

Number 536 March 2007  
MacroChem Corp.

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# Special Situations

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## This Little Company Went to the Clinic.

There are some medical conditions that people are embarrassed to discuss even with their doctors. So, they suffer in silence. MacroChem Corporation (OTCBB: MACM- 0.59) knows all about these patients who live in quiet desperation — the company's primary products target toenail fungus and male testosterone deficiency.

Toenail fungus, technically called Onychomycosis (which is Greek for "gross" — just kidding!) affects about 30 million people in the U.S., out of whom only about six million receive treatment with prescription medication. "We have a huge under-treated patient population," says Robert DeLuccia, president and CEO of MacroChem. Unsurprisingly, those who suffer from testosterone deficiency are suffering in silence too.

MacroChem hopes its more user-friendly solutions will help change all that.



Gregory Bergman  
Managing Editor

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**MacroChem Corp.**  
**www.macrochem.com**



Wall Street asleep at the switch? Maybe MacroChem isn't earning any money now and is selling for pennies, but what will happen to its stock if and when its revolutionary pharmaceutical products ultimately get to market?

<b>OTC:</b>	MACM	<b>Price/Earnings:</b>	N/A
<b>Recent Price:</b>	<b>\$0.59</b>	<b>Price/Sales:</b>	N/A
<b>52-Week Range:</b>	\$2.00 - \$0.24	<b>Total Assets:</b>	\$6.6 million (as of 9/30/06)
<b>Shares:</b>	2.1 million	<b>Current Ratio:</b>	14.2:1
<b>Closely Held:</b>	4.5%	<b>Long-Term Debt:</b>	nil
<b>Market Cap*:</b>	1.2 million	<b>Shareholders' Equity:</b>	\$1.45 million
<b>Average Volume:</b>	12,800	<b>Book Value/Share:</b>	\$2.49

## RECOMMENDATION

A development-stage pharmaceutical company, Massachusetts-based MacroChem was founded in 1981, but underwent a restructure and refinance in early 2006. Modifying its business model to focus on products in later stages of clinical development allowed the firm to raise the capital it needed to take its lead product EcoNail into a Phase II clinical trial. Also, a very active investor relations program led by The Investor Relations Group of New York has put the company on the radar screen of both retail and institutional investors.

MacroChem's innovative topical drug delivery system has numerous advantages over traditional oral and injection technologies. The trend in medicine has been toward non-invasive procedures. MacroChem's SEPA technology, which delivers medicine to and through the skin and nails, is essentially non-invasive when compared with oral and injection procedures. The company has spent significant capital and years of research in developing and testing SEPA, and its other technologies, MacroDerm and DermaPass, and has advanced its lead product EcoNail to a Phase II clinical study, an important milestone along the path to commercialization.

We believe MacroChem offers the potential for a return to at least \$2 a share intermediate-to-long-term.

## Highlights

-MacroChem's SEPA delivery technology enjoys significant advantages over oral and injection delivery for its numerous potential applications.

-\$80 million in R&D has advanced its SEPA technology closer to fruition as a Phase II clinical trial of EcoNail is now underway.

-Its stock sells at a 70% discount from its 52-Week high of \$2 a share. With only 2.1 million shares outstanding, any meaningful increase in buying stands to move it up quickly.

-EcoNail alone would address a current \$750 million market in the U.S. alone, but that's just the tip of the iceberg. Estimates suggest that only 20% of patients receive prescription treatment, suggesting a much larger potential market.

-MacroChem's MacroDerm technology has exciting applications in the cosmetic and consumer product industries, such as sunscreens, insect repellants and skin protectants (e.g., protection from hazardous materials).

-Product applications could be marketed in convenient, easy-to-use creams, gels, ointments, lacquers and solutions

-Huge loss carry-forward may shelter earnings from taxes for many years to come.

MacroChem's topical delivery technologies take drug delivery to a new level, whereby drugs are delivered into the skin and nails (dermal delivery) for dermatological conditions or through the skin and into the bloodstream (transdermal delivery) for the treatment of systemic conditions and diseases.

Its technology promises important advantages over oral and injection delivery. For one, it does not adversely affect the liver or cause gastro-intestinal problems. For another, it delivers the drug in desired concentrations to the targeted site, and it simplifies the delivery process, making it easier or less painful to take medications.

If successfully commercialized, the company's lead product, EcoNail would be positioned to attack a current \$750 million U.S. market, which is now only minimally exploited.

While there are obvious risks involved in investing in a company like this, there is the potential for huge capital gains upon regulatory approval of any of its products, now in various phases of clinical and pre-clinical development. It is this risk and uncertainty that have depressed MacroChem's stock to such bargain levels.

## BUSINESS



MacroChem's proprietary products are based on three drug delivery technologies - SEPA, MacroDerm, and DermaPass; SEPA is an acronym for Soft Enhancement of Percutaneous Absorption. The word "soft" in SEPA refers to fact that the skin reverts to its normal state after the drug passes through it and "Percutaneous" means "through the skin". SEPA enhances the efficiency and rate of diffusion of drugs into and through the skin to the area targeted for treatment.

Most drugs are taken orally or through injection, the objective being to deliver the drug systemically to eventually be carried by the bloodstream to the part of the body in need. But these two delivery technologies have disadvantages, including toxicities, organ damage, pain, inconvenience, and systemic exposure.

The human skin serves as a barrier to penetration by outside organisms, chemicals and toxins; and is not easily compromised. MacroChem's SEPA technology is a family of compounds that enhance the transport, penetration

and controlled delivery of a wide range of drugs through the skin by temporarily rendering the skin permeable, so the drug can pass through the stratum corneum in the epidermis and, in certain applications, through the dermis where it can enter the bloodstream through capillaries.

In addition to its reversibility, SEPA can be quickly metabolized by the human body into ethylene glycol and decanoic acid, two metabolites well understood by regulatory agencies. SEPA does not react chemically with other organic molecules and is compatible with a wide range of active pharmaceutical ingredients. Finally, the rate and amount of drug absorbed by the skin or body

can be controlled by varying the components of the SEPA-based formulation.

When co-formulated with active pharmaceutical ingredients, SEPA can be offered in a variety of convenient, easy-to-use formulations such as creams, gels, ointments, lacquers and solutions

Other potential SEPA-based applications include: The delivery of pharmaceutical ingredients such as a topical anesthetic and non-steroidal anti-inflammatory drugs (NSAIDs). The company has also tested its MacroDerm polymers with cosmetics and consumer products, including insect repellants and sunscreens to decrease skin penetration and/or enhance persistence on the skin. Initial laboratory experiments testing the ability of DermaPass to improve transdermal delivery of other pharmaceutical ingredients have also been undertaken.

## EcoNail

EcoNail is a topically applied lacquer for the treatment of Onychomycosis, a fungal infection of the nail. Products currently on the market for this treatment have serious limitations. Oral treatments have known side effects to the liver and require blood tests during treatment. Topical treatments tend not to release anti-fungal drugs from the lacquer coating effectively and most antifungal drugs don't penetrate deep enough to be effective. Onychomycosis afflicts more than 30 million people in the U.S. alone.



EcoNail is a patented lacquer containing the antifungal econazole and MacroChem's enhancer, SEPA, which enables the econazole to penetrate the nail en route to the nail bed where the fungi exist. Its 18-week Phase I trial in the U.S. testing tolerance /human exposure for EcoNail in 19 patients with onychomycosis of the toenails produced no serious adverse drug -related incidents. Serum assays revealed no detectable levels of econazole in the bloodstream, further supporting EcoNail's systemic safety profile.

In October, MacroChem began enrolling patients in an EcoNail Phase II study conducted under its U.S. IND in order to assess its efficacy (effectiveness). This open label trial, which includes an interim assessment after all patients complete 24 weeks of treatment, was specifically designed to maintain robust clinical endpoints in the full study, and, if successful, to expedite the start of Phase III trials.

## Future Objectives

Management is now seeking a partner to advance Opterone into Phase II clinical trial, as well as to evaluate opportunities to in-license new products.

With its technology advanced to the clinical stage of development, MacroChem must now obtain regulatory approval and deliver it to the market. Management plans to reach its goals through:

- 1) Continued clinical development of its front running product EcoNail.
- 2) The use of strategic partnerships to enhance shareholder value in terms of commercialization, as well as seek a partner to advance the development of its Opterone.
- 3) The identification and in-licensing of products and technologies that complement and expand its existing portfolio.
- 4) By leveraging its present technologies in order to develop new products, including incorporating its technology with other companies' existing products, resulting in possibly a new pipeline of products.

## MANAGEMENT



**Robert J. DeLuccia**, President and CEO, Vice Chairman of the Board: Mr. DeLuccia joined MacroChem as a director in 2000 after serving as President and CEO of Immunomedics, Inc., (Nasdaq: IMMU), a biopharmaceutical company engaged in the development and commercialization of antibody diagnostic imaging and therapeutic products for cancer and infectious diseases. Prior to that, he was President of Sterling Winthrop Pharmaceuticals, a U.S. subsidiary of Sanofi-Aventis. Mr. DeLuccia launched his career as a sales representative for Pfizer, moving up to become VP of Marketing and Sales Operations for Pfizer's Roerig Division. He is a member of the board of IBEX Technologies (IBT.TO), a developer of biological markers for the diagnosis, monitoring and treatment of cancer and arthritis, and TOPIGEN, a private developer of anti-inflammatory respiratory products. He has a B.S. degree and MBA in marketing from Iona College

**Bernard R. Patriacca**, CPA, Vice President, CFO: Mr. Patriacca joined MacroChem as CFO in April 2001, prior to which he served as Vice President and Controller of Summit Autonomous Inc, where he successfully effected a \$70 million IPO and \$220 million acquisition of a competing company. He began his career in 1968 at Price Waterhouse then moved on to help build Dunkin Donuts Corporation from a small local franchiser into a \$1 billion multinational food service company where he became Senior Vice President and CFO. He has an A.B. degree and MBA from Northeastern University and is a graduate of the Harvard Business School Program for Financial Executives.

**Glenn E. Deegan**, Esq., Vice President, General Counsel and Secretary: Mr. Deegan joined MacroChem in June 2001 prior to which he served as Assistant General Counsel of Summit Technology, a leading provider of excimer lasers for refractive eye surgery. Prior to that, he was engaged in private practice with Holland & Knight LLP and Nutter, McClennen & Fish LLP in Boston. He has a B.S. degree from Providence College and received his J.D. from Boston College Law School.

MacroChem's board of directors includes individuals who have distinguished themselves in the medical and pharmaceutical business and the securities, investment banking and venture capital industry.

## FINANCES

MacroChem had no revenues during its nine months ended September 30, 2006. It spent \$488,520 on research and development, including \$419,351 in costs associated with a clinical trial for EcoNail. This compares with an expenditure of \$2,149,949 on research and development in the nine months ended September 30, 2005, including \$22,965 and \$111,739 in costs associated with clinical trials for EcoNail and Opertone, respectively, and \$2,015,245 in costs not specifically associated with a particular project.

As stated in its 10-Q dated November 14, 2006, management believed its existing cash and cash equivalents and short-term investments of \$5,739,837 (as of September 30, 2006) would be adequate to meet operating and capital expenditures over the following 12-month period.

	2005	2004	2003	2002
Revenues	nil	nil	\$ 1.0	nil
Net Loss (in mil\$)	\$6.1	\$8.3	\$ 5.7	\$7.5
Net Loss/Share	\$6.25	\$9.23	\$8.00	\$11.30

## COMPETITION

Presently, there are two oral drugs on the market that would be competing with EcoNail in treating onychomycosis, one produced by Novartis, the other by Johnson & Johnson. In addition, there is one topical lacquer product marketed in the U.S. by Sanofi Aventis. Three other lacquer products, applied topically, are in various stages of clinical development, including one product that has been licensed to Schering Plough, and another that has been licensed to Novartis.

## RISKS

MacroChem has not yet generated revenues to cover its operations or research and development and is therefore highly dependent on outside parties for funding. There is no guarantee that funding will be available in the future, or that the company will be able to commercialize any products in the near-to-intermediate-term future. Additionally, the company runs the risk that its products may not obtain regulatory approval. It is one of many micro-cap stocks that, except for a number of specialty niche players, simply doesn't qualify for institutional investment due to its lack of revenues and trading volume. Unless it can show significant progress in the movement of EcoNail and Opterone through FDA trials and into commercialization, there is little reason for investors to take a position, except for very long-term oriented investors. The downside risk of owning MacroChem at these levels is really not significant except for short-term traders. It has traded at the \$2 level within the past year, so the risk for investors who are big believers in its technology of not owning it now is great, since they clearly would not want to have to buy it after a sharp run up.

## CAUTIONARY STATEMENT

This document does not constitute an offer to sell or a solicitation of an offer to buy any of our securities. This document contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended. These forward-looking statements may include projections of matters that affect revenue, the ability to develop or license certain technologies; operating expenses or net earnings; projections of capital expenditures; projections of growth; hiring plans for future operations; financing needs or plans; plans relating to the company's products and services; and assumptions relating to the foregoing.



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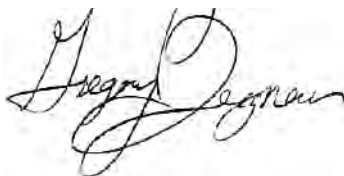
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# EQUITIES Special Situations Recommendations Still Open on 1/1/07 and Subsequent Recommendations

COMPANY	DATE RECOMMENDED	RECOMMENDED PRICE	RECENT PRICE	PCT. CHG.	B-H-S	COMPANY	DATE RECOMMENDED	RECOMMENDED PRICE	RECENT PRICE	PCT. CHG.	B-H-S
NASDAQ:REFR						AMEX:KAL					
Research Frontiers	7/01	25.98	11.90	-54	Buy	Callisto	5-06	1.41	0.90	-36	Buy
NYSE:PPD						NASDAQ:SIRI					
Pre-Paid Legal Services <sup>2</sup>	6/02	16.20	39.05	+141	Buy	SIRIUS Satellite Radio, Inc.	6-06	4.48	3.57	-20.31	Buy
RENN.PK						OPCI.OB					
Renaissance Capital <sup>3</sup>	8-12/02	1.41	9.25	+556	Sold	OPC Lasers	8-06	2.40	1.18	-51	Buy
AMEX:IOC						NASDAQ:GORX					
InterOil Corporation	7-12/03	20.49	23.21	+13	Buy	GeoPharma	10-06	4.05	4.64	+15	Buy
EACC.OB						AMEX:DIL					
eAutoclaims, Inc.	5-05	0.12	0.17	+42	Buy	Dyadic International, Inc.	10-06	4.23	6.15	+45	Buy
RPTN.OB						UGTH.OB & GTH.V					
Raptor Networks Technology	7-8/05	0.51	0.86	+68.63	Buy	U.S. Geothermal, Inc.	12-06	1.09	1.37	+26	Buy
RXHN.OB						AFLR.OB					
Rexahn Pharmaceuticals, Inc.	1-06	1.75	1.30	-26	Buy	Auction Floor, Inc	01-07	0.30	0.58	+93.99	Buy
AVMD.PK						MAKU.OB					
Advanced Medical	2-06	2.00	0.61	-70	Buy	Makeup.com Ltd.	02-07	0.65	0.69	+6	Buy
AMEX:UTK						MACM.OB					
UTEK <sup>6</sup>	3-06	13.71	11.25	-18	Buy	MacroChem, Corp.	03-07	0.59	0.59	0	BUY
BIPHE.OB											
Biophan	4-06	1.53	0.48	-69	Buy						

<sup>1</sup> Purchase price adjusted for dividends of \$0.56 in both 2002 and 2003: a 3 For 2 Stock split in June 2004 and dividends of \$0.48 in 2004 and in 2005 and \$0.12 in 2006.

<sup>2</sup> Purchase price adjusted downward for a dividend of \$0.50 in January 2005 and \$0.30 in May 2005 and \$1.20 so far in 2006.

<sup>3</sup> Purchase price adjusted for dividends of \$0.10 in 2003, \$0.40 in 2003 and capital gains of \$0.85 in 2004 and dividends of \$0.40. In January 2005 purchase price

adjusted downward for a special dividend of \$2.77 and \$0.40 regular. Purchase price adjusted downward \$0.93 in January 2006 for a special dividend. And \$0.40 regular.

<sup>4</sup> Purchase price adjusted downward for dividends of \$0.30 in 2005 and \$0.50 in 2006.

<sup>5</sup> Purchase price adjusted downward for dividends of \$0.80 in 2005.

<sup>6</sup> Purchase price adjusted downward for dividends of \$0.08 so far in 2006.

\* recommended price adjusted for splits, dividends and capital gains | Prices are as of CLOSE 2/12/07

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