issue any additional shares of our preferred stock. As we are currently investigating raising additional equity financing, we may issue additional shares of our preferred stock in the near future.

We are obligated to issue additional securities in the future diluting our stockholders.

As of September 30, 2002, we had reserved approximately 4,236,667 shares of our common stock for issuance upon exercise of outstanding options and warrants convertible into shares of our common stock, including by our officers and

directors. In addition, as of September 30, 2002, we had $2,000,000 principal amount of a convertible promissory note, 15,501 shares of our Series C preferred stock, 14,287 shares of our Series D preferred stock, 3,231 shares of our Series E preferred stock and 5,000 shares of our Series F preferred stock outstanding. Our Series C, D, E and F preferred stock are convertible into 10,993,617 shares, 2,939,712 shares, 830,591 shares and 1,470,588 shares, respectively, of common stock. The convertible promissory note, including accrued interest is convertible into 1,555,975 shares of common stock. The exercise of options and outstanding warrants, the conversion of such other securities and sales of common stock issuable thereunder could have a significant dilutive effect on the market price of our common stock and could materially impair our ability to raise capital through the future sale of our equity securities.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

The Company has no material market risk exposure.

Item 4. Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation within 90 days of the filing date of this report, that our disclosure controls and procedures are effective for gathering, analyzing and disclosing the information we are required to disclose in our reports filed under the Securities Exchange Act of 1934. There have been no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the previously mentioned evaluation.

PART II: OTHER INFORMATION

Item 1. Legal Proceedings

The Company has been named as a defendant in Jeffrey Leston v. Sheffield Pharmaceuticals, Inc., filed on October 16, 2002 in the United States District Court, Southern District of New York. The plaintiff in this action seeks damages of $100,000 for the breach of a contract under which Leston was retained to introduce and facilitate a business alliance between Sheffield and Zambon Corporation. Plaintiff claims that under this contract, Sheffield was obligated, among other things, to pay Leston a fee equal to 4% of any equity by Zambon in Sheffield or other financing by Zambon, including loans. In January 1999, an agreement was entered into amending the original contract in a manner that the Company believes relieved the Company for any of the obligations claimed in the Complaint. In September 2001, Zambon loaned $2.5 million to Sheffield as part of a restructuring of their alliance. This action seeks consideration of $100,000, or 4% of the

$2.5 million loaned to Sheffield under this restructuring with Zambon. The Company expects to deny the plaintiff's allegations and plans to counter-claim for the return of monies previously paid to the plaintiff and vigorously defend the action and prosecute its counter-claims. The Company's response to the Complaint is due by December 18, 2002.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

10.41 Form of promissory notes dated September 6, 2002 with

certain Shareholders.

(b) Reports on Form 8-K

A current Report on Form 8-K filed with the Securities and Exchange Commission on August 14, 2002 under Item 9, relating to the certification signed by the Company's Chief Executive Officer and Chief Financial Officer as required pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in connection with the Quarterly Report on Form 10-Q for the period ending June 30, 2002.

A current Report on Form 8-K filed with the Securities and Exchange Commission on September 6, 2002 to announce the filing of a press release under Item 5.

SIGNATURES

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

SHEFFIELD PHARMACEUTICALS, INC.

Dated: November 14, 2002 /s/ Thomas M. Fitzgerald

Thomas M. Fitzgerald
President & Chief Executive Officer

Dated: November 14, 2002 /s/ Scott A. Hoffmann

Scott A. Hoffmann
Vice President & Chief Financial Officer
(Principal Financial and Accounting Officer)

CERTIFICATIONS

I, Thomas M. Fitzgerald, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sheffield Pharmaceuticals, Inc.;

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures 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 quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/s/ Thomas M. Fitzgerald

Thomas M. Fitzgerald
President & Chief Executive Officer

I, Scott A. Hoffmann, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Sheffield Pharmaceuticals, Inc.;

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures 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 quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/s/ Scott A. Hoffmann

Scott A. Hoffmann
Vice President & Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 10.41

PROMISSORY NOTE

$_____ St. Louis, Missouri
September 6, 2002

FOR VALUE RECEIVED, Sheffield Pharmaceuticals, Inc. ("Maker") does hereby promise to pay to the order of _____ ("Holder"), at such address or at such other place as may be designated by notice of Holder to Maker, (i) the principal sum of _____ dollars ($_____) on January 1, 2003 (the "Maturity Date"); together with (ii) interest on any principal amounts outstanding hereunder from the date hereof until said principal amount is paid in full, payable on the final day when said principal amount becomes due at an interest rate per annum equal at all times to seven percent (7.0%) and (iii) a premium amount of _____ ($_____) (collectively, the "Maturity Payments"). Interest on this Note shall be computed on a basis of a year of 365 or 366 days, as the case may be, for the actual number of days elapsed (including the first day but excluding the last day).

Maker may prepay this Note in whole or in part, with accrued interest through the date of such prepayment on the amount prepaid.

On the Maturity Date, at the Company's sole discretion, the Company shall have the option either (i) to make all Maturity Payments that are due and owing, or (ii) to repay the aggregate principal amount, all accrued and unpaid interest thereon, and to issue to the Holder a warrant to purchase _____ shares of Common Stock and be in the form as provided in the attached Exhibit A.

Maker agrees to pay on demand all reasonable costs and expenses, if any (including reasonable counsel fees and expenses), incurred by Holder in connection with the enforcement of this Note.

If any of the following events shall occur and be continuing:

(a) Maker shall fail to make any payment of principal or interest when the same becomes due and payable and such failure shall remain unremedied for three (3) days; or

(b) Any proceeding shall be instituted by or against Maker seeking to adjudicate it a bankrupt or insolvent, or seeking protection of its debts under any law relating to bankruptcy or insolvency or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its property,

Then, and in any such event, Holder may, by notice to Maker, declare all outstanding principal and any other obligations of Maker hereunder, including any interest and premium thereon, to be forthwith due and payable, whereupon all such amounts shall become and be forthwith due and payable, without presentment, demand, protest, or further notice of any kind, all of which are hereby expressly waived by Maker.

All notices between Maker and Holder under this Note shall be made by registered mail.

This Note shall be governed by, and construed in accordance with, the laws of the State of Missouri.

IN WITNESS WHEREOF, Maker has executed this Note as of the day and year first above written.

SHEFFIELD PHARMACEUTICALS, INC.

By

Name

Title

1

EXHIBIT A

THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND THEY MAY NOT BE OFFERED, SOLD, PLEDGED, HYPOTHECATED, ASSIGNED OR TRANSFERRED EXCEPT (i) PURSUANT TO A REGISTRATION STATEMENT UNDER THE SECURITIES ACT WHICH HAS BECOME EFFECTIVE AND IS CURRENT WITH RESPECT TO THESE SECURITIES, OR (ii) PURSUANT TO A SPECIFIC EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT BUT ONLY UPON THE HOLDER HEREOF FIRST HAVING OBTAINED THE WRITTEN OPINION OF COUNSEL TO THE CORPORATION, OR OTHER COUNSEL REASONABLY ACCEPTABLE TO THE CORPORATION, THAT THE PROPOSED DISPOSITION IS CONSISTENT WITH ALL APPLICABLE PROVISIONS OF THE SECURITIES ACT AS WELL AS ANY APPLICABLE "BLUE SKY" OR OTHER STATE SECURITIES LAW.

COMMON STOCK PURCHASE WARRANT

For the Purchase of _____ Shares of Common Stock

of

SHEFFIELD PHARMACEUTICALS, INC.

(A Delaware Corporation)

1. Warrant.

THIS CERTIFIES THAT, for value received, _____ (the "Holder"), as registered owner of this Warrant, is entitled during the period commencing January 1, 2002 and ending at 5:00 p.m., St. Louis, Missouri time, on December 31, 2005, but not thereafter, to subscribe for, purchase and receive, in whole or in part, up to _____ (_____) shares of Common Stock, par value $.01 per share (the "Common Stock"), of Sheffield Pharmaceuticals, Inc., a Delaware corporation (the "Company") in accordance with the terms hereof.

The exercise price (the "Exercise Price") per share of Common Stock shall be $.60 per share.

2. Exercise.

In order to exercise this Warrant, the exercise form attached hereto must be duly executed, completed and delivered to the Company, together with this Warrant and payment of the applicable Exercise Price for the shares of the Common Stock being purchased. If the rights represented hereby shall not have been exercised before 5:00 p.m., St. Louis, Missouri time, on December 31, 2005 this Warrant shall become and be void and without further force or effect and all rights represented hereby shall cease and expire.

3. Transfer.

3.1 General Restrictions. The registered Holder of this Warrant, by his acceptance hereof, agrees that it shall not sell, transfer or assign or hypothecate this Warrant without the prior written consent of the Company. The shares of Common Stock issuable upon exercise of this Warrant shall be subject to the additional transfer restrictions set forth below.

3.2 Restrictions Imposed by the Securities Act. The Holder by accepting this Warrant confirms that the Warrants were acquired by the Holder solely for investment and with no present intention to distribute any Warrants or securities issuable upon the exercise thereof and that the Holder will dispose of securities issuable upon the exercise hereof only in compliance with applicable Federal and state securities laws. The shares of Common Stock

purchased upon exercise of this Warrant shall not be transferred unless and until (i) the Company has received the opinion of counsel for the Holder that such shares may be sold pursuant to an exemption from registration under the Securities Act of 1933, as amended (the "Securities Act"), the availability of which is established to the reasonable satisfaction of the Company, or (ii) a registration

statement relating to such shares has been filed by the Company and declared effective by the Securities and Exchange Commission.

Each certificate for securities purchased upon exercise of this Warrant shall bear a legend substantially as follows unless such securities have been registered under the Securities Act:

> "The securities represented by this certificate have not been registered under the Securities Act of 1933 (the "Act"). The securities may not be offered for sale, sold or otherwise transferred except (i) pursuant to an effective registration statement under the Act or (ii) pursuant to an exemption from registration under the Act in respect of which the Company has received an opinion of counsel satisfactory to the Company to such effect. Copies of the agreement covering both the purchase of the securities and restricting their transfer may be obtained at no cost by written request made by the holder of record of this certificate to the Secretary of the Company at the principal executive offices of the Company."

4. New Warrants to be Issued.

4.1 Partial Exercise or Transfer. Subject to the restrictions in Section 3 hereof, this Warrant may be exercised in whole or in part. In the event of the exercise hereof in part, upon surrender of this Warrant for cancellation, together with the duly executed exercise form, the Company shall cause to be delivered to the Holder without charge a new warrant or new warrants of like tenor with this Warrant in the name of the Holder evidencing the right to purchase, in the aggregate, the remaining number of underlying shares of Common Stock purchasable hereunder after giving effect to any such partial exercise.

4.2 Lost Certificate. Upon receipt by the Company of evidence satisfactory to it of the loss, theft, destruction or mutilation of this Warrant and of an indemnification in favor of the Company, reasonably satisfactory to it, the Company shall execute and deliver a new warrant of like tenor and date. Any such new warrants executed and delivered as a result of such loss, theft, mutilation or destruction shall constitute an additional contractual obligation on the part of the Company.

5. Reservation. The Company shall at all times reserve and keep available out of its authorized shares of Common Stock, solely for the purpose of issuance upon exercise of the Warrant, such number of authorized but unissued shares of Common Stock, free from preemptive rights, as shall be issuable upon the exercise thereof. The Company covenants and agrees that, upon exercise of the Warrant and payment of the applicable Exercise Price therefor, all shares of Common Stock shall be duly and validly issued, fully paid and nonassessable and not subject to preemptive rights of any stockholder. The Company further covenants and agrees that upon exercise of this Warrant and payment of the applicable Exercise Price therefor, all shares of Common Stock shall be duly and validly issued, fully paid and nonassessable and not subject to preemptive rights of any stockholder. If the Common Stock is then listed on a national securities exchange, all shares of Common Stock issued upon exercise of this Warrant shall also be duly listed thereon.

6. Adjustments. The Exercise Price and the number of shares purchasable hereunder are subject to adjustment from to time as follows.

6.1 Merger, Sale of Assets, Etc. If at any time while this Warrant, or any portion thereof, is outstanding and unexpired there shall be (i)

a reorganization (other than a combination, reclassification, exchange or subdivision of shares otherwise provided for herein), (ii) a merger or consolidation of the Company with or into another corporation in which the Company is the surviving entity but the shares of the Company's capital stock outstanding immediately prior to the merger are converted by virtue of the merger into other property, whether in the form of securities, cash, or otherwise, or (iii) a sale or transfer of the Company's properties and assets as, or substantially as, an entirety to any other person, then as a part of such reorganization, merger, consolidation, sale or transfer lawful provision shall be made so that the holder of this Warrant shall thereafter be entitled to receive upon exercise of this Warrant, during the period specified herein and payment of the Exercise Price then in effect, the number of shares of stock or other securities or property of the successor corporation resulting from such reorganization, merger, consolidation, sale or transfer that a holder of the shares deliverable upon exercise of this Warrant would have been entitled to receive in such reorganization, consolidation, merger, sale or transfer if this Warrant had been exercised immediately before such reorganization, merger, consolidation, sale or transfer, all subject to further adjustment as provided in this Section 6. The foregoing provisions of this Section 6 shall similarly apply to successive reorganization, consolidations, mergers, sales and transfers and to the stock or securities of any other corporation that are at the time receivable upon the exercise of this Warrant. If the per-share consideration payable to the holder hereof for shares in connection with any such transaction is in a form other than cash or marketable securities, then the value of such consideration shall be determined in good faith by the Company's Board of Directors. In all events, appropriate adjustment (as determined in good faith by the

Company's Board of Directors) shall be made in the application of the provisions of this Warrant with respect to the rights and interests of the Holder after the transaction, to the end that the provisions of this Warrant shall be applicable after that event, as near as reasonably may be, in relation to any shares or other property deliverable after that event upon exercise of this Warrant.

6.2 Reclassification, Etc. If the Company, at any time while this Warrant, or any portion thereof, remains outstanding and unexpired by reclassification of securities or otherwise, shall change any of the securities as to which purchase rights under this Warrant exist into the same or a different number of securities of any other class or classes, this Warrant shall thereafter represent the right to acquire such number and kind of securities as would have been issuable as the result of such change with respect to the securities that were subject to the purchase rights under this Warrant immediately prior to such reclassification or other change and the Exercise Price therefor shall be appropriately adjusted, all subject to further adjustment as provided in this Section 6.

6.3 Split Subdivision or Combination of Shares. If the Company at any time while this Warrant, or any portion thereof, remains outstanding and unexpired shall split, subdivide or combine the securities as to which purchase rights under this Warrant exist, into a different number of securities of the same class, the Exercise Price for such securities shall be proportionately decreased in the case of a split or subdivision or proportionately increased in the case of a combination.

6.4 Adjustments for Dividends in Stock or Other Securities or Property. If while this Warrant, or any portion hereof, remains outstanding and unexpired the holders of the securities as to which purchase rights under this Warrant exist at the time shall have received, or, on or after the record date fixed for the determination of eligible stockholders of the Company, shall have become entitled to receive, without payment thereof, other or additional stock or other securities or property (other than cash) of the Company by way of dividend, then and in each case, this Warrant shall represent the right to acquire, in addition to the number of shares of the security receivable upon exercise of this Warrant, and without payment of additional consideration thereof, the amount of such other or additional stock or other securities or property (other than cash) of the Company that such holder would hold on the

date of such exercise had it been the holder of record of the security receivable upon exercise of this Warrant on the date hereof and had thereafter, during the period the date hereof to and including the date of such exercise, retained such shares and/or other additional stock available by it as aforesaid during such period, giving effect to all adjustments called for during such period by the provisions of this Section 6.

6.5 Certificate as to Adjustments. Upon the occurrence of each adjustment or readjustment pursuant to this Section 6, the Company at its expense shall promptly compute such adjustment or readjustment in accordance with the terms hereof and furnish to each Holder of this Warrant a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based.

7. Registration Rights.

7.1 "Piggy Back" Registration Rights. If the Company shall at any time or from time to time after the date hereof determine to register any of its securities with the Commission (other than by means of a registration statement on a form (e.g., Form F-4, S-4 or S-8 or successor forms) which, by its terms, could not be used for the sale and distribution of the Common Stock), the Company shall:

(a) promptly give notice thereof to the Holder; and

(b) use its best efforts to effect the registration and any qualification of Common Shares issuable upon exercise of this warrant (the "Registrable Securities") requested to be so registered and qualified in writing by the Holder.

7.2 Registration Procedures. If and whenever the Company is required by the provisions of Section 6.1 to effect a registration under the Securities Act, the Company will at its expense, as expeditiously as possible prepare and file with the Commission an appropriate registration statement in accordance with the Securities Act and the rules and regulation of the Commission with respect to the resale of the Registrable Securities (a "Registration Statement") and use its best efforts to cause such Registration Statement to become and remain effective until the earlier of (i) all of the Registrable Securities covered by such Registration Statement have been sold in accordance with the intended methods of disposition of the Holder sets forth in such Registration Statement and (ii) and expiration date of this Warrant, and the Company shall prepare and file with the Commission such amendments to such Registration Statement and supplements to the prospectus contained therein as may be necessary to keep such Registration Statement effective and such Registration Statement and such prospectus accurate and complete during such period.

7.3 Expenses. The company shall bear all expenses in connection with any registration under this Section 6, including, without limitation, all registration and filing fees, printing expenses and fees and disbursements of the Company's counsel and expense of any audits incident to or required by any such registration, provided, that the Company shall not, in any

event, be required to bear the cost of any commissions and compensation paid, and concessions and discounts allowed to, underwriters, dealers or others performing similar functions in connection with the sale and distribution of the Common Stock sold by the Holder.

7.4 Indemnification. (a) If Registrable Securities are included in a Registration Statement, the Company will indemnify the Holder and the directors, officers, employees, agents, affiliates and control persons thereof, against all claims, losses, damages and liabilities (or actions in respect thereof) arising out of or based on (A) any untrue statement (or alleged untrue statement) of a material fact contained in any prospectus, offering circular or other document (including any related registration statement, notification or the like) incident to any such registration, qualification or compliance, or (B) any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements

therein not misleading, or (C) any violation by the Company of any rule or regulation promulgated under the Securities Act or applicable state securities laws and related to action or inaction required of the Company in connection with any registration, qualification or compliance, and will reimburse the Holder for any legal and any other expenses reasonable incurred in connection with investigating or defending any such claim, loss, damage, liability or action, provided that the Company will not be liable in any such case to the extent that any such claim, loss, damage or liability arises out of or is based on any untrue statement or omission based upon written information furnished to the Company by the Holder specifically for use therein.

(b) If Registrable Securities are included in an Registration Statement, the Holder will indemnify the Company and the directors, officers, employees, agents, affiliates and control person thereof, against all claims, losses, damages and liabilities (or action in respect thereof) arising out of or based on (A) any untrue statement (or alleged untrue statement) of a material fact contained in any prospectus, offering circular or other document (including any related registration statement, notification or the like) incident to any such registration, qualification or compliance, or (B) any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or (C) any violation by the Holder of any rule or regulation promulgated under the Securities Act or applicable state securities laws and relating to action or inaction required of the Company in connection with any registration, qualification or compliance, but only to the extent that such claims, losses, damages and liabilities (or actions in respect thereof) occurs in reliance upon written information provided to the Company by the Holder for use in connection with a Registration Statement, and will reimburse the Company for any legal and any other expenses reasonably incurred in connection with investigating or defending any such claim, loss, damage, liability or action.

(c) Each party entitled to indemnification under this Section 6.4 (sometimes referred to as the "Indemnified Party") shall give notice to the party required to provide indemnification (the "Indemnifying Party") promptly after such Indemnified Party has actual knowledge of any claim as to which indemnity may be sought, and shall permit the Indemnifying Party to assume the defense of any such claim or any litigation resulting therefrom, provided that counsel for the Indemnifying Party, who shall conduct the defense of such claim or litigation, shall be approved by the Indemnified Party (whose approval shall not be unreasonably withheld), and the Indemnified Party may participate in such defense at such party's expense, and provided further that unless such failure materially and adversely affects the rights or abilities of the Indemnifying Party to defend such action, the failure of any Indemnified Party to give notice as provided herein shall not relieve the Indemnifying Party of its obligations under this Section 6.4. No Indemnifying Party, in the defense of any such claim or litigation, shall, except with the consent of each Indemnified Party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability with respect to such claim or litigation. If any such Indemnified Party shall have reasonably concluded that there may be one or more legal defenses available to such Indemnified Party that are different from or additional to those available to the Indemnifying Party, or that such claim or litigation involves or could have an effect upon matters beyond the scope of the indemnity agreement provided in this Section 6.4, the Indemnifying Party shall not have the right to assume the defense of such action on behalf of such Indemnified Party and such Indemnifying Party shall reimburse such Indemnified Party for that portion of the fees and expenses of any counsel retained by the Indemnified Party that is reasonably related to the matters covered by the indemnity agreement provided in this Section 6.4; provided, that in no event shall the Indemnifying Party be liable to reimburse the fees or expenses of more than one counsel retained by Indemnified Parties hereunder in connection with any claim or litigation resulting from such claim.

(d) If the indemnification provided for in this Section 6.4 shall for any reason be unenforceable by an indemnified party, although otherwise available in accordance with its terms, then each indemnifying party shall, in lieu of indemnifying such indemnified party, contribute to the amount paid or payable by such indemnified party as a result of the losses, claims, damages, liabilities or expenses with respect to which such indemnified party has claimed indemnification, in such proportion as is appropriate to reflect the relative fault of the indemnified party on the one hand and the indemnifying party on the other in connection with the statements or omissions which resulted in such losses, claims, damages, liabilities or expenses, as well as any other

relevant equitable considerations. The Company and the Holder agree that it would not be just and equitable if contribution pursuant hereto were to be determined by pro rata allocation or by any other method of allocation which does not take into account such equitable considerations. The amount paid or payable by an indemnified party as a

result of the losses, claims, damages, liabilities or expenses referred to herein shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending against any action or claim which is the subject hereof. No person guilty of fraudulent misrepresentation shall be entitled to contribution from any person who is not guilty of such fraudulent misrepresentation.

7.5 Information Provided by the Holder. The Holder shall furnish in writing to the Company such information regarding such person and the distribution proposed by such person as the Company may request in writing and as shall be reasonably required in connection with any registration, qualification or compliance referred to in this Section 6.

7.6 Prospectuses, etc. The Company will, at its expense, furnish to the Holder such number of prospectuses, offering circulars and other documents incident to such registration and related qualification or compliance as such Holder from time to time may reasonably request.

7.7 Underwritten Offerings; Permitted Interruptions; Holdback Periods. (a) In the event any registration under Section 7.1 is underwritten and the managing underwriter determines that the inclusion of all Registrable Securities that are to be included would materially interfere with the successful completion thereof in the reasonable judgment of such managing underwriter, then the number of Registrable Securities to be included may be reduced on the same basis as other selling stockholders in such registration.

(b) With respect to any registration pursuant to Section 6.1 hereof, the Company shall have the right at any time on one occasion in respect of any Registration Statement to delay the filing of such Registration Statement or to withdraw such Registration Statement (or notify the holders of Registrable Securities covered by such Registration Statement not to sell such Registrable Securities pursuant to such Registration Statement) after the filing and the effective date thereof (each such delay, withdrawal or notice is referred to herein as a "Permitted Interruption") for a reasonable period of time (not to exceed ninety (90) days in any such case, which may not thereafter be extended) if, at such time: (i) the Company is engaged in any active program for the repurchase of its Common Stock and furnishes a certificate to that effect to the Holder or (ii) the Board of Directors of the Company shall determine in good faith that such offering will interfere with a pending or contemplated financing, merger, acquisition, sale of assets, recapitalization or other similar corporate action of the Company and the Company furnishes a certificate to that effect to the Holder. After such Permitted Interruption, the Company shall use its best efforts to restore such Registration or to effect such Registration (as the case may be) within thirty (30) days without further request from the Holder, unless such request has been withdrawn by written notice of the Holder.

(c) The Holder, if, as and when its Registrable Securities are covered by a Registration Statement filed pursuant to Section 7.1 hereof, agrees, if and to the extent requested by the managing underwriter or underwriters, in the case of an underwritten offering (to the extent timely notified in writing by the managing underwriter or underwriters), not to effect any public sale or distribution of securities of the Company of any class included in such Registration Statement, included a sale pursuant to Rule 144 (or any similar rule then in force) under the Securities Act, except as part of such underwritten registration, during the ten (10) day period prior to, and a period of up to one hundred twenty (120) days (as determined by the managing underwriter or underwriters) beginning on, the effective date of any underwritten offering made pursuant to such Registration Statement.

8. Certain Notice Requirements.

8.1 Holder's Right to Receive Notice. Nothing herein shall be construed as conferring upon the Holder the right to vote or consent or to receive notice as a stockholder for the election of directors or any other matter, or as having any rights whatsoever as a stockholder of the Company prior to the exercise hereof (including the right to receive dividends). If, however, at any time prior to the expiration of the Warrant and its exercise, any of the events described in Section 6 shall occur, then, in one or more of said events, the Company shall give written notice of such event at least ten (10) days prior to the date fixed as a record date or the date of closing the transfer books for the determination of the stockholders entitled to such dividend, distribution, conversion or exchange of securities or subscription rights, or entitled to vote on such proposed dissolution, liquidation, winding up, merger, consolidation, reorganization or sale. Such notice shall specify such record date or the date of the closing of the transfer books, as the case may be.

8.2 Transmittal of Notices. Any notice or other communication or delivery required or permitted hereunder shall be in writing and shall be delivered personally or sent by certified mail, postage prepaid, or by a nationally recognized overnight courier service, and shall be deemed given when so delivered personally or by overnight courier service, or, if mailed, three (3) days after the date of deposit in the United States mails, as follows:

(i) if to the Company, to:

Sheffield Pharmaceuticals, Inc.
14528 South Outer Forty Road, Suite 205
St. Louis, Missouri 63017
Attention: Chief Financial Officer

(ii) if to the Holder, to the address of such Holder as shown on the books of the Company.

Either of the Holder or the Company may change the foregoing address by notice given pursuant to this Section 8.2.

9. Miscellaneous.

9.1 Purchase for Investment. By his acceptance of this Warrant, the Holder represents and warrants that the Holder has acquired this Warrant for the Holder's own account for investment and not with the view to the distribution thereof, except in accordance with applicable federal and state securities laws. The Holder represents that he is an "accredited investor" as such term is defined under Rule 501 of Regulation D promulgated under the Securities Act. The Holder confirms that he has been advised that the Warrants have not been, and the shares of Common Stock issuable upon exercise of this Warrant Shares will not be, registered under the Securities Act and that he has consulted with and been advised by counsel as to the restrictions on resale to which this Warrant and such Shares will be subject.

9.2 Amendments. All modifications or amendments to this Warrant shall require the written consent of each party.

9.3 Headings. The headings contained herein are for the sole purpose of convenience of reference, and shall not in any way limit or affect the meaning or interpretation of any of the terms or provisions of this Warrant.

9.4 Entire Agreement. This Warrant constitutes the entire agreement of the parties hereto with respect to the subject matter hereof, and supersede all prior agreements and understandings of the parties, oral and written, with respect to the subject matter hereof.

9.5 Binding Effect. This Warrant shall inure solely to the benefit of and shall be binding upon, the Holder and the Company and their permitted assignees, respective successors, legal representatives and assigns, and no other person shall have or be construed to have any legal or equitable right, remedy or claim under or in respect of or by virtue of this Warrant or

any provisions herein contained.

9.6 Governing Law. This Warrant shall be governed by and construed and enforced in accordance with the laws of the State of New York, without giving effect to conflict of laws.

9.7 Waiver, Etc. The failure of the Company or the Holder to at any time enforce any of the provisions of this Warrant shall not be deemed or construed to be a waiver of any such provision, nor to in any way affect the validity of this Warrant or any provision hereof or the right of the Company or any Holder to thereafter enforce each and every provision of this Warrant. No waiver of any breach, noncompliance or nonfulfillment of any of the provisions of this Warrant shall be effective unless set forth in a written instrument executed by the party or parties against whom or which enforcement of such waiver is sought; and no waiver of any such breach, noncompliance or nonfulfillment shall be construed or deemed to be a waiver of any other or subsequent breach, noncompliance or nonfulfillment.

IN WITNESS WHEREOF, the Company has caused this Warrant to be signed by its duly authorized officer as of the __th day of _____ 200_.

SHEFFIELD PHARMACEUTICALS, INC.

By:

Name:

Its:

AGREED AND ACCEPTED:

- ---

Name:

Form to be used to exercise Warrant:

Sheffield Pharmaceuticals, Inc.
14528 South Outer Road, Suite 205
St. Louis, Missouri 63017
Attention: Chief Financial Officer

Date: _____, 200__

The Undersigned hereby elects irrevocably to exercise the within Warrant and to purchase _____ shares of Common Stock of Sheffield Pharmaceuticals, Inc. and hereby makes payment of $_____ (at the rate of $_____ per share) in payment of the Exercise Price pursuant thereto. Please issue the shares as to which this Warrant is exercised in accordance with

the instructions given below.

Signature

Signature Guaranteed

INSTRUCTIONS FOR REGISTRATION OF SECURITIES

Name

(Print in Block Letters)

Address

NOTICE: The signature to this form must correspond with the name as written upon the face of the within Warrant in every particular without alteration or enlargement or any change whatsoever, and must be guaranteed by a bank, other than a savings bank, or by a trust company or by a firm having membership on a registered national securities exchange.