

HANA BIOSCIENCES INC

FORM 10-Q

(Quarterly Report)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2010

OR

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

For the transition period _____ to _____.

Commission file number 001-32626

Hana Biosciences, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

32-0064979

(I.R.S. Employer Identification No.)

**7000 Shoreline Ct., Suite 370, South San
Francisco, CA.**

(Address of principal executive offices)

94080

(Zip Code)

(650) 588-6404

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if smaller reporting company)

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

As of May 14, 2010, there were 79,788,264 shares of the registrant's common stock, \$.001 par value, outstanding.

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Forward-Looking Statements

This Quarterly Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Any statements about our expectations, beliefs, plans, objectives, assumptions or future events or performance are not historical facts and may be forward-looking. These forward-looking statements include, but are not limited to, statements about:

- our ability to obtain adequate financing;
- the development of our drug candidates, including when we expect to undertake, initiate and complete clinical trials of our product candidates;
- the regulatory approval of our drug candidates;
- our use of clinical research centers and other contractors;
- our ability to find collaborative partners for research, development and commercialization of potential products;
- acceptance of our products by doctors, patients or payors and the availability of reimbursement for our product candidates;
- our ability to market any of our products;
- our history of operating losses;
- our ability to secure adequate protection for our intellectual property;
- our ability to compete against other companies and research institutions;
- the effect of potential strategic transactions on our business;
- our ability to attract and retain key personnel; and
- the volatility of our stock price.

These statements are often, but not always, made through the use of words or phrases such as “anticipate,” “estimate,” “plan,” “project,” “continuing,” “ongoing,” “expect,” “believe,” “intend” and similar words or phrases. For such statements, we claim the protection of the Private Securities Litigation Reform Act of 1995. Readers of this Quarterly Report on Form 10-Q are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the time this Quarterly Report on Form 10-Q was filed with the Securities and Exchange Commission, or SEC. These forward-looking statements are based largely on our expectations and projections about future events and future trends affecting our business, and are subject to risks and uncertainties that could cause actual results to differ materially from those anticipated in the forward-looking statements. Discussions containing these forward-looking statements may be found throughout this report, including Part I, the section entitled “Item 2: Management’s Discussion and Analysis of Financial Condition and Results of Operations.” These forward-looking statements involve risks and uncertainties, including the risks discussed in our Annual Report on Form 10-K for the year ended December 31, 2009 (the “2009 Form 10-K”), that could cause our actual results to differ materially from those in the forward-looking statements. Except as required by law, we undertake no obligation to publicly revise our forward-looking statements to reflect events or circumstances that arise after the filing of this report or documents incorporated by reference herein that include forward-looking statements. The risks discussed in this report should be considered in evaluating our prospects and future financial performance.

In addition, past financial or operating performance is not necessarily a reliable indicator of future performance and you should not use our historical performance to anticipate results or future period trends. We can give no assurances that any of the events anticipated by the forward-looking statements will occur or, if any of them do, what impact they will have on our results of operations and financial condition.

References to the “Company,” “Hana,” the “Registrant,” “we,” “us,” or “our” in this report refer to Hana Biosciences, Inc., a Delaware corporation, unless the context indicates otherwise.

PART I - FINANCIAL INFORMATION

Item 1. Unaudited Condensed Financial Statements

HANA BIOSCIENCES, INC.

CONDENSED BALANCE SHEETS

	March 31, 2010	December 31, 2009
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,096,056	\$ 9,570,453
Available-for-sale securities	76,000	68,000
Prepaid expenses and other current assets	104,414	114,067
Total current assets	<u>4,276,470</u>	<u>9,752,520</u>
Property and equipment, net	217,492	252,455
Restricted cash	125,000	125,000
Debt issuance costs	1,018,755	1,193,594
Total assets	<u>\$ 5,637,717</u>	<u>\$ 11,323,569</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,416,775	\$ 4,027,075
Other short-term liabilities	27,382	43,586
Total current liabilities	<u>3,444,157</u>	<u>4,070,661</u>
Notes payable, net of discount	22,836,344	22,597,050
Other long-term liabilities	6,224	6,540
Warrant liabilities	2,104,666	2,145,511
Total long term liabilities	<u>24,947,234</u>	<u>24,749,101</u>
Total liabilities	<u>28,391,391</u>	<u>28,819,762</u>
Commitments and contingencies (Notes 4, 6, 9 and 10):		
Stockholders' deficit:		
Common stock; \$0.001 par value:		
200,000,000 shares authorized, 79,788,264 and 79,649,976 shares issued and outstanding at March 31, 2010 and December 31, 2009, respectively	79,788	79,650
Additional paid-in capital	117,779,666	117,572,373
Accumulated other comprehensive income	(16,000)	(24,000)
Accumulated deficit	(140,597,128)	(135,124,216)
Total stockholders' deficit	<u>(22,753,674)</u>	<u>(17,496,193)</u>
Total liabilities and stockholders' deficit	<u>\$ 5,637,717</u>	<u>\$ 11,323,569</u>

See accompanying notes to unaudited condensed financial statements.

HANA BIOSCIENCES, INC.

CONDENSED STATEMENTS OF OPERATIONS AND OTHER COMPREHENSIVE LOSS
(Unaudited)

	Three Months Ended March 31,	
	2010	2009
Operating expenses:		
General and administrative	\$ 1,170,895	\$ 1,377,600
Research and development	3,258,545	4,192,483
Total operating expenses	<u>4,429,440</u>	<u>5,570,083</u>
Loss from operations	<u>(4,429,440)</u>	<u>(5,570,083)</u>
Other income (expense):		
Interest income	267	11,582
Interest expense	(1,084,584)	(727,007)
Other expense, net	—	(4,907)
Change in fair market value of warrant liabilities	40,845	664,060
Total other expense	<u>(1,043,472)</u>	<u>(56,272)</u>
Net loss	<u>\$ (5,472,912)</u>	<u>\$ (5,626,355)</u>
Net loss per share, basic and diluted	<u>\$ (0.07)</u>	<u>\$ (0.17)</u>
Weighted average shares used in computing net loss per share, basic and diluted	79,782,118	32,449,739
Comprehensive loss:		
Net loss	\$ (5,472,912)	\$ (5,626,355)
Unrealized holding gains (losses) arising during the period	8,000	(32,000)
Comprehensive loss	<u>\$ (5,464,912)</u>	<u>\$ (5,658,355)</u>

See accompanying notes to unaudited condensed financial statements.

HANA BIOSCIENCES, INC.

CONDENSED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIT
(Unaudited)

Period from January 1, 2010 to March 31, 2010

	Common stock		Additional paid-in capital	Accumulated Other Comprehensive income	Accumulated deficit	Total stockholders' deficit
	Shares	Amount				
Balance at January 1, 2010	79,649,976	\$ 79,650	\$117,572,373	\$ (24,000)	\$(135,124,216)	\$ (17,496,193)
Share-based compensation of employees amortized over vesting period of stock options	—	—	185,098	—	—	185,098
Issuance of shares under employee stock purchase plan	138,288	138	22,195	—	—	22,333
Unrealized loss on available-for-sale securities	—	—	—	8,000	—	8,000
Net loss	—	—	—	—	(5,472,912)	(5,472,912)
Balance at March 31, 2010	<u>79,788,264</u>	<u>\$ 79,788</u>	<u>\$117,779,666</u>	<u>\$ (16,000)</u>	<u>\$(140,597,128)</u>	<u>\$(22,753,674)</u>

See accompanying notes to unaudited condensed financial statements.

HANA BIOSCIENCES, INC.

CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
	2010	2009
Cash flows from operating activities:		
Net loss	\$ (5,472,912)	\$ (5,626,355)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	41,462	50,906
Share-based compensation of employees for services	185,098	379,803
Amortization of discount and debt issuance costs	414,133	176,808
Unrealized gain on warrant liability	(40,845)	(664,060)
Changes in operating assets and liabilities:		
(Increase) decrease in prepaid expenses and other assets	9,653	(760)
Increase (decrease) in accrued and other current liabilities	(610,300)	167,402
Net cash used in operating activities	<u>(5,473,711)</u>	<u>(5,516,256)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(6,499)	—
Net cash used in investing activities	<u>(6,499)</u>	<u>—</u>
Cash flows from financing activities:		
Proceeds from exercise of warrants and options and issuance of shares under employee stock purchase plan	22,333	13,271
Payments on capital leases	(16,520)	(16,458)
Net cash provided by (used in) financing activities	<u>5,813</u>	<u>(3,187)</u>
Net decrease in cash and cash equivalents	(5,474,397)	(5,519,443)
Cash and cash equivalents, beginning of period	9,570,453	13,999,080
Cash and cash equivalents, end of period	<u>\$ 4,096,056</u>	<u>\$ 8,479,637</u>
Supplemental disclosures of cash flow data:		
Cash paid for interest	\$ 685,294	\$ 482,057
Supplemental disclosures of noncash financing activities:		
Unrealized gain (loss) on available-for-sale securities	\$ 8,000	\$ (32,000)
Equipment purchases financed through capital lease	<u>\$ —</u>	<u>\$ 9,895</u>

See accompanying notes to unaudited condensed financial statements.

HANA BIOSCIENCES, INC.
NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS

NOTE 1. BUSINESS DESCRIPTION AND BASIS OF PRESENTATION

BUSINESS

Hana Biosciences, Inc. (“Hana”, “we”, “our”, “us” or the “Company”) is a biopharmaceutical company based in South San Francisco, California, which seeks to acquire, develop, and commercialize innovative products to strengthen the foundation of cancer care. The Company is committed to creating value by accelerating the development of its product candidates, including entering into strategic partnership agreements and expanding its product candidate pipeline by being an alliance partner of choice to universities, research centers and other companies. Our product candidates consist of the following:

- Marqibo® (vincristine sulfate liposomes injection), our lead product candidate, is a novel, targeted Optisome™ encapsulated formulation product candidate of the anti-cancer drug vincristine, which is approved by the Food and Drug Administration, or FDA, and is currently in development primarily for the treatment of adult acute lymphoblastic leukemia, or ALL, and metastatic uveal melanoma.
- Menadione Topical Lotion, a novel supportive care product candidate being developed for the prevention and/or treatment of the skin toxicities associated with the use of epidermal growth factor receptor inhibitors (EGFRI), a type of anti-cancer agent used in the treatment of lung, colon, head and neck, pancreatic and breast cancer.
- Brakiva™ (topotecan liposomes injection), a novel targeted Optisome™ encapsulated formulation product candidate of the FDA-approved anticancer drug topotecan, being developed for the treatment of solid tumors including small cell lung cancer and ovarian cancer.
- Alocrest™ (vinorelbine liposomes injection), a novel, targeted Optisome™ encapsulated formulation product candidate of the FDA-approved anticancer drug vinorelbine.

BASIS OF PRESENTATION AND LIQUIDITY

The accompanying unaudited condensed financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and the instructions to Form 10-Q. In the opinion of the Company’s management, the unaudited condensed financial statements have been prepared on the same basis as the audited financial statements and include all adjustments, consisting of only normal recurring adjustments, necessary for the fair presentation of the Company’s financial position for the periods presented herein. These interim financial results are not necessarily indicative of the results to be expected for the full fiscal year ending December 31, 2010 or any subsequent interim period.

As of March 31, 2010, the Company has a stockholder's deficit of approximately \$22.8 million and an accumulated deficit of \$140.6 million. For the three months ended March 31, 2010, the Company recognized a net loss of \$5.5 million. The Company has financed operations primarily through equity and debt financing and expects such losses to continue over the next several years. The Company currently has a limited supply of cash available for operations. As of March 31, 2010, the Company had aggregate cash and cash equivalents and available-for-sale securities of \$4.2 million. The Company has drawn down \$27.5 million of the total \$30 million available under the loan facility agreement with Deerfield Management. In October 2009, the commitment period of the loan facility agreement expired and the Company is no longer able to draw down the remaining \$2.5 million of the total \$30.0 million commitment by Deerfield.

The Company does not generate any recurring revenue and will require substantial additional capital before it will generate cash flow from its operating activities, if ever. The Company’s currently available capital is only sufficient to fund its operations through the end of June 2010 and will require the Company to significantly reduce its current level of expenses and may impede its progress toward the continued development of its product candidates. Accordingly, the Company’s continued operations are entirely dependent upon immediately obtaining additional capital and it does not currently have any committed sources of such additional capital. The Company will be unable to continue development of its product candidates unless it is able to obtain additional funding through equity or debt financings or from payments in connection with potential strategic transactions. The Company can give no assurances that any additional capital that it is able to obtain, if any, will be sufficient to meet its needs. Moreover, there can be no assurance that such capital will be available to the Company on favorable terms or at all, especially given the current economic environment and its current financial condition, which has severely restricted the Company’s access to the capital markets. If the Company is unable to raise additional capital, it may be required to cease operations altogether. These conditions raise substantial doubt as to the Company’s ability to continue as a going concern.

Since the Company does not generate any recurring revenue, the most likely sources of the additional capital it needs to continue funding its operating activities include private sales of the Company’s equity securities, including shares of its common or preferred stock, loans or other debt financings, or potentially through a strategic licensing or collaboration transaction involving the rights to one or more of its product candidates. To the extent that the Company raises additional capital by issuing equity securities, its stockholders will likely experience significant dilution. The Company may also grant to future investors rights superior to those of its existing stockholders, including rights with respect to liquidation, voting and dividends. If the Company raises additional funds through collaborations and licensing arrangements, it may be necessary to relinquish some rights to its technologies, product candidates or products, or grant licenses on terms that are not favorable to the Company. If the Company raises additional funds by incurring debt, it could incur significant interest expense and become subject to covenants in the related transaction documentation that could affect the manner in which it conducts its business. Even if the Company is successful in securing immediate additional capital to continue funding its near-term operating activities, The Company will continue to need significant

amounts of additional capital thereafter until it can achieve profitability, if ever.

The actual amount of funds the Company will need to operate is subject to many factors, some of which are beyond its control. These factors include the following:

- costs associated with conducting preclinical and clinical testing of its product candidates;
- costs of establishing arrangements for manufacturing its product candidates;
- payments required under its current and any future license agreements and collaborations;
- costs, timing and outcome of regulatory reviews;
- costs of obtaining, maintaining and defending patents on its product candidates; and
- costs of increased general and administrative expenses.

The Company has based its estimate on assumptions that may prove to be wrong, in which case, it may need to obtain additional funds sooner or in greater amounts than currently anticipated.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Use of Management's Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates based upon current assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Examples include provisions for deferred taxes, the valuation of the warrant liabilities, the cost of contracted clinical study activities and assumptions related to share-based compensation expense. Actual results may differ materially from those estimates.

Segment Reporting

The Company has determined that it currently operates in only one segment, which is the research and development of oncology therapeutics and supportive care for use in humans. All assets are located in the United States.

Loss Per Share

Basic net loss per common share is calculated by dividing net loss by the weighted-average number of common shares outstanding for the period. Diluted net loss per common share is the same as basic net loss per common share, since potentially dilutive securities from stock options and stock warrants would have an anti-dilutive effect because the Company incurred a net loss during each period presented. The number of shares potentially issuable at March 31, 2010 and 2009 upon exercise or conversion that were not included in the computation of net loss per share totaled 23,500,956 and 13,533,200, respectively.

Cash and Cash Equivalents and Concentration of Risk

The Company considers all highly-liquid investments with a maturity of three months or less when acquired to be cash equivalents. Short-term investments consist of investments acquired with maturities exceeding three months and are classified as available-for-sale. All short-term investments are reported at fair value, based on quoted market price, with unrealized gains or losses included in other comprehensive loss.

Fair Value of Financial Instruments

Financial instruments include cash and cash equivalents, marketable securities, accounts payable, notes payable and warrant liabilities. Marketable securities are carried at fair value. Cash and cash equivalents and accounts payable are carried at cost, which approximates fair value due to the relative short maturities of these instruments. The fair value of the Company's note payable at March 31, 2010 is \$13.6 million. The fair value of the Company's warrant liability is discussed in Note 6.

Debt Issuance Costs

As discussed in Note 4, the debt issuance costs relate to fees paid in the form of cash and warrants to secure a firm commitment to borrow funds. These fees are deferred, and if the commitment is exercised, amortized over the life of the related loan using the interest method. If the commitment expires unexercised, the deferred fee is expensed immediately.

Warrant Liabilities

We have issued certain warrants that have the characteristics of both equity and liabilities. These warrants were evaluated to be classified as liabilities at the time of issuance and are revalued at fair value from period to period with the resulting change in value included in net income/ (expense). See Note 6.

Reclassification

Approximately \$0.3 million in research & development expenses have been reclassified as general administrative expenses for the three month period ending March 31, 2009 in the Company's Statement of Operations, to conform to the current year presentation.

NOTE 3. RECENT ACCOUNTING PRONOUNCEMENTS

In October 2009, the FASB issued ASU No. 2009-13, " *Multiple-Deliverable Revenue Arrangements* ," or ASU 2009-13, which amends existing revenue recognition accounting pronouncements that are currently within the scope of ASC 605. This guidance eliminates the requirement to establish the fair value of undelivered products and services and instead provides for separate revenue recognition based upon management's estimate of the selling price for both delivered and undelivered items when there is no other means to determine the fair value of those items. ASU 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company is currently evaluating the impact, if any, that the adoption of this amendment will have on its financial statements.

NOTE 4. FACILITY LOAN AGREEMENT

On October 30, 2007, we entered into a Facility Agreement (the “loan agreement”) with Deerfield under which Deerfield agreed to loan to us an aggregate principal amount of up to \$30 million. Of the total \$30 million funds committed pursuant to the loan agreement, \$20 million was available for disbursement to us in four installments every six months commencing October 30, 2007 and \$10 million was available based on achievement of certain development milestones related to our Marqibo and Menadione product candidates. As of December 31, 2009 and March 31, 2010, we had drawn down \$27.5 million. We are unable to draw down the remaining \$2.5 million as the commitment period for loan agreement expired in October 2009. We must repay all outstanding principal and interest owing under the loan no later than October 30, 2013. We are also required to make quarterly interest payments on outstanding principal, at a stated annual rate of 9.85%. In accordance with and upon execution of the loan agreement, we paid a loan commitment fee of \$1.1 million to an affiliate of Deerfield. Our obligations under the loan are secured by all assets owned (or that will be owned in the future) by us, both tangible and intangible. The effective interest rate on the \$20 million notes payable for funds available on the six month installments, including discount on debt, is approximately 18.05%. The effective interest rate on the \$7.5 million notes payable related to the achievement of development milestones, including discount on debt, is approximately 11.6%. As of March 31, 2010, we had accrued \$0.7 million in interest payable that was paid in April 2010.

Fair Value of Warrants. The aggregate fair values of the warrant series issued upon execution of the loan agreement, under which an aggregate of the 5,225,433 shares of our common stock were issuable upon purchase, pursuant to the loan agreement was \$5.9 million. \$5.5 million of the total fair value, related to the warrant series to purchase an aggregate of 4,825,433 shares with an anti-dilution feature, was recorded as a discount to the note payable. The remaining \$0.4 million fair value, relating to the additional warrant series to purchase an aggregate of 400,000 shares of common stock, was recorded as a debt issuance cost and is being amortized, using the interest method, over the life of the loan. The aggregate fair values of the warrant series issued when we drew down the funds related to clinical development milestones, under which an aggregate of the 850,136 shares of our common stock were issuable upon purchase, pursuant to the loan agreement was \$0.5 million, which was accounted for as a discount to the notes payable in the balance sheet. Deerfield required us to redeem these warrants in September 2009, and the \$3.9 million obligation was satisfied by issuing units of common stock and warrants. Since the redemption of these warrants, there have been no warrants outstanding pursuant to the loan facility agreement with Deerfield, whereas the warrants issued under the loan facility agreement had a value of \$0.8 million on March 31, 2009. See Note 7 for the discussion of the change in fair value of these warrants in the three months ended March 31, 2009.

Summary of Notes Payable. On November 1, 2007, we drew down \$7.5 million of the \$30.0 million in total loan proceeds available. On October 14, 2008 and November 12, 2008, we drew down an additional \$12.5 million and \$2.5 million, respectively. On May 20, 2009, we drew down \$5.0 million which was available pursuant to the terms of the loan agreement. We are not required to pay back any portion of the principal amount until October 30, 2013. Upon issuance of these notes, the fair value of the warrants was determined and included as additional discount on the debt to Deerfield. Because the Company issued the warrants pursuant to the loan, the Company recognized a discount on the note. The table below is a summary of the change in carrying value of the notes payable, including the discount on debt for the three months ended March 31, 2010 and 2009:

	<u>Carrying Value at January 1,</u>	<u>Gross Borrowings Incurred</u>	<u>Debt Discount Incurred</u>	<u>Amortized Discount</u>	<u>Carrying Value at March 31,</u>
2010					
Notes payable	\$ 27,500,000	\$ —	\$ —	\$ —	\$ 27,500,000
Discount on debt	(4,902,950)	—	—	239,294	(4,663,656)
Carrying value	<u>\$ 22,597,050</u>				<u>\$ 22,836,344</u>
2009					
Notes payable	\$ 22,500,000	\$ —	\$ —	\$ —	\$ 22,500,000
Discount on debt	(5,648,459)	—	—	144,114	(5,504,345)
Carrying value	<u>\$ 16,851,541</u>				<u>\$ 16,995,655</u>

A summary of the debt issuance costs and changes during the periods ending March 31, 2010 and 2009 is as follows:

	<u>Deferred Transaction Costs on January 1,</u>	<u>Amortized Deferred Transaction Costs</u>	<u>Deferred Transaction Costs on March 31,</u>
2010	<u>\$ 1,193,594</u>	<u>\$ (174,839)¹</u>	<u>\$ 1,018,755</u>
2009	<u>\$ 1,361,356</u>	<u>\$ (32,694)</u>	<u>\$ 1,328,662</u>

¹ Includes approximately \$0.1 million expense related to unallocated long-term deferred transaction costs that were expensed in the three months ended March 31, 2010 related to termination of the commitment period of funding of the Deerfield Agreement. The commitment period terminated in October 2009.

NOTE 5. STOCKHOLDERS' DEFICIT

Private Placement. On October 7 2009, the Company entered into a securities purchase agreement pursuant to which it agreed to sell in a private placement an aggregate of 54,593,864 units of its securities, each unit consisting of (i) either (a) one share of common stock, or (b) a seven-year warrant to purchase one share of common stock at an exercise price of \$0.01 per share (a "Series A Warrant"), and (ii) a seven-year warrant to purchase one-tenth of one share of common stock at an exercise price of \$0.60 (a "Series B Warrant"), which represented the closing bid price of the Company's common stock on October 7, 2009.

Pursuant to the securities purchase agreement, the Company sold 30,655,999 units for \$8.5 million, or \$0.30 per unit. These units consisted of shares of common stock and Series B Warrants, with a fair value of \$7.8 million and \$0.6 million, respectively. The Company also sold 11,031,722 units consisting of Series A Warrants and Series B Warrants at a purchase price of \$3.2 million, or \$0.29 per unit. The total cash proceeds of the offering were, net of offering costs of \$0.7 million, approximately \$11.7 million. The Company also issued 12,906,146 units to Deerfield, consisting of shares of common stock and Series B Warrants, with fair values of \$3.6 million and \$0.3 million, respectively. These units were issued to satisfy a \$3.9 million warrant redemption obligation of the Company to Deerfield, as discussed in Note 4 above. As described in Note 6, all warrants issued in the offering are classified as liabilities.

Stock Incentive Plans. As of March 31, 2010, the Company had three stockholder approved stock incentive plans under which it grants or has granted options to purchase shares of its common stock and restricted stock awards to employees: the 2010 Equity Incentive Plan (the "2010 Plan"), the 2004 Stock Incentive Plan (the "2004 Plan") and the 2003 Stock Option Plan (the "2003 Plan"). The Board of Directors, or the Chief Executive Officer when designated by the Board, is responsible for administration of the Company's employee stock incentive plans and determines the term, exercise price and vesting terms of each option. In general, stock options issued under all the current plans have a vesting period of three years and expire ten years from the date of grant. Additionally, the Company has an Employee Stock Purchase Plan, the 2006 Employee Stock Purchase Plan (the "2006 Plan").

On February 16, 2010, the Company's Board of Directors adopted the 2010 Equity Incentive Plan. Under the 2010 Plan, the Board or a committee appointed by the Board may award nonqualified stock options, incentive stock options, restricted stock, restricted stock units, performance awards, and stock appreciation rights to participants. Officers, directors, employees or non-employee consultants or advisors of the Company (including its subsidiaries and affiliates) are eligible to receive awards under the 2010 Plan. The total number of shares of the Company's common stock available for grants of awards to participants under the 2010 Plan is 8,000,000 shares. Also on February 16, 2010, the Board adopted amendments to the Company's 2003 and 2004 Plan. Pursuant to the amendments, the number of shares of common stock authorized for issuance under the 2003 Plan was reduced from 1,410,068 to 528,342, of which 259,664 shares are reserved for issuance pursuant to the exercise of outstanding stock options, and 268,678 shares have previously been issued under the 2003 Plan. Similarly, the number of shares of common stock authorized for issuance under the 2004 Plan was reduced from 7,000,000 to 4,747,257, of which 4,279,661 shares are reserved for issuance pursuant to the exercise of outstanding stock options, and 467,596 shares have previously been issued under the 2004 Plan. The Company intends for all future stock option awards to be issued under the 2010 Plan, with no additional awards being issued under the 2003 Plan or 2004 Plan.

Stock Options. The following table summarizes information about stock options outstanding at March 31, 2010 and changes in outstanding options in the three months then ended, all of which are at fixed prices:

	Number of Shares Subject to Options Outstanding	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding January 1, 2010	4,834,038	\$ 1.82		
Options granted	4,365,000	0.19		
Options cancelled	(441,333)	3.60		
Options exercised	—	—		
Outstanding March 31, 2010	8,757,705	\$ 0.92	8.6	\$ 57,590
Exercisable at March 31, 2010	2,957,370	\$ 2.08	6.9	\$ 31,123

Total share-based compensation expense was approximately \$0.2 million and \$0.4 million related to employee stock options recognized in the operating results for the three months ended March 31, 2010 and 2009, respectively.

The following table summarizes information about stock options outstanding at March 31, 2010:

Exercise Price	Options Outstanding			Options Exercisable	
	Number of Shares Subject to Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life of Options Outstanding	Number of Options Exercisable	Weighted Average Exercise Price
\$ 0.07 - \$ 0.20	5,389,505	\$ 0.18	9.6 yrs	525,172	\$ 0.13
\$ 0.21 - \$ 1.32	1,892,044	0.97	7.6 yrs	1,160,712	1.00
\$ 1.33 - \$ 4.50	912,656	1.67	6.4 yrs	707,986	1.67
\$ 4.51 - \$ 10.98	563,500	6.63	6.1 yrs	563,500	6.63
\$0.07 - \$10.98	8,757,705	\$ 0.92	8.6 yrs	2,957,370	\$ 2.08

Employee Stock Purchase Plan. The 2006 Plan allows employees to contribute a percentage of their gross salary toward the semi-annual purchase of shares of our common stock. The price of each share will not be less than the lower of 85% of the fair market value of our common stock on the last trading day prior to the commencement of the offering period or 85% of the fair market value of our common stock on the last trading day of the purchase period. A total of 750,000 shares of common stock were initially reserved for issuance under the 2006 Plan.

Through March 31, 2010, we have issued 466,811 shares under the 2006 Plan. For the three months ended March 31, 2010 and 2009, the total share-based compensation expense recognized related to the 2006 Plan under SFAS 123(R) was approximately \$25,000 and \$43,000, respectively.

Assumptions. The Company estimates the fair value of each option award on the date of grant using the Black-Scholes-Merton option-pricing model. The following table summarizes the assumptions used in applying the Black-Scholes-Merton option pricing model to determine the fair value of awards granted during the three months ended March 31, 2010 and 2009, respectively:

	Three Months Ended March 31,	
	2010	2009
<i>Employee stock options</i>		
Risk-free interest rate	3.00%	1.90%
Expected life (in years)	5.5 – 6.0	5.5 – 6.0
Volatility	0.99	0.95
Dividend Yield	—%	—%
<i>Employee stock purchase plan</i>		
Risk-free interest rate	0.20 – 1.14%	0.27 – 0.76%
Expected life (in years)	0.5 - 2	0.5 - 2
Volatility	1.74 – 2.12	1.30 – 1.99
Dividend Yield	—%	—%

Warrants. As of March 31, 2010, all outstanding warrants were available for exercise. Warrants to acquire 892,326 shares of common stock at \$1.57 per share expired on April 22, 2010. Warrants to acquire 864,648 shares of common stock at \$5.80 per share expire in October of 2010. There are outstanding Series A warrants to purchase an aggregate of 7,526,895 shares of common stock and Series B warrants to purchase an aggregate of 5,459,382 shares of common stock, which warrants were issued in connection with the Company's October 2009 private placement. If the Company issues equity securities in the future, other than to employees, directors or consultants of the Company pursuant to the Company's stock plans, at a price per share lower than \$0.60, the exercise price of the Series B Warrants will be reduced to such lower price, but not lower than \$0.30 per share.

The following table summarizes the warrants outstanding as of March 31, 2010 and the changes in outstanding warrants in the years then ended:

	Number Of Shares Subject To Warrants Outstanding	Weighted-Average Exercise Price
Warrants outstanding January 1, 2010	14,743,251	\$ 0.66
Warrants granted	-	-
Warrants cancelled	-	-
Warrants outstanding March 31, 2010	14,743,251	\$ 0.66

NOTE 6. WARRANT LIABILITY

On October 30, 2007, we entered into a loan facility agreement with Deerfield Private Design Fund, L.P., Deerfield Special Situations Fund, L.P., Deerfield Special Situations Fund International Limited and Deerfield Private Design International, L.P. (collectively, "Deerfield"). As partial consideration for the loan, we also issued to Deerfield warrants to purchase shares of our common stock. Certain of these warrants included an anti-dilution feature. This feature required that, as we issued additional shares of our common stock during the term of the warrant, the number of shares purchasable under this series was automatically increased so that they always represented a fixed percentage of our then outstanding common stock. Because the warrants were redeemable if certain events occurred, we recorded the fair value of the warrants as a liability, updating our estimate of the fair value of the warrant liabilities in each reporting period as new information became available and any gains or losses resulting from the changes in fair value from period to period being included as other income/(expense).

On September 8, 2009, we received a notice from the Staff of The NASDAQ Stock Market indicating that we failed to regain compliance with NASDAQ listing requirements and that trading of our common stock on the NASDAQ Capital Market would be suspended effective at the opening of business on September 10, 2009. In accordance with the terms of the warrants issued pursuant to the October 2007 loan agreement, Deerfield had previously notified us of its intention to require us redeem the warrants, upon such suspension. However, pursuant to the terms of a September 3, 2009 letter agreement, we and Deerfield agreed that, in lieu of satisfying the warrant redemption price of approximately \$3.87 million in cash, we could satisfy such obligation at Deerfield's election as follows:

- upon the completion by us of a "Qualified Financing" at any time or from time to time on or prior to June 30, 2010, by the issuance to Deerfield of the same type of securities that Deerfield would have received had the redemption price been invested in such financing; or
- on any date on or prior to July 1, 2010 specified in a written notice by Deerfield to we, by the issuance to Deerfield of shares of our common stock equal to the redemption price divided by the lesser of \$.60 or the average closing sale price of the common stock during the 10 trading days immediately preceding the date of such notice.

We satisfied the warrant redemption price by issuing to Deerfield securities in connection with our October 2009 private placement. Additionally, the warrants issued as part of the October 2009 securities purchase (see Note 5) agreement are classified as a liability on the balance sheet based on certain cash settlement provisions available to the warrant holders upon certain reorganization events in our equity structure, including mergers. Specifically, in the event we are acquired in an all cash transaction, a transaction whereby we cease to be a publicly held entity under Rule 13e-3 of the Securities Exchange Act of 1934, or a reorganization involving an entity not traded on a national securities exchange, the warrant holders may elect to receive an amount of cash equal to the value of the warrants as determined in accordance with the Black-Scholes-Merton option pricing model with certain defined assumptions. At any time when the resale of the warrant shares is not covered by an effective registration statement under the Securities Act of 1933, the warrant holders can elect a cashless exercise of all or any portion of shares outstanding under a warrant, in which case they would receive a number of shares with a value equal to the intrinsic value on the date of exercise of the portion of the warrant being exercised. Additionally, warrant holders have certain registration rights and we would be obligated to make penalty payments to them under certain circumstances if we were unable to maintain effective registration of the shares underlying the warrants with the SEC.

As of March 31, 2010, the Company remeasured the fair value of the remaining Series A and Series B Warrants with the following assumptions: risk-free interest rate of 3.28%, an expected life of 6.5 years, which is the remaining contractual life of the instrument; an expected volatility factor of 99% and a dividend yield of 0.0%. The fair value of these warrants on March 31, 2010 was \$2.1 million. The Company recognized a gain of approximately \$40,000 in the three months ended March 31, 2010 in the Statement of Operations, representing a reduction in the value of such warrants as compared to December 31, 2009. For additional details on the change in value of these liabilities, see Note 7.

NOTE 7. FAIR VALUE MEASUREMENTS

ASC 820 defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles and enhances disclosures about fair value measurements. Fair value is defined under ASC 820 as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

- Level 1 - Quoted prices in active markets for identical assets or liabilities;

- Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table represents the fair value hierarchy for our financial assets and liabilities held by the Company measured at fair value on a recurring basis:

As of March 31, 2010

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Money market funds	\$ 51,039	\$ —	\$ —	\$ 51,039
Available-for-sale equity securities	76,000	—	—	76,000
Total	\$ 127,039	\$ —	\$ —	\$ 127,039
Liabilities				
Warrant liabilities	—	—	\$ 2,104,666	\$ 2,104,666
Total	\$ —	\$ —	\$ 2,104,666	\$ 2,104,666

As of March 31, 2009

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Money market funds	\$ 69,031	\$ —	\$ —	\$ 69,031
Available-for-sale equity securities	96,000	—	—	96,000
Total	\$ 165,031	\$ —	\$ —	\$ 165,031
Liabilities				
Warrant liabilities	—	—	\$ 786,419	\$ 786,419
Total	\$ —	\$ —	\$ 786,419	\$ 786,419

A summary of the activity of the fair value of the Level 3 liabilities² is as follows:

	<u>Beginning Value of Level 3 Liabilities</u>	<u>Additional Level 3 Liabilities Incurred</u>	<u>Liabilities extinguished</u>	<u>Net Gain on Change in Fair Value of Level 3 Liabilities</u>	<u>Ending Fair Value of Level 3 Liabilities</u>
For the three months ended March 31, 2010	\$ 2,145,511	\$ —	\$ —	\$ (40,845)	\$ 2,104,666
For the three months ended March 31, 2009	\$ 1,450,479	\$ —	\$ —	\$ (664,060)	\$ 786,419

² All Level 3 liabilities are comprised of warrant liabilities. For the three months ended March 31, 2009, all warrant activity related to warrants issued to Deerfield Management as part of the loan facility agreement. See Note 4 for details of this transaction. For three months ended March 31, 2010, all warrant activity related to warrants issued as part of the October 2009 Securities Purchase Agreement. See Note 5 for details of this transaction.

NOTE 8. AVAILABLE-FOR-SALE SECURITIES

On March 31, 2010, the Company had \$76,000 in total marketable securities which consisted of shares of NovaDel Pharma, Inc. ("NovaDel") purchased in conjunction with the Zensana license agreement originally entered into in October 2004.

The following table summarizes the NovaDel shares classified as available-for-sale securities during the three months ended March 31 2010 and 2009:

	<u>Beginning Value</u>	<u>Net Unrealized Gain/(Loss)</u>	<u>Gross Realized Gain/(Loss)</u>	<u>Ending Value</u>
For the three months ended March 31, 2010	\$ 68,000	\$ 8,000	\$ —	\$ 76,000
For the three months ended March 31, 2009	\$ 128,000	\$ (32,000)	\$ —	\$ 96,000

NOTE 9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following at March 31, 2010 and December 31, 2009:

	<u>March 31, 2010</u>	<u>December 31, 2009</u>
Trade accounts payable	\$ 1,186,134	\$ 1,008,560
Clinical research and other development related costs	1,256,219	1,232,291
Accrued personnel related expenses	189,019	979,963
Interest payable	667,911	682,753
Accrued other expenses	117,492	123,508
Total	<u>\$ 3,416,775</u>	<u>\$ 4,027,075</u>

NOTE 10. COMMITMENTS

Lease Agreements. The Company entered into a three year sublease, which commenced on May 31, 2006, for property at 7000 Shoreline Court in South San Francisco, California, where the Company's executive offices are located. In May 2008, the Company and its sublessor entered into an amendment to the sublease agreement, which increased the term of the lease from three years to four years. Effective June 24, 2009, the Company entered into a further amendment to the sublease, which extended the term of the lease through March 2011 and reduced the monthly lease payments from \$2.80 per square foot to \$2.45 per square foot for the eleven month period from July 2009 through May 2010 and reduced the lease payments from \$2.90 per square foot to \$1.95 per square feet for the ten month period from June 2010 through March 2011. The total cash payments due for the duration of the sublease equaled approximately \$0.4 million at December 31, 2009.

Employment Agreements. On June 6, 2008, the Company entered into a new employment agreement with its President and Chief Executive Officer. This agreement provides for an employment term that expires in December 2010. The minimum aggregate amount of gross salary compensation to be provided for over the remaining term of the agreement amounted to approximately \$0.3 million at March 31, 2010.

NOTE 11. RESTRICTED CASH

On May 31, 2006, the Company entered into a sublease agreement relating to its South San Francisco, CA offices. The sublease required the Company to provide a security deposit in the amount of \$125,000. To satisfy this obligation the Company obtained a \$125,000 letter of credit with the sublessor as the beneficiary in case of default or failure to comply with the sublease requirements. In order to obtain the letter of credit, the Company was required to deposit a compensating balance of \$125,000 into a restricted money market account with its financial institution. This compensating balance for the letter of credit will be restricted for the entire four-year period of the sub-lease.

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

The following discussion of our financial condition and results of operations should be read in conjunction with the unaudited condensed financial statements and the notes to those statements included elsewhere in this Quarterly Report on Form 10-Q. This discussion includes forward-looking statements that involve risks and uncertainties. As a result of many factors, such as those set forth under "Risk Factors" in Item 1A of Part I of the 2009 Form 10-K, our actual results may differ materially from those anticipated in these forward-looking statements.

Overview

We are a biopharmaceutical company dedicated to developing and commercializing new, differentiated cancer therapies designed to improve and enable current standards of care. We currently have four product candidates in various stages of development:

- Marqibo® (vincristine sulfate liposomes injection), a novel, targeted Optisome™ encapsulated formulation product candidate of the FDA-approved anticancer drug vincristine, being developed for the treatment of adult ALL.
- Menadione Topical Lotion, a novel supportive care product candidate, being developed for the prevention and/or treatment of the skin toxicities associated with the use of epidermal growth factor receptor inhibitors, a type of anti-cancer agent used in the treatment of certain cancers.
- Brakiva™ (topotecan liposomes injection), a novel targeted Optisome™ encapsulated formulation product candidate of the FDA-approved anticancer drug topotecan, being developed for the treatment of solid tumors including small cell lung cancer and ovarian cancer.
- Alocrest™ (vinorelbine liposomes injection), a novel, targeted Optisome™ encapsulated formulation product candidate of the FDA-approved anticancer drug vinorelbine, being developed for the treatment of solid tumors such as non-small-cell lung cancer.

Revenues

We do not expect to generate any significant revenue from product sales or royalties in the foreseeable future. We may have revenues in the future only if we are able to develop and commercialize our products, license our technology and/or enter into strategic partnerships. If we are unsuccessful, our ability to generate future revenues will be significantly diminished.

Research and Development Expenses

Research and development expenses, which account for the bulk of our expenses, consist primarily of salaries and related personnel costs, fees paid to consultants and outside service providers for laboratory development, manufacturing, and other expenses relating to the acquiring, design, development, testing, and enhancement of our product candidates, including milestone payments for licensed technology. We expense research and development costs as they are incurred.

While expenditures on current and future clinical development programs are expected to be substantial, particularly in light of our available resources, they are subject to many uncertainties, including the results of clinical trials and whether we develop any of our drug candidates with a partner or independently. As a result of such uncertainties, we cannot predict with any significant degree of certainty the duration and completion costs of our research and development projects or whether, when and to what extent we will generate revenues from the commercialization and sale of any of our product candidates. The duration and cost of clinical trials may vary significantly over the life of a project as a result of unanticipated events arising during clinical development and a variety of factors, including:

- the number of trials and studies in a clinical program;
- the number of patients who participate in the trials;
- the number of sites included in the trials;
- the rates of patient recruitment and enrollment;
- the duration of patient treatment and follow-up;
- the costs of manufacturing our drug candidates; and
- the costs, requirements, timing of, and the ability to secure regulatory approvals.

General and Administrative Expenses

General and administrative expenses consist primarily of salaries and related expenses for executive, business development, finance and other administrative personnel, recruitment expenses, professional fees and other corporate expenses, including accounting, legal fees related to patents and other general legal activities.

Share-based Compensation

Share-based compensation expenses consist primarily of expensing the fair-market value of a share-based award over the vesting term. This expense is included in our operating expenses for each reporting period.

Critical Accounting Policies

The accompanying discussion and analysis of our financial condition and results of operations are based on our unaudited condensed financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. We believe there are certain accounting policies that are critical to understanding our unaudited condensed financial statements, as these policies affect the reported amounts of expenses and involve management's judgment regarding significant estimates. We have reviewed our critical accounting policies and their application in the preparation of our unaudited condensed financial statements and related disclosures with the Audit Committee of our Board of Directors. Our critical accounting policies and estimates are described below.

Share Based Compensation

We have adopted revised authoritative guidance related to stock-based compensation under FASB ASC TOPIC 718 “*Compensation – Stock Compensation*.” We have adopted a Black-Scholes-Merton model to estimate the fair value of stock options issued and the resultant expense is recognized in the statement of operations each reporting period. See Note 4 of our unaudited condensed financial statements included elsewhere in this Form 10-Q for further information regarding the required disclosures related to share-based compensation.

Warrant Liabilities

We have issued certain warrants that have characteristics of both equity and liabilities. These warrants were evaluated to be classified as liabilities at the time of issuance and are revalued at fair value from period to period with the resulting change in value included in the statement of operations.

Licensed In-Process Research and Development

Licensed in-process research and development relates primarily to technology, intellectual property and know-how acquired from another entity. We evaluate the stage of development as well as additional time, resources and risks related to development and eventual commercialization of the acquired technology. As we historically have acquired non-FDA approved technologies, the nature of the remaining efforts for completion and commercialization generally include completion of clinical trials, completion of manufacturing validation, interpretation of clinical and preclinical data and obtaining marketing approval from the FDA and other regulatory bodies. The cost in resources, probability of success and length of time to commercialization are extremely difficult to determine. Numerous risks and uncertainties exist with respect to the timely completion of development projects, including clinical trial results, manufacturing process development results and ongoing feedback from regulatory authorities, including obtaining marketing approval. Additionally, there is no guarantee that the acquired technology will ever be successfully commercialized due to the uncertainties associated with the pricing of new pharmaceuticals, the cost of sales to produce these products in a commercial setting, changes in the reimbursement environment or the introduction of new competitive products. Due to the risks and uncertainties noted above, we will expense such licensed in-process research and development projects when incurred. However, the cost of acquisition of technology is capitalized if there are alternative future uses in other research and development projects or otherwise based on internal review. All milestone payments will be expensed in the period the milestone is reached.

Clinical Study Activities and Other Expenses from Third-Party Contract Research Organizations

Much of our research and development activities related to clinical study activity are conducted by various third parties, including contract research organizations, which may also provide contractually defined administration and management services. Expense incurred for these contracted activities are based upon a variety of factors, including actual and estimated patient enrollment rates, clinical site initiation activities, labor hours and other activity-based factors. On a regular basis, our estimates of these costs are reconciled to actual invoices from the service providers, and adjustments are made accordingly.

Results of Operations

Three Months Ended March 31, 2010 Compared to Three Months Ended March 31, 2009

General and administrative expenses. For the three months ended March 31, 2010, general and administrative, or G&A, expense was \$0.9 million, as compared to \$1.1 million for the three months ended March 31, 2009. The decrease of \$0.2 million is due to decreased personnel related expenses of \$0.1 million and decreased costs for outside services and professional services of \$0.1 million.

The \$0.1 million decrease in employee-related expenses includes a decrease of \$0.1 million in employee related share-based compensation expense due to decreased valuation of stock options issued to employees as a result of the decrease in value of the Company's stock price.

The \$0.1 million decrease in outside services and professional fees was due to decreased accounting and legal fees.

Research and development expenses. The following table summarizes our R&D expenses incurred for preclinical support, contract manufacturing for clinical supplies and clinical trial services provided by third parties, as well as milestone payments for in-licensed technology for each of our current major product development programs for the three months ended March 31, 2010 and 2009. The table also summarizes unallocated costs, which consist of personnel, facilities and other costs not directly allocable to development programs.

Product candidates (\$ in thousands)	2010	2009	Annual % Change
Marqibo	\$ 951	\$ 1,221	-22%
Menadione	16	431	-96%
Brakiva	(11)	136	N/A
Alocrest	-	(13)	N/A
Discontinued/out-licensed product candidates	-	5	N/A %
Total third party development costs	866	662	31%
Allocable costs and overhead	261	276	-5%
Personnel related expense	1,092	1,275	-14%
Share-based compensation expense	84	199	-58%
Total research and development expense	\$ 3,259	\$ 4,192	-22%

Marqibo. Marqibo costs decreased by \$0.3 million in the three months ended March 31, 2010 compared to the same period in 2009. The main cause of the decrease costs was due to the completion of enrollment in our Phase 2 clinical trial in adult Philadelphia chromosome negative ALL patients in second relapse, or those who have progressed following two prior lines of anti-leukemia therapy, or the rALLY study, in the fourth quarter of 2009. These costs were partially offset by increased manufacturing costs in preparation for a pre-New Drug Application, or NDA, meeting which was completed on April 20, 2010, with the FDA. The purpose of the meeting was to discuss the proposed NDA and to confirm the clinical, non-clinical and manufacturing requirements for the NDA submission. Following the pre-NDA meeting, we intend to proceed with our plan to submit a rolling NDA for Marqibo in relapsed/refractory adult Philadelphia chromosome-negative ALL in the second half of 2010 to seek accelerated approval. In the first quarter of 2010, we continued to finalize data for the rALLY study and continued enrollment in our pilot Phase 2 trial in metastatic uveal melanoma. We plan to initiate a confirmatory trial of Marqibo in ALL in 2011. We expect to spend a total of approximately \$7.3 million on external project costs relating to Marqibo in 2010. We estimate that we will need to expend at least an additional \$10 million of external costs in order to obtain accelerated approval which would permit us to sell Marqibo to a limited segment of the market. If we receive accelerated approval, we will need to run additional trials to receive full FDA approval in order to sell Marqibo to a larger segment of the market. The additional external costs to run these trials to obtain full FDA approval are \$62 million. External costs include drug manufacture, clinical trial costs, data management and supporting activities not provided by our full-time employees. We expect that it will take approximately three to four years until we will have completed development and obtained full FDA approval of Marqibo, if ever.

Menadione. In the three months ended March 31, 2010 Menadione costs decreased by \$0.4 million in compared to the same period in 2009, due largely to completion of enrollment in a Phase 1 study in cancer patients. We plan to initiate a Phase 2 clinical trial in cancer patients in mid 2010, pending final results of the Phase 1 study and our ability to obtain additional financing. As this drug is early in its clinical development, both the registrational strategy and total expenditures to obtain FDA approval are still being evaluated. However, we expect to spend approximately \$0.5 million on external project costs relating to Menadione in 2010, and while we are still evaluating the development plan for Menadione, we estimate that we will need to expend at least an aggregate of approximately \$55 million of additional funds on external costs in order for us to obtain full FDA approval for Menadione, if ever. External costs include drug manufacture, clinical trial costs, data management and supporting activities not provided by our full-time employees. We expect that it will take approximately two to three years until we will have completed development and obtained FDA approval, if ever. Per the terms of the securities purchase agreement completed in October 2009, we agreed to use the proceeds of the sale of those securities solely for the clinical and regulatory development of our Marqibo program. As such, future development of Menadione is contingent on obtaining additional funding, if any such funding is available in the future.

Brakiva. In the three months ended March 31, 2010 Brakiva costs decreased by \$0.1 million in compared to the same period in 2009, due to slow enrollment in a Phase 1 clinical study, which we initiated in November 2008. We are exploring options for further development of Brakiva beyond the phase 1 trial. As this drug is early in its clinical development, both the registrational strategy and total expenditures to obtain FDA approval are still being evaluated. Per the terms of the securities purchase agreement completed in October 2009, we agreed to use the proceeds of the sale of those securities solely for the clinical and regulatory development of our Marqibo program. As such, future development of Brakiva is contingent on obtaining additional funding, if any such funding is available in the future.

Alocrest. We are currently exploring options for the continued development of Alocrest and do not expect to incur significant project costs in 2010.

Discontinued/Out-licensed projects. We did not pursue development on our Zensana product candidates in 2010 which was out-licensed in 2007. We may incur only incidental expenses in 2010 related to the continued disposition of this product.

Other R&D expenses. Third-party costs related to indirect support of our clinical trials and product candidates increased by \$0.2 million in the three months ended March 31, 2010 compared to the same period in 2009. These costs are not directly allocable to an individual product candidate and primarily relate to outside services and professional fees related to indirect support of our research and development functions including data management, regulatory and clinical development. The main increase in costs was due to increased consultants used to prepare for our intended NDA submission of our product candidate Marqibo as well as consultants used to collect the final data for our Phase 2 clinical trial, rALLY, in Marqibo.

Personnel related costs decreased by \$0.2 million in the three months ended March 31, 2010 compared to the same period in 2009, due to lower headcount and cost reduction measures implemented to reduce employee benefit costs. We expect these costs to increase slightly in 2010 as we continue to add the necessary resources in order to submit our NDA to the FDA.

Stock compensation expense decreased due to a lower valuation for options issued in 2010 due to the Company's lower stock price. We expect stock-based compensation will continue to decrease until our stock price increases or the amount of options issued increase.

Interest expense. For the three months ended March 31, 2010, interest expense was \$1.1 million as compared to interest expense of \$0.7 million for the three months ended March 31, 2009. The increase resulted from a larger average balance outstanding on our loan facility with Deerfield as well as \$0.1 million of long-term deferred transaction costs that were expensed as interest expense in 2010. These long-term deferred transaction costs related to the unused funds at the termination of the commitment period of the Deerfield loan facility agreement. We originally entered into this loan agreement in October 2007.

Gain or loss on change in fair market value of warrant liabilities. For the three months ended March 31, 2010, we recognized a gain related to the change in fair market value of the warrant liabilities of less than \$0.1 million. In three months ended March 31, 2009, we recognized a gain on warrant liabilities of approximately \$0.7. The value of these warrants is largely dependent on the price of our common stock, and as the stock price is reduced, the value of these warrants will decrease and our gain on the change in market value will increase.

Liquidity and Capital Resources

As of March 31, 2010, we had a stockholder's deficit of approximately \$22.8 million and an accumulated deficit of \$140.6 million. For the three months ended March 31, 2010, we recognized a net loss of \$5.5 million. We have financed operations primarily through equity and debt financing and expect such losses to continue over the next several years. We currently have a limited supply of cash available for operations. As of March 31, 2010, we had aggregate cash and cash equivalents and available-for-sale securities of \$4.2 million and available working capital of \$0.8 million. We have drawn down \$27.5 million of the total \$30 million available under the loan facility agreement with Deerfield Management. In October 2009, the commitment period of the loan facility agreement expired and we are no longer able to draw down the remaining \$2.5 million of the total \$30.0 million commitment by Deerfield.

We do not generate any recurring revenue and will require substantial additional capital before it will generate cash flow from our operating activities, if ever. Our currently available capital is only sufficient to fund our operations through the end of June 2010 and will require us to significantly reduce our current level of expenses and may impede our progress toward the continued development of our product candidates. Accordingly, our continued operations are entirely dependent upon immediately obtaining additional capital, and we do not currently have any committed sources of such additional capital. We will be unable to continue development of our product candidates unless we are able to obtain additional funding through equity or debt financings or from payments in connection with potential strategic transactions. We can give no assurances that any additional capital that we are able to obtain, if any, will be sufficient to meet our needs. Moreover, there can be no assurance that such capital will be available to us on favorable terms or at all, especially given the current economic environment and our current financial condition, which has severely restricted our access to the capital markets. If we are unable to raise additional capital, we may be required to cease operations altogether. These conditions raise substantial doubt as to our ability to continue as a going concern.

Since we do not generate any recurring revenue, the most likely sources of the additional capital we need to continue funding our operating activities include private sales of our equity securities, including shares of our common or preferred stock, loans or other debt financings, or potentially through a strategic licensing or collaboration transaction involving the rights to one or more of our product candidates. To the extent that we raise additional capital by issuing equity securities, our stockholders will likely experience significant dilution. We may also grant to future investors rights superior to those of our existing stockholders, including rights with respect to liquidation, voting and dividends. If we raise additional funds through collaborations and licensing arrangements, we may be necessary to relinquish some rights to our technologies, product candidates or products, or grant licenses on terms that are not favorable to us. If we raise additional funds by incurring debt, we could incur significant interest expense and become subject to covenants in the related transaction documentation that could affect the manner in which we conduct our business. Even if we are successful in securing immediate additional capital to continue funding our near-term operating activities, we will continue to need substantial amounts of additional capital thereafter until we can achieve profitability, if ever.

The actual amount of funds we will need to operate is subject to many factors, some of which are beyond our control. These factors include the following:

- costs associated with conducting preclinical and clinical testing of our product candidates;

- costs of establishing arrangements for manufacturing our product candidates;
- payments required under our current and any future license agreements and collaborations;
- costs, timing and outcome of regulatory reviews;
- costs of obtaining, maintaining and defending patents on our product candidates; and
- costs of increased general and administrative expenses.

We have based our estimate on assumptions that may prove to be wrong, in which case, we may need to obtain additional funds sooner or in greater amounts than we currently anticipate.

Off-Balance Sheet Arrangements

We do not have any “off-balance sheet agreements,” as that term is defined by SEC regulation.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4T. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We conducted an evaluation as of March 31, 2010, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, which are defined under SEC rules as controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within required time periods. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective.

Limitations on the Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefit of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Hana have been detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Changes in Internal Controls Over Financial Reporting

During the quarter ended March 31, 2010, there were no changes in our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

We are not involved in any legal proceeding.

Item 1A. Risk Factors

An investment in our common stock involves significant risk. You should carefully consider the information described in the following risk factors, together with the other information appearing elsewhere in this report, before making an investment decision regarding our common stock. You should also consider the risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2009 (“2009 Annual Report”) under the caption “Item 1A. Risk Factors.” If any of the risks described below or in our 2009 Annual Report actually occur, our business, financial conditions, results of operation and future growth prospects would likely be materially and adversely affected. In these circumstances, the market price of our common stock could decline, and you may lose all or a part of your investment in our common stock. Moreover, the risks described below and in our 2009 Annual Report are not the only ones that we face. Additional risks not presently known to us or that we currently deem immaterial may also affect our business, operating results, prospects or financial condition.

We need immediate additional capital to fund our continued operations. If we are unable to raise such additional capital, we will be forced to discontinue our product development programs, relinquish our rights to some or all of our product candidates or cease operations altogether. The manner in which we raise any additional funds may affect the value of your investment in our common stock.

We believe that our currently available capital is only sufficient to fund our operations into June 2010. Given our desired clinical development plans for the next 12 months, our financial statements reflect an uncertainty about our ability to continue as a going concern, which is also stated in the report from our auditors on the audit of our financial statements as of and for the year ended December 31, 2009. Accordingly, we need immediate additional capital to fund our continued operations.

Since we do not generate any recurring revenue, the most likely sources of such additional capital include private placements of our equity securities, including our common stock, debt financing or from a potential strategic licensing or collaboration transaction involving the rights to one or more of our product candidates. To the extent that we raise additional capital by issuing equity securities, our stockholders will likely experience significant dilution. We may also grant to future investors rights superior to those of our existing stockholders, including rights with respect to liquidation, voting and dividends. If we raise additional funds through collaborations and licensing arrangements, we may be necessary to relinquish some rights to our technologies, product candidates or products, or grant licenses on terms that are not favorable to us. If we raise additional funds by incurring debt, we could incur significant interest expense and become subject to covenants in the related transaction documentation that could affect the manner in which we conduct our business.

However, we have no committed sources of additional capital and our access to capital funding is always uncertain. This uncertainty is exacerbated due to the ongoing global economic turmoil, which has severely restricted access to the U.S. and international capital markets, particularly for small biopharmaceutical and biotechnology companies like us. In addition, our ability to access capital is made more difficult due to our relative size and our current financial condition. Accordingly, despite our ability to secure adequate capital in the past, there is no assurance that additional equity or debt financing will be available to us when needed, on acceptable terms or even at all. If we fail to obtain the necessary additional capital when needed, we will be forced to significantly curtail our planned research and development activities, which will cause a delay in our drug development programs. If we do not obtain additional capital before we have consumed our currently available resources, we may be forced to cease our operations altogether, in which case you will lose your entire investment in our company.

Further, our available capital may be consumed sooner than we anticipate depending on a variety of factors, including:

- costs associated with conducting our ongoing and planned clinical trials and regulatory development activities;
- costs, timing and outcome of regulatory reviews;
- costs of establishing arrangements for manufacturing our product candidates;
- costs associated with commercializing our lead programs, including establishing sales and marketing functions;
- payments required under our current and any future license agreements and collaborations;
- costs of obtaining, maintaining and defending patents on our product candidates; and
- costs of acquiring any new drug candidates.

Our near-term viability is substantially dependent on our ability to obtain accelerated approval of Marqibo by the FDA.

A substantial portion of our current human and financial resources is focused in the development of Marqibo, our lead product candidate. We are currently evaluating the data from our global, registration-enabling Phase 2 clinical trial of Marqibo in adult Philadelphia chromosome negative ALL patients in second relapse or those who have progressed following two prior lines of therapy. We refer to this Phase 2 clinical trial as the rALLY study. The primary outcome measure of the rALLY study is complete remission, or CR, or CR without full hematological recovery, or CRi. Our target enrollment for the rALLY study is 65 patients, which we achieved in December 2009. In December 2009, we announced preliminary data indicating that of the first 56 patients dosed in the study, 12 patients, or 21 % of the first 56 patients enrolled, had achieved a CR or CRi and that the estimated median overall survival in complete responders was 7.3 months.

In April 2010, we met with the FDA concerning our plans to initiate a rolling submission new drug application, or NDA, seeking accelerated approval of Marqibo for the treatment of ALL. Following such meeting, we intend to proceed with our plan to initiate a rolling NDA submission in 2010, subject to the availability of additional capital. There can be no guarantee that our submission will be accepted for filing by the FDA and, even if our planned NDA filing is accepted for filing, there is no assurance that the FDA will find that the data and other information relating to Marqibo included in such submission will be sufficient to support accelerated approval of Marqibo. If the final data is insufficient to support the submission of an NDA for accelerated approval, or if the FDA accepts our NDA for review but subsequently denies approval, our business would be substantially and adversely affected and we would be forced to significantly curtail or even cease our operations..

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Removed and Reserved

Item 5. Other Information

None

Item 6. Exhibits

Exhibit No.	Description
10.1	Letter agreement dated February 5, 2010 between Hana Biosciences, Inc. and Craig W. Carlson, as amended on February 17, 2010.
10.2	Hana Biosciences, Inc. 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed February 22, 2010)
10.3	Form of Stock Option Agreement under 2010 Equity Incentive Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed February 22, 2010).
31.1	Certification of Chief Executive Officer, as required by Rule 13a-14(a) or Rule 15d-14(a).
31.2	Certification of Chief Financial Officer, as required by Rule 13a-14(a) or Rule 15d-14(a).
32.1	Certification of Chief Executive Officer and Chief Financial Officer, as required by Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350).

SIGNATURES

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

HANA BIOSCIENCES, INC.

Dated: May 14, 2010

By: /s/ Steven R. Deitcher, MD
Steven R. Deitcher, MD
President and Chief Executive Officer

Dated: May 14, 2010

By: /s/ Craig W. Carlson
Craig W. Carlson
Vice President, Chief Financial Officer

Index to Exhibits Filed with this Report

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31.2	Certification of Chief Financial Officer, as required by Rule 13a-14(a) or Rule 15d-14(a).
32.1	Certification of Chief Executive Officer and Chief Financial Officer, as required by Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350).

Hana Biosciences, Inc.

February 5, 2010

7000 Shoreline Court, Suite 370
South San Francisco, CA 94080
Ph. (650) 588-6784
Fax. (650) 228-2754

Dear Craig,

I am delighted to offer you the position of Vice President, Chief Financial Officer at Hana Biosciences, Inc. You will report to Steven R. Deitcher, M.D., President and Chief Executive Officer. Your start date with the Company will be on or before Monday, March 1, 2010.

Your base salary will be \$295,000 per year (gross, less legally required withholding and other required deductions, and any deductions that you voluntarily authorize in writing), paid semi-monthly. In addition, you will be eligible for an annual performance-based cash bonus of up to 30% of your annualized base salary. The determination of your annual bonus will be made by the Chief Executive Officer and will be subject to approval by Hana's Board of Directors. For 2010, your target bonus will be pro-rated based on the commencement of your employment.

Effective upon the commencement of your employment with Hana, you will also be granted an option to purchase 350,000 shares of Hana stock which vest one-third on the first anniversary of the grant date and, thereafter, the remainder will vest in 24 equal monthly installments over two years (the "Initial Option"). The exercise price of the Initial Option will be equal to the closing price of Hana common stock, as reported on the OTC Bulletin Board, on the last business day prior to your first day of employment. In addition, you will be entitled to an additional stock option grant to purchase 150,000 shares of Hana common stock upon closing of a financing transaction in 2010 that results in net proceeds to Hana of greater than \$20,000,000, or 250,000 shares of Hana common stock upon closing of a financing transaction in 2010 that results in net proceeds to Hana of greater than \$30,000,000 (the "Financing Options"), in either case at an exercise price equal to the fair market value of Hana's common stock as determined in accordance with Hana's stock option pricing policies then in effect. Your right to purchase one-third of the shares subject to any Financing Options will vest in the same manner as the Initial Option (i.e., one-third on the first anniversary of the grant date, and the remainder in 24 equal monthly installments thereafter). The Initial Option and any Financing Options will be evidenced to separate stock option agreements on the Company's standard form. Any other future stock options will be granted per guidelines then in place for all employees of the company, based on performance and contributions as determined by the company's Board of Directors.

If your employment with Hana is terminated by Hana without "cause," or if you terminate your employment with Hana for "good reason," then you shall be entitled to continue receiving your then current annualized base salary for a period of six months following such termination; *provided, however*, Hana shall have no obligation to pay any compensation or other consideration following the termination of your employment unless you execute a separate agreement releasing Hana and entities and persons associated with Hana from any and all claims relating to or in connection with your employment, including the termination of your employment. For purposes of this letter, the term "cause" means any of the following actions committed by you:

- (1) Willful and repeated failure, disregard or refusal by you to perform your employment duties;
- (2) Willful, intentional or grossly negligent act by you having the effect of injuring, in a material way (whether financial or otherwise), the business or reputation of Hana or any of its affiliates, including but not limited to, any officer, director, executive or shareholder of Hana or its affiliates;
- (3) Willful misconduct by you in respect of your duties or obligations, including, without limitation, insubordination with respect to lawful directions received by you from the Chief Executive Officer, unless such direction was contrary to directions given by the Board;
- (4) Your conviction of any felony or a misdemeanor involving a crime of moral turpitude (including entry of a nolo contendere plea);
- (5) Hana's determination based upon clear and convincing evidence, after a reasonable and good-faith investigation following a written allegation by another Hana employee, that you engaged in material harassment prohibited by law (including, without limitation, age, sex or race discrimination);
- (6) Any misappropriation or embezzlement by you of Hana's (or its affiliates') property (whether or not a misdemeanor or felony); or
- (7) A material breach by you of any of your obligations under any other agreement or Hana policy, including, without limitation, Hana's code of ethics, employee manual and any invention assignment, confidentiality and non-solicitation agreement(s).

For purposes of this letter, the term "good reason" means (i) a reduction in your annual base salary or annual target bonus rate or a material reduction in the benefits provided to you by Hana taken as a whole, in each case without your consent, but not if all senior executives of Hana incur any such reduction in compensation or other benefits; or (ii) a significant reduction in your duties and responsibilities; provided, however, that an event shall not constitute "good reason" unless you first notify Hana of such event in writing (including by email) within 30 days of the date you became aware of such event and the event is not corrected by Hana to your reasonable satisfaction within 30 days of the date of your written notice to Hana.

Hana Biosciences, Inc. provides its employees with a benefit package, paid medical, dental, life and disability programs, you will be eligible to participate in our 401k plan and Employee Stock Purchase Plan. You will also be entitled to 3 weeks of vacation pro-rated for the remainder of the calendar year in which you start. This offer of employment is also conditioned upon your entry into an invention assignment, confidentiality and non-solicitation agreement, in the Company's standard form.

Even though some provisions in this offer letter refer to future dates, they are only reference points for certain events that are scheduled for as long as you are employed. Your employment with Hana is for an indefinite term, and nothing in this Letter modifies your at-will employment relationship with the Company. This offer expires on February 12, 2010.

Craig, I believe you will make a significant contribution to Hana, and that we will in turn provide an environment where you will grow, learn and thrive. The entire Hana team looks forward to the opportunity to work with you.

Sincerely yours,

/s/ Steven R. Deitcher

Steven R. Deitcher, M.D.
President, CEO, and Board Member

Accepted: /s/ Craig W Carlson

Date: 2/10/2010

Start Date: 3/1/2010

February 17, 2010

7000 Shoreline Court, Suite 370
South San Francisco, CA 94080
Ph. (650) 588-6784
Fax. (650) 228-2754

RE: Craig Carlson Employment with Hana Biosciences

Dear Craig,

This will confirm our recent discussions concerning your employment with Hana Biosciences and the effective date of your appointment as Hana's Chief Financial Officer. As described in the February 5, 2010 letter agreement between Hana and you, your employment with Hana will commence on March 1, 2010. However, notwithstanding the terms of such letter agreement, upon the commencement of your employment with Hana on March 1, 2010, you will assume the title and position of Vice President of Hana. Effective April 1, 2010, you will assume the role of Hana's principal financial officer and your title will change to Vice President, Chief Financial Officer. Despite these changes, all other terms of your employment described in the February 5, 2010 letter agreement, including your compensation, remain unaffected.

Please acknowledge your agreement to the foregoing by signing in the space indicated below and returning a fully-signed copy of this letter to my attention.

Sincerely yours,

/s/ Steven R. Deitcher

Steven R. Deitcher, M.D.
President, CEO, and Board Member

Acknowledged and agreed to
this 17th day of February, 2010:

Accepted: /s/ Craig W Carlson

Craig Carlson

CERTIFICATION

I, Steven R. Deitcher, certify that:

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

Dated: May 14, 2010

/s/ Steven R. Deitcher, MD

Steven R. Deitcher, MD
President and Chief Executive Officer

CERTIFICATION

I, Craig W. Carlson, certify that:

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

Dated: May 14, 2010

/s/ Craig W. Carlson

Craig W. Carlson

Vice President, Chief Financial Officer

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

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned officers of Hana Biosciences, Inc. does hereby certify that to the best of his knowledge:

(a) the Quarterly Report on Form 10-Q of Hana Biosciences, Inc. for the three months ended March 31, 2010 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(b) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Hana Biosciences, Inc.

Dated: May 14, 2010

/s/ Steven R. Deitcher, MD

Steven R. Deitcher, MD
President and Chief Executive Officer

Dated: May 14, 2010

/s/ Craig W. Carlson

Craig W. Carlson
Vice President, Chief Financial Officer
