

U.S. Securities and Exchange Commission

Washington DC 20549

Form 10-QSB

Quarterly Report under Section 13 of the Securities Exchange Act of 1934

For the Quarterly period Ended
March 31, 1997

Commission File No. 0-27282

Atlantic Pharmaceuticals, Inc.

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Incorporated in Delaware

IRS ID # 36-3898269

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the last 90 days:

Yes No

2,913,720 shares of common stock, \$.001 par value were
outstanding on March 31, 1997

Transitional Small Business Disclosure Format Yes () No (X)

Atlantic Pharmaceuticals, Inc. and Subsidiaries

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ATLANTIC PHARMACEUTICALS, INC. AND SUBSIDIARIES
(a development stage company)
Consolidated Balance Sheets (unaudited)
March 31, 1997 and December 31, 1996

Assets	3/31/97	12/31/96
Current assets:		
Cash and cash equivalents	\$ 1,438,496	2,269,532
Prepaid expenses	80,875	24,949
Total current assets	1,519,371	2,294,481
Furniture and equipment, net of accumulated depreciation of \$86,679, and \$75,133 at March 31, 1997 and December 31, 1996, respectively	80,560	82,761
	1,599,931	2,377,242
Liabilities and Stockholders' Equity		
Current liabilities:		
Accrued expenses	343,473	281,792
Total current liabilities	343,473	281,792
Stockholders' equity		
Preferred stock, \$.001 par value. Authorized 50,000,000 shares; none issued and outstanding		
Common stock \$.001 par value. Authorized 80,000,000 shares; 2,913,720 shares issued and outstanding at March 31, 1997 and December 31, 1996, respectively	2,914	2,914
Common stock subscribed. 182 shares at March 31, 1997 and December 31, 1996.	--	--
Additional paid-in capital	10,720,398	10,634,938
Deficit accumulated during development stage	(9,370,312)	(8,438,660)
Deferred compensation	(96,000)	(103,200)
	1,257,000	2,095,992
Less common stock subscriptions receivable	(218)	(218)
Less treasury stock, at cost	(324)	(324)
Total stockholders' equity	1,256,458	2,095,450
	1,599,931	2,377,242

See accompanying notes to consolidated financial statements.

ATLANTIC PHARMACEUTICALS, INC. AND SUBSIDIARIES
(a development stage company)
Consolidated Statements of Operations (Unaudited)
Quarters ended March 31, 1997 and 1996 and the period from July 13, 1993
(inception) to March 31, 1997.

	Quarter ended March 31		Cumulative from July 13, 1993 (inception) to March 31, 1997
	1997	1996	

Revenue:			
Grant revenue	--	--	97,644
Total Revenue	--	--	97,644

Costs and expenses:			
Research and development	\$ 215,556	239,252	1,901,891
License fees	--	--	173,500
General and administrative	738,948	577,916	6,959,112

Total operating expenses	954,504	817,168	9,034,503

Other expense (income):			
Interest income	(22,852)	(52,201)	(192,122)
Interest expense	--	--	625,575

Total other expense (income)	(22,852)	(52,201)	433,453
=====			
Net loss	(931,652)	(764,967)	(9,370,312)
=====			
Net loss per share	\$ (0.32)	(0.29)	-9.66
=====			
Shares used in calculation of net loss per share	2,913,720	2,663,720	969,650
=====			

ATLANTIC PHARMACEUTICALS, INC. AND SUBSIDIARIES
(a development stage company)
Consolidated Statements of Cash Flows (Unaudited)
Quarters ended March 31, 1997 and 1996 and the period
from July 13, 1993 (inception) to March 31, 1997

	Quarter ended March 31,		Cumulative from July 13, 1993 (inception) to March, 31 1997
	1997	1996	

Cash flows from operating activities:			
Net loss	\$ (931,652)	(764,967)	(9,370,312)
Adjustments to reconcile net loss to net cash used in operating activities:			
Compensation expense relating to			
Warrants	85,442	--	224,442
Stock Options	7,200	7,200	112,782
Discount on notes payable- Bridge financing	--	--	300,000
Depreciation	11,546	8,177	86,679
Changes in assets and liabilities:			
Increase in prepaid expenses	(55,927)	(84,250)	(80,876)
Increase (decrease) in accrued expenses	61,680	(316,416)	343,471
Increase (decrease) in accrued interest	--	(115,011)	172,305

Net cash used in operating activities	(821,711)	(1,265,267)	(8,211,509)

Net cash used in investment activities - acquisition of furniture and equipment	(9,343)	(42,304)	(167,237)

Cash flows from financing activities:			
Proceeds from issuance of demand notes payable	--	--	2,395,000
Repayment of demand notes payable	--	(125,000)	(125,000)
Proceeds from the issuance of notes payable- bridge financing	--	--	1,200,000
Proceeds of issuance of warrants	--	--	300,000
Repayment of notes payable - bridge financing	--	(75,000)	(1,500,000)
Repurchase of common stock	--	--	(324)
Proceeds from the issuance of common stock	18	--	7,547,566

Net cash provided by (used in) financing activities	18	(200,000)	9,817,242

Net increase (decrease) in cash and cash equivalents	(831,036)	(1,507,571)	1,438,496

Cash and cash equivalents at beginning of period	2,269,532	5,044,632	--

Cash and cash equivalents at end of period	\$ 1,438,496	3,537,061	--
=====			
Supplemental disclosure of noncash financing activities:			
Issuance of common stock in exchange for common stock subscriptions	--	--	7,027
Conversion of demand notes payable and the related accrued interest to common stock	--	--	2,442,304
=====			

See accompanying notes to consolidated financial statements.

(1) Basis of Presentation

The accompanying financial statements have been prepared in accordance with Generally Accepted Accounting Principles for interim financial information. Accordingly, they do not include all information and footnotes required by Generally Accepted Accounting Principles for complete financial statements. In the opinion of management, the accompanying financial statements reflect all adjustments, consisting of only normal recurring adjustments, considered necessary for fair presentation. Operating results are not necessarily indicative of results that may be expected for the year ending December 31, 1997. These financial statements should be read in conjunction with the Company's Annual Report on Form 10 - KSB for the year ended December 31, 1996.

(2) Stock Options

In July 1995, the Company established the 1995 Stock Option Plan which, as amended, provides for the granting of equity incentives of up to 950,000 shares of the Company's common stock, par value \$0.001 per share (the "Common Stock"), to officers, directors, employees, and consultants of the Company.

As of December 31, 1996, options to purchase 419,316 shares of the Company's Common Stock were available for future issuance under the Company's 1995 Stock Option Plan. On February 19, 1997 the Company granted options to purchase an aggregate of 115,000 shares of Common Stock, exercisable for seven years at an exercise price of \$6.875 per share. During the four year period commencing February 19, 1998, 25% of such options shall cliff vest and be exercisable each year. No options have been exercised as of March 31, 1997.

(3) Issuance of Warrants

Two warrants exercisable for shares of the Company's Common Stock were issued in the first quarter of 1997. 1) In connection with the Channel merger (see item 4 below), Dr. John Prendergast, a director of the Company, was issued a warrant to purchase 37,500 shares of the Company's Common Stock at \$5.33 per share, which warrant expires on July 14, 2006, in exchange for an Option to purchase 50,000 shares of Channel Therapeutics, Inc., a Delaware corporation ("Channel") (see Exhibit 24). 2) Ms. Dian Griesel was issued a warrant to purchase 24,000 shares of the Company's Common Stock at \$7.00 per share, which warrant expires on November 22, 2001 (see Exhibit 25). In connection with the issuance of these warrants, the Company recognized an expense in the amount of \$85,442. This expense is included in general and administrative expenses in the accompanying Consolidated Statements of Operations.

(4) The Channel Merger

Pursuant to an Agreement and Plan of Reorganization by and among the Company, Channel, and New Channel, Inc., a Delaware corporation, dated February 20, 1997, all of the stockholders of Channel (except for the Company) agreed to receive an aggregate of 103,200 shares of Common Stock of the Company in exchange for their shares of common stock, par value

\$0.0001 per share, of Channel. On February 20, 1997, Channel became a wholly owned subsidiary of the Company. On February 21, 1997, all of the rights of Channel in the CT-3 Technology were transferred to the Company (see Exhibit 23).

(5) Related Party Transactions

Effective February 26, 1997, the Company and an entity (the "Placement Agent") affiliated with Dr. Prendergast and Mr. Kanzer, each a member of the Board of Directors of the Company, and Dr. Rosenwald, a director and greater than 5% stockholder of the Company, entered into a letter of intent whereby the Placement Agent agreed to act as placement agent for the Company in connection with a private placement of securities of the Company. In consideration therefor, the Company agreed to pay the Placement Agent, if the Placement Agent consummates the private placement, a cash commission equal to 9% of the gross proceeds from the sale of the securities issued in the private placement, to reimburse certain of the Placement Agent's expenses related to the private placement in an amount equal to 4% of gross proceeds of the sale of the securities issued in the private placement and to grant the Placement Agent a warrant exercisable for 10% of the securities issued in the private placement at 110% of the price of the securities issued in the private placement (see Exhibit 22).

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of the results of operations and financial condition should be read in conjunction with the Company's Annual Report on Form 10 - KSB for the year ended December 31, 1996.

Results of Operations for the Quarter Ended March 31, 1997

For the first quarter ended March 31, 1997, research and development expense decreased by 10% over the same period in 1996, primarily due to a restructuring of research focus to capitalize on potentially promising data generated with certain lead product candidates. The Company expects its research and development expense to increase for the rest of fiscal 1997.

For the first quarter of 1997, general and administrative expense was \$738,948, which represents an increase of 27.8% over the first quarter of 1996, primarily as a result of relocation expenses, warrant compensation expenses and increased legal expenses.

For the first quarter of 1997, interest income was \$22,852, compared to \$52,201 in the first quarter of 1996. The decrease is due to a reduction in the Company's cash and cash equivalents.

Liquidity and Capital Resources

The Company has incurred an accumulated deficit of approximately \$9,370,312 since inception and expects to continue to incur additional losses through the year ending December 31, 1997 and the foreseeable future.

The Company anticipates that its current resources will be sufficient to finance the Company's currently anticipated needs for operating and capital expenditures for at least four months. In addition, the Company will attempt to generate additional capital through a combination of collaborative agreements, strategic alliances and public and private equity and debt financings. However, no assurance can be provided that additional capital will be obtained through these or other sources. If the Company is not able to obtain continued financing, the Company may cease operation and in all likelihood all the Company's security holders will lose their entire investment.

The Company's working capital requirements will depend upon numerous factors, including: progress of the Company's research and development programs; preclinical and clinical testing; timing and cost of obtaining regulatory approvals; levels of resources that the Company devotes to the development of manufacturing and marketing capabilities; technological advances; status of competitors; and ability of the Company to establish collaborative arrangements with other organizations.

Research and Development Activities

Preclinical studies with all four of the Company's technologies are proceeding as scheduled. Clinical prototypes of the Catarex(TM) device are being designed in anticipation of

possible human studies later this year. A Notice of Allowance for additional improvements on the Catarex(TM) device was recently received from the US Patent Office. Gemini's antisense technology is proceeding on several fronts. The US Patent Office has issued a patent (Patent Number: 5,583,032) in connection with the 2-5A antisense technology for which Gemini is the exclusive licensee. This patent covers composition of matter and methods related to antisense-linked activators of RNase L which, in in vitro studies to date, has exhibited significant selective destruction of mRNA targets. The preclinical work conducted to date on Respiratory Syncytial Virus (RSV) was published in the March 1997 edition of The Proceedings of the National Academy of Sciences. Additional oligonucleotides, which the Company anticipate to be more potent than the previously tested compounds based on in vitro studies completed to date, are being screened against this important target. Animal models are being prepared for the first in vivo studies with the RSV oligonucleotides. The Chronic Myelogenous Leukemia and Androgenic Disorders antisense programs are yielding additional compounds, which are expected to be tested in vivo in 1997. A herpes simplex program is also underway. Channel's sulfated cyclodextrin technology for the prevention of restenosis is being tested in vivo in porcine (CT-1 and CT-8) and sheep AV shunt (CT-2) models. The necessary bioengineering work for the stent coating, using CT-2, is scheduled for completion by early 1998 with preclinical studies planned thereafter. CT-3, the analgesic/anti-inflammatory compound is undergoing mechanistic and toxicology studies, in preparation for an investigational new drug application (IND) filing which the Company anticipates will occur in late 1998 or early 1999.

Future Outlook

In addition to historical information, this report contains predictions, estimates and other forward-looking statements within the meaning of section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended. Actual results could differ materially from any future performance suggested in this report as a result of the risk factors set forth below and in the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on March 30, 1997.

RISK FACTORS

In addition to the other information in this Form 10-QSB, the following risk factors should be considered carefully in evaluating the Company and its business. This Form 10-QSB contains forward looking statements relating to future events or future financial performance of the Company within the meaning of Section 27A of the Securities Exchange Act of 1933 and Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). Investors are cautioned that such statements are only predictions and that events or results may differ materially. In evaluating such statements, investors should specifically consider the following factors and other factors set forth in this Form 10-QSB which could cause actual results to differ materially from those indicated by such forward looking statements.

Development Stage Companies; History of Operating Losses; Accumulated Deficit; Uncertainty of Future Profitability

The technologies and products under development by the Company and its subsidiaries are in the research and development stage and no operating revenue, outside of grant revenues, have been generated to date. The Company does not expect to generate any revenues in the near future. As a result, the Company must be evaluated in light of the problems, delays, uncertainties and complications encountered in connection with newly established businesses. The Company has incurred operating losses since its inception. As of March 31, 1997, the Company's working capital and accumulated deficit were \$1,175,898 and \$9,370,312, respectively. Operating losses have resulted principally from costs incurred in identifying and acquiring the technologies under development, research and development activities and from general and administrative costs. The Company expects to incur significant operating losses over the next several years, primarily due to continuation and expansion of its research and development programs, including preclinical studies and clinical trials for its pharmaceutical products under development. The Company's ability to achieve profitability depends upon its ability to develop pharmaceutical and medical device products, obtain regulatory approval for its proposed products and enter into agreements for product development, manufacturing and commercialization. There can be no assurance that the Company will ever achieve significant revenues or profitable operations from the sale of its proposed products.

Qualification of Auditor's Opinion

The Company's independent accountants have included an explanatory paragraph in their report on the Company's financial statements at December 31, 1996, included in the Company's 1996 Annual Report on Form 10-KSB, which states that the Company has suffered recurring losses from operations and has limited capital resources, both of which raise substantial doubt about the Company's ability to continue as a going concern.

Need for Additional Financing; Issuance of Securities by the Company and its Subsidiaries; Future Dilution

The Company will require, and is constantly considering potential sources for, substantial additional financing to continue its research, to complete its product development and to manufacture and market any products that may be developed. Based solely upon its currently existing consulting, license, sponsored research and employment agreements, the Company currently anticipates that it will spend all of its current cash reserves by August 1997. There can be no assurance, however, that the Company's current cash reserves will not be expended prior to that time. The Company anticipates that further funds may be raised at any time through additional public or private debt or equity financings conducted either by the Company or by one or more of its subsidiaries, or through collaborative ventures entered into between the Company or one or more of its subsidiaries and a corporate partner. There can be no assurance that the Company will be able to obtain additional financing or that such financing, if available, can be obtained on terms acceptable to the Company. If additional financing is not otherwise available, the Company will be required to modify its business development plans or reduce or cease certain or all of its operations. In such event, holders of securities of the Company will, in all likelihood, lose their entire investment.

Although the Company and each of its subsidiaries will seek to enter into collaborative ventures with corporate sponsors to fund some or all of such activities, as well as to manufacture or market the products which may be successfully developed, neither the Company nor any of its subsidiaries currently has any such arrangements with corporate sponsors, and there can be no assurance that the Company or any of its subsidiaries will be able to enter into such ventures on favorable terms, if at all. In addition, no assurance can be given that the Company or any of its subsidiaries will be able to complete a subsequent private placement or public offering of their securities. Failure by the Company or any of its subsidiaries to enter into such collaborative ventures or to receive additional funding to complete its proposed product development programs either through a public offering or a private placement would have a material adverse effect on the Company.

In the event that the Company obtains any additional funding, such financings may have a dilutive effect on the holders of the Company's securities. In addition, if one or more of the Company's subsidiaries raises additional funds through the issuance and sale of its equity securities, the interest of the Company and its stockholders in such subsidiary or subsidiaries, as the case may be, could be diluted and there can be no assurance that the Company will be able to maintain its majority interest in any or all of its current subsidiaries. In addition, the interest of the Company and its stockholders in each subsidiary will be diluted or subject to dilution to the extent any such subsidiary issues shares or options to purchase shares of its capital stock to employees, directors, consultants and others. In the event that the Company's voting interest in any of its current subsidiaries falls below 50%, the Company may not be able to exercise an adequate degree of control over the affairs and policies of such subsidiary as currently being exercised. In addition, the Company has outstanding currently exercisable warrants to purchase 3,826,750 shares of its Common Stock at exercise prices ranging from \$5.50 to \$10.00, and the exercise price for most of such warrants is below the per share price of the Common Stock as currently quoted on the Nasdaq SmallCap Market ("Nasdaq"). The exercise of such warrants, if any, may dilute the value of the Common Stock.

No Developed or Approved Products

To achieve profitable operations, the Company, alone or with others, must successfully develop, obtain regulatory approval for, introduce and market its products under development. The great majority of the preclinical and clinical development work for the products under development of the

Company remains to be completed. The Company has not generated, nor is it expected to generate in the near future, any operating revenues. In addition, the Company has no manufacturing or marketing facilities nor any contracts with any commercial manufacturing or marketing entities. No assurance can be given that any of its product development efforts will be successfully completed, that required regulatory approvals will be obtained, or that any such products, if developed and introduced, will be successfully marketed or achieve market acceptance.

Technological Uncertainty and Early Stage of Product Development

The technologies and products which the Company intends to develop are in the early stages of development, require significant further research, development and testing and are subject to the risks of failure inherent in the development of products based on innovative or novel technologies. These risks include the possibility that any or all of the Company's proposed technologies and products will be found to be ineffective or unsafe, that such technologies and products once developed, although effective, are uneconomical to market, that third parties hold proprietary rights that preclude the Company from marketing such technologies and products or that third parties market superior or equivalent technologies and products.

The Company's agreements with licensors do not contain any representations by the licensors as to the safety or efficacy of the inventions or discoveries covered thereby. The Company is unable to predict whether the research and development activities it is funding will result in any commercially viable products or applications. Further, due to the extended testing required before marketing clearance can be obtained from the United States Food and Drug Administration (the "FDA") or other similar agencies, the Company is not able to predict with any certainty, when, if ever, the Company will be able to commercialize any of its proposed technologies or products.

Government Regulation; No Assurance of Product Approval

The Company's proposed products and technologies are in very early stages of development. The research, preclinical development, clinical trials, product manufacturing and marketing to be conducted by the Company is subject to regulation by the FDA and similar health authorities in foreign countries. FDA approval of the Company's products, as well as the manufacturing processes and facilities, if any, used to produce such products will be required before such products may be marketed in the U.S. The process of obtaining approvals from the FDA is costly, time consuming and often subject to unanticipated delays. There can be no assurance that approvals of the Company's proposed products, processes or facilities will be granted on a timely basis, or at all. In addition, new government regulations may be established that could delay or prevent regulatory approval of the Company's products under development. Any future failure to obtain or delay in obtaining any such approval will materially and adversely affect the ability of the Company to market its proposed products and the business, financial condition and results of operations of the Company.

Even if regulatory approval of the Company's proposed products is granted, such approval may include significant limitations on indicated uses for which any such products could be marketed. Further, even if such regulatory approvals are obtained, a marketed drug or device and its manufacturer are subject to continued review, and later discovery of previously unknown problems may result in restrictions on such product or manufacturer, including withdrawal of the product from the market. Failure of the Company to obtain and maintain regulatory approval of its proposed products, processes or facilities would have a material adverse effect on the business, financial condition and results of operations of the Company.

The Company's proposed products and technologies may also be subject to certain other federal, state and local government regulations, including, but not limited to, the Federal Food, Drug and Cosmetic Act, the Environmental Protection Act, the Occupational Safety and Health Act and state, local and foreign counterparts to certain of such acts. The Company intends to develop its business to strategically address regulatory needs. However, the Company cannot predict the extent of the adverse effect on its business or the financial and other costs that might result from any government regulations arising out of future legislative, administrative or judicial action.

Securities Law Restrictions on the Exercise of Redeemable Warrants

A holder of Redeemable Warrants will have the right to exercise such Redeemable Warrants for the purchase of shares of Common Stock only if the Company has filed with the Securities and Exchange Commission a current prospectus meeting the requirements of the Securities Act covering the issuance of such shares of Common Stock issuable upon exercise of the Redeemable Warrants and only if the issuance of such shares has been registered or qualified, or is deemed to be exempt from registration or qualification under, the securities laws of the state of residence of the holder of the Redeemable Warrant. The Company has undertaken and intends to file and keep effective and current a prospectus which will permit the purchase and sale of the Common Stock underlying the Redeemable Warrants, but there can be no assurance that the Company will be able to do so. Although the Company intends to seek to qualify for sale the shares of Common Stock underlying the Redeemable Warrant in those states in which the securities are to be offered, no assurance can be given that such qualification will occur. The Redeemable Warrants may be deprived of any value if a prospectus covering the shares issuable upon the exercise thereof is not kept effective and current or if such underlying shares are not, or cannot be, registered in the applicable states.

Dependence on License and Sponsored Research Agreements

The Company depends on license agreements that form the basis of its proprietary technology, and, with the exception of its majority-owned subsidiary, Optex Ophthalmologics, Inc., a Delaware corporation ("Optex"), the Company relies on sponsored research agreements for its research and development efforts. The license agreements that have been entered into by the Company typically require the use of due diligence in developing and bringing products to market and the payment of certain milestone amounts that in some instances may be substantial. With the exception of Optex, the Company is also obligated to make royalty payments on the sales, if any, of products resulting from such licensed technology and, is responsible for the costs of filing and prosecuting patent applications and maintaining issued patents. With the exception of Optex, the Company does not currently have laboratory facilities, and, accordingly, certain research and development activities of the Company is intended to be conducted by universities or other institutions pursuant to sponsored research agreements. The sponsored research agreements entered into and contemplated to be entered into by the Company generally require periodic payments on an annual, quarterly or monthly basis.

If the Company does not meet its financial, development or other obligations under either its license agreements or its sponsored research agreements in a timely manner, the Company could lose the rights to its proprietary technology or the right to have the applicable university or institution conduct its research and development efforts. If the rights of the Company under its license or sponsored research agreements are terminated, such termination could have a material adverse effect on the business and research and development efforts of the Company.

Uncertainty Regarding Patents and Proprietary Rights

The success of the Company will depend in large part on its or its licensors' ability to obtain patents, defend their patents, maintain trade secrets and operate without infringing upon the proprietary rights of others, both in the United States and in foreign countries. The patent position of firms relying upon biotechnology is highly uncertain and involves complex legal and factual questions. To date there has emerged no consistent policy regarding the breadth of claims allowed in biotechnology patents or the degree of protection afforded under such patents. The Company relies on certain United States patents and pending United States and foreign patent applications relating to various aspects of its products and processes. All of these patents and patent applications are owned by third parties and are licensed or sublicensed to the Company, with the exception of the patents and the patent applications related to the Catarex device which are owned by the Company's majority owned subsidiary, Optex Ophthalmologics, Inc.. The patent application and issuance process can be expected to take several years and entail considerable expense to the Company, as it is responsible for such costs under the terms of such license agreements. There can be no assurance that patents will issue as a result of any such pending applications or that the existing patents and any patents resulting from such applications will be sufficiently broad to afford protection against competitors with similar technology. In addition, there can be no assurance that such patents will not be challenged, invalidated, or circumvented, or that the rights granted thereunder will provide competitive advantages to the Company. The commercial success of the Company will also depend upon avoiding infringement of patents issued to competitors. A United States patent application is maintained under conditions of confidentiality while the application is pending, so the Company cannot determine the inventions being claimed in pending patent applications filed by its competitors. Litigation may be necessary to defend or enforce the Company's patent and license rights or to determine the scope and validity of others' proprietary rights. Defense and enforcement of patent claims can be expensive and time consuming, even, in those instances in which the outcome is favorable to the Company, and can result in the diversion of substantial resources from the Company's other activities. An adverse outcome could subject the Company to significant liabilities to third parties, require the Company to obtain licenses from third parties, or require the Company to alter its products or processes, or cease altogether any related research and development activities or product sales, any of which may have a material adverse effect on the Company's business, results of operations and financial condition.

The Company has certain licenses from third parties and in the future may require additional licenses from other parties to develop, manufacture and market commercially viable products effectively. The Company's commercial success will depend in part on obtaining and maintaining such licenses. There can be no assurance that such licenses can be obtained or maintained on commercially reasonable terms, if at all, that the patents underlying such licenses will be valid and enforceable or that the proprietary nature of the patented technology underlying such licenses will remain proprietary.

The Company relies substantially on certain technologies that are not patentable or proprietary and are therefore available to its competitors. The Company also relies on certain proprietary trade secrets and know-how that are not patentable. Although the Company has taken steps to protect its unpatented trade secrets and know-how, in part through the use of confidentiality agreements with its employees, consultants and contractors, there can be no assurance that these agreements will not be breached, that the Company would have adequate remedies for any breach, or that the Company's trade secrets will not otherwise become known or be independently developed or discovered by competitors.

The success of the Company is also dependent upon the skills, knowledge and experience of its

scientific and technical personnel. The management and scientific personnel of the Company has been recruited primarily from other scientific companies, pharmaceutical companies and academic institutions. In some cases, these individuals may be continuing research in the same areas with which they were involved prior to joining the Company. Although the Company has not received any notice of any claims and knows of no basis for any claims, it could be subject to allegations of violation of trade secrets and similar claims which could, regardless of merit, be time consuming, expensive to defend, and have a material adverse effect on the Company's business, results of operations and financial condition.

Uncertainty of Product Pricing and Reimbursement; Health Care Reform and Related Measures

The levels of revenues and profitability of pharmaceutical and/or biotechnology products and companies may be affected by the continuing efforts of governmental and third party payors to contain or reduce the costs of health care through various means and the initiatives of third party payors with respect to the availability of reimbursement. For example, in certain foreign markets, pricing or profitability of prescription pharmaceuticals is subject to government control. In the United States there have been, and the Company expects that there will continue to be, a number of federal and state proposals to implement similar governmental control. Although the Company cannot predict what legislative reforms may be proposed or adopted or what impact actions taken by federal, state or private payors for health care goods and services in response to any health care reform proposals or legislation may have on its business, the existence and pendency of such proposals could have a material adverse effect on the Company in general. In addition, the Company's ability to commercialize potential pharmaceutical and/or biotechnology products may be adversely affected to the extent that such proposals have a material adverse effect on other companies that are prospective collaborators with respect to any of the Company's product candidates.

In addition, in both the United States and elsewhere, sales of medical products and services are dependent in part on the availability of reimbursement to the consumer from third party payors, such as government and private insurance plans. Third party payors are increasingly challenging the prices charged for medical products and services. If the Company succeeds in bringing one or more products to the market, there can be no assurance that these products will be considered cost effective and that reimbursement to the consumer will be available or will be sufficient to allow the Company to sell its products on a competitive basis.

Dependence Upon Key Personnel and Consultants

The Company is highly dependent upon its officers and directors, as well as its Scientific Advisory Board members, consultants and collaborating scientists. Atlantic and its subsidiaries have an aggregate of only eight full-time employees, four of whom are officers of Atlantic, and the loss of any of these individuals would have a material adverse effect on the Company. Although Atlantic has entered into employment agreements with each of its officers, such employment agreements do not contain provisions which would prevent such employees from resigning their positions with Atlantic at any time. The Company does not maintain key-man life insurance policies on any of such key personnel. Each of the Company's non-employee directors, advisors and consultants devotes only a portion of his or her time to the Company's business. The loss of certain of these individuals could have a material adverse effect on the Company.

The Company may seek to hire additional personnel. Competition for qualified employees among pharmaceutical and biotechnology companies is intense, and the loss of any of such persons, or the

inability to attract, retain and motivate any additional highly skilled employees required for the expansion of the Company's activities could have a material adverse effect on the Company. There can be no assurance that the Company will be able to retain its existing personnel or to attract additional qualified employees.

The Company's scientific advisors are employed on a full time basis by unrelated employers and some have one or more consulting or other advisory arrangements with other entities which may conflict or compete with their obligations to the Company. Inventions or processes discovered by such persons, other than those to which the licenses may relate, those to which the Company is able to acquire licenses for or those which were invented while performing consulting services on behalf of the Company pursuant to a proprietary information agreement or utilizing the Company's facilities, will not become the property of the Company, but will remain the property of such persons or of such persons' full-time employers. Failure to obtain needed patents, licenses or proprietary information held by others could have a material adverse effect on the Company.

Competition

The Company's business is characterized by intensive research efforts and intense competition. Many companies, research institutes, hospitals and universities are working to develop products and technologies in the Company's fields of research. Most of these entities have substantially greater financial, technical, manufacturing, marketing, distribution and other resources than the Company. Certain of such companies have experience in undertaking testing and clinical trials of new or improved products similar in nature to that which the Company is developing. In addition, certain competitors have already begun testing of similar compounds or processes and may introduce such products or processes before the Company. Accordingly, other companies may succeed in developing products earlier than the Company or that are more effective than those proposed to be developed by the Company. Further, it is expected that competition in the Company's fields will intensify. There can be no assurance that the Company will be able to compete successfully in the future.

Dependence on Others for Clinical Development of, Regulatory Approvals for and Marketing of Pharmaceutical Products

The Company currently does not have the resources to directly manufacture, market or sell any of the Company's proposed products and the Company has no current plans to acquire such resources. The Company anticipates that it will, in the future, enter into collaborative agreements with pharmaceutical and/or biotechnology companies for the development of, clinical testing of, seeking of regulatory approval for, manufacturing of, marketing of and commercialization of certain of its proposed products. The Company may in the future grant to its collaborative partners rights to license and commercialize any products developed under these collaborative agreements, and such rights would limit the Company's flexibility in considering alternatives for the commercialization of such products. Under such agreements, the Company may rely on its respective collaborative partners to conduct research efforts and clinical trials on, obtain regulatory approvals for and manufacture, market and commercialize certain of its products. The Company expects that the amount and timing of resources devoted to these activities generally will be controlled by each such individual partner. The inability of the Company to acquire such third party manufacturing, distribution, marketing and selling arrangements for such anticipated products would have a material adverse effect on the Company's business. There can be no assurance that the Company will be able to enter into any arrangements for the manufacturing, marketing and selling of its products, or that, if such arrangements are entered into, such future partners will be successful in commercializing products or that the Company will derive any

revenues from such arrangements.

Risk of Product Liability; No Insurance

Should the Company develop and market any products, the marketing of such products, through third-party arrangements or otherwise, may expose the Company to product liability claims. The Company presently does not carry product liability insurance. Upon clinical testing or commercialization of the Company's proposed products, certain of the licensors require that the Company obtain product liability insurance. There can be no assurance that the Company will be able to obtain such insurance or, if obtained, that such insurance can be acquired in sufficient amounts to protect the Company against such liability or at a reasonable cost. The Company is required to indemnify the Company's licensors against any product liability claims incurred by them as a result of the products developed by the Company. None of the Company's licensors has made, and are not expected to make, any representations as to the safety or efficacy of the inventions covered by the licenses or as to any products which may be made or used under rights granted therein or thereunder.

Control by Existing Stockholders

Two principal stockholders of the Company beneficially own approximately 27% of the outstanding shares of Common Stock. Accordingly, such holders, if acting together, may have the ability to exert significant influence over the election of the Company's Board of Directors and other matters submitted to the Company's stockholders for approval. The voting power of these holders may discourage or prevent any proposed takeover of the Company.

No Assurance of Identification of Additional Projects

The Company is engaged in the development and commercialization of biomedical and pharmaceutical products and technologies. From time to time, if the Company's resources allow, the Company may explore the acquisition and subsequent development and commercialization of additional biomedical and pharmaceutical products and technologies. However, there can be no assurance that the Company will be able to identify any additional products or technologies and, even if suitable products or technologies are identified, the Company does not expect to have sufficient resources to pursue any such products or technologies in the foreseeable future.

Certain Interlocking Relationships; Potential Conflicts of Interest

Three of the five members of the Board of Directors and one of the officers of the Company are full-time and/or part-time officers of Paramount Capital, Inc. ("Paramount") and/or Paramount Capital Investments, LLC a New York-based, merchant banking and venture capital firm specializing in biotechnology companies ("Investments"). In the regular course of its business, Investments identifies, evaluates and pursues investment opportunities in biomedical and pharmaceutical products, technologies and companies. Generally, Delaware corporate law requires that any transactions between the Company and any of its affiliates be on terms that, when taken as a whole, are substantially as favorable to the Company as those then reasonably obtainable from a person who is not an affiliate in an arms-length transaction. Nevertheless, neither Investments nor any such directors are obligated pursuant to any agreement or understanding with the Company to make any additional products or technologies available to the Company, nor can there be any assurance, and the Company does not expect and security holders should not expect, that any biomedical or pharmaceutical product or technology identified by Investments or any such directors in the future will be made available to the Company. In addition, certain of the officers and

directors of the Company may from time to time serve as officers or directors of other biopharmaceutical or biotechnology companies. There can be no assurance that such other companies will not, in the future, have interests in conflict with those of the Company.

The Company has entered into several agreements with Paramount as well as with certain of the Company's directors pursuant to which Paramount and such directors provide financial advisory services to the Company.

No Dividends

The Company has not paid any cash dividends on its Common Stock since its formation and does not anticipate paying any cash dividends in the foreseeable future. Management anticipates that all earnings and other resources of the Company, if any, will be retained by the Company for investment in its business.

Possible Delisting from Nasdaq and Market Illiquidity

Although the Common Stock is quoted on Nasdaq, continued inclusion of such securities on Nasdaq will require that (i) the Company maintain at least \$2,000,000 in total assets and \$1,000,000 in capital and surplus, (ii) the minimum bid price for the Common Stock be at least \$1.00 per share, (iii) the public float consist of at least 100,000 shares of Common Stock, valued in the aggregate at more than \$200,000, (iv) the Common Stock have at least two active market makers and (v) the Common Stock be held by at least 300 holders. If the Company is unable to satisfy such maintenance requirements, the Company's securities may be delisted from Nasdaq. In such event, trading, if any, in the Common Stock would thereafter be conducted in the over-the-counter market in the "pink sheets" or the NASD's "Electronic Bulletin Board." Consequently, the liquidity of the Company's securities could be materially impaired, not only in the number of securities that can be bought and sold at a given price, but also through delays in the timing of transactions and reduction in security analysts' and the media's coverage of the Company, which could result in lower prices for the Company's securities than might otherwise be attained and could also result in a larger spread between the bid and asked prices for the Company's securities.

In addition, if the Common Stock is delisted from trading on Nasdaq and the trading price of the Common Stock is less than \$5.00 per share, trading in the Common Stock would also be subject to the requirements of Rule 15c-9 promulgated under the Exchange Act. Under such rule, broker/dealers who recommended such low-priced securities to persons other than established customers and accredited investors must satisfy special sales practice requirements, including a requirement that they make an individualized written suitability determination for the purchaser and receive the purchaser's written consent prior to the transaction. The Securities Enforcement Remedies and Penny Stock Reform Act of 1990 also requires additional disclosure in connection with any trades involving a stock defined as a penny stock (generally, according to recent regulations adopted by the Commission, any equity security not traded on an exchange or quoted on Nasdaq that has a market price of less than \$5.00 per share, subject to certain exceptions), including the delivery, prior to any penny stock transaction, of a disclosure schedule explaining the penny stock market and the risks associated therewith. Such requirements could severely limit the market liquidity of the Common Stock. There can be no assurance that the Common Stock will not be delisted or treated as penny stock.

Liquidity of Investment

The Company's securities are traded on the Nasdaq SmallCap Market, and the Company's

securities lack the liquidity of securities traded on the principal trading markets. Accordingly, an investor may be unable to promptly liquidate an investment in the Common Stock.

Possible Volatility of Stock Price

The market price of the Company's securities, like the stock prices of many publicly traded biotechnology and smaller pharmaceutical companies, has been and may continue to be highly volatile.

Environmental Regulation

In connection with its research and development activities, the Company is subject to federal, state and local laws, rules, regulations and policies governing the use, generation, manufacture, storage, air emission, effluent discharge, handling and disposal of certain materials and wastes. Although the Company believes that it has complied with these laws and regulations in all material respects and has not been required to take any action to correct any noncompliance, there can be no assurance that the Company will not be required to incur significant costs to comply with environmental and health and safety regulations in the future.

Possible Adverse Effect of Shares Eligible for Future Sale

788,951 of the shares of Common Stock of the Company currently outstanding are "restricted securities," and such shares are owned by "affiliates" (the "Selling Securityholders") of the Company, as those terms are defined in Rule 144 promulgated under the Securities Act. The Company's officers, directors and certain stockholders, including the Selling Securityholders, have agreed not to sell or otherwise dispose of any of their shares of Common Stock now owned or issuable upon the exercise of warrants until June 14, 1997 or such longer period as may be required by applicable state securities laws, without the prior written consent of Joseph Stevens & Company, L.P., the underwriter that managed the Company's initial public offering (the "Underwriter"). Absent registration under the Securities Act, the sale of such shares is subject to Rule 144 as promulgated under the Securities Act. Finally, the Company has granted unlimited "piggyback" and two S-3 registration rights per year to certain stockholders with respect to such shares of Common Stock and any shares of Common Stock purchased in the future by such investors, which shares will be subject to the lock-up described above. Finally, the Company has granted to holders of the warrants issued to the Underwriter in connection with the initial public offering the right on two occasions (one at the expense of the Company) to file a registration statement under the Securities Act covering the securities underlying such warrants and the additional right to include such securities in any registration filed by the Company under the Securities Act.

In connection with its initial public offering, the Company granted to the underwriter thereof warrants to purchase from the Company 165,000 units, each consisting of one share of Common Stock and one redeemable warrant to purchase one share of Common Stock at an initial exercise price of \$6.60 per unit. Such warrants are exercisable during the four year period commenced December 13, 1996. The redeemable warrants issuable upon exercise of these warrants have an exercise price of \$6.05 per share. As long as the warrants remain unexercised, the terms under which the Company could obtain additional capital may be adversely affected.

No prediction can be made as to the effect, if any, that sales of units, warrants and/or Common Stock or the availability of such securities for sale will have on the market prices prevailing from time to time for the units, the warrants and/or the Common Stock. Nevertheless, the possibility

that substantial amounts of such securities may be sold in the public market may adversely affect prevailing market prices for the Company's equity securities and could impair the Company's ability to raise capital in the future through the sale of equity securities.

Antitakeover Effects of Provisions of the Certificate of Incorporation and Delaware Law

Atlantic's Certificate of Incorporation authorizes the issuance of shares of "blank check" Preferred Stock. The Board of Directors has the authority to issue the Preferred Stock in one or more series and to fix the relative rights, preferences and privileges and restrictions thereof, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series or the designation of such series. The issuance of Preferred Stock may have the effect of delaying, deferring or preventing a change in control of the Company without further action by the stockholders of the Company. The issuance of Preferred Stock with voting and conversion rights may adversely affect the voting power of the holders of the Common Stock, including the loss of voting control to others.

The Company is subject to Section 203 of the Delaware General Corporation Law which, subject to certain exceptions, prohibits a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years following the date that such stockholder became an interested stockholder. In general, Section 203 defines an interested stockholder as any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation and any entity or person affiliated with or controlling or controlled by such entity or person. The foregoing provisions could have the effect of discouraging others from making tender offers for the Company's shares and, as a consequence, they also may inhibit fluctuations in the market price of the Company's shares that could result from actual or rumored takeover attempts. Such provisions also may have, the effect of preventing changes in the management of the Company.

Part Two - Other Information

Item 1. Legal Proceedings.

In connection with a complaint alleging claims under the Securities Exchange Act of 1934, as amended and common law causes of action that was filed in the United States District Court for the District of Delaware against the Company and others on November 8, 1996, and a second related action filed in the Delaware Chancery Court, the parties have agreed in principle to a settlement whereby the Company will issue, and certain other defendants will transfer, an aggregate of 5,000 shares of the Company's Common Stock to the plaintiff. However, until the settlement, if any, has been finalized there can be no assurance as to the ultimate resolution of these matters, or that such resolution would not have a material impact on the Company.

Item 6. Exhibits and reports on form 8-K

a. Exhibits

10. Material Contracts

- a. Letter of Agreement between the Company Paramount Capital, Inc. dated February 26, 1997.
- b. Agreement and Plan of Reorganization by and among Atlantic Pharmaceuticals, Inc., Channel Therapeutics, Inc. and New Channel, Inc., dated February 20, 1997.
- c. Warrant issued to Dr. John Prendergast to purchase 37,500 shares of the Company's Common Stock.
- d. Warrant issued to Ms. Dian Griesel to purchase 24,000 shares of the Company's Common Stock.

27.1 Financial Data Schedule

b. Form 8-K Reports

No Form 8-K reports were filed during the first quarter of 1997.

Signatures

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

Atlantic Pharmaceuticals, Inc.

May 14, 1997

Jon D. Lindjord

Jon D. Lindjord

Chief Executive Officer and President

May 14, 1997

Shimshon Mizrachi

Shimshon Mizrachi

Controller

Principal Accounting and Financial Officer

EXHIBIT INDEX

Exhibit No. -----	Description -----
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10.25	Warrant issued to Ms. Dian Griesel to purchase 24,000 shares of the Company's Common Stock.
27.1	Financial Data Schedule

Atlantic Pharmaceuticals
2 Cypress Point Road
Half Moon Bay, CA 94019

Dear Sirs:

Reference is made to our recent discussions relating to a proposed offering of units (the "Units") of Premium Preferred stock(TM) to be issued by Atlantic Pharmaceuticals, Inc. (the "Company") as hereinafter described. Based upon our discussions, financial materials which you have submitted to us and representations which you have made to us describing the Company and its principals, the present and proposed business activities of the Company and the Company's operations and financial condition, we hereby confirm in principle our interest in acting as placement agent (the "Placement Agent"), on a "best efforts" basis, of a private placement offering of the Company's Units (the "Offering"), upon the following basic terms and conditions:

1. The Placement Agent will introduce the Company to "accredited investors" as defined in Regulation D promulgated under the Securities Act of 1933, as amended (the "Act") for the purchase of Units and the Company will sell directly to such purchasers a minimum of 20 Units (the "Minimum Offering") and a maximum of <75> Units (the "Maximum Offering"), with an option in favor of the Placement Agent to offer up to an additional 25 Units to cover over-allotments. Each Unit will consist of 10,000 shares of Premium Preferred Stock, stated value \$10.00 per share, of the Company (the "Preferred Stock"). The rights and preferences of the Preferred Stock are substantially as set forth in Exhibit A hereto.

2. Subject to market and other conditions at the time of the Offering contemplated herein, the Units will be offered at \$100,000 per Unit (the "Initial Offering Price").

3. An escrow agent reasonably acceptable to the Company shall be designated by the Placement Agent to hold subscriptions for the benefit of customers pending the closing of the Offering. The final closing date of the Offering will occur no later than sixty (60) days following the date of offering memorandum (the

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"Memorandum"), subject to extension at the option of the Placement Agent for an additional sixty (60) days (the "Final Closing Date"). In the event that valid subscriptions for at least 20 Units are not received by the Final Closing Date, subscriptions will be released from escrow and returned to customers, with interest. Upon receipt of the Minimum Offering amount, with the consent of the Placement Agent, the Company will hold a closing (the "Initial Closing") and will hold subsequent closings on an interim basis until the Maximum Offering amount (including any over-allotment amount) has been reached or until the Final Closing Date, whichever is earlier.

4. Pending completion or termination (pursuant to paragraph B below) of the Offering, the Company agrees that it will not negotiate with any other person or entity relating to a possible public or private offering or placement of its securities except that the Company may offer up to 1,000,000 shares in the aggregate in connection with strategic corporate partnering transactions.

5. The Company will, as soon as practicable, but not later than 30 days after the Final Closing Date, (a) file a shelf registration statement (the "Shelf Registration Statement") with respect to (i) the Common Stock issuable upon conversion of the Preferred Stock and (ii) the shares of Common Stock issuable upon exercise of the Placement and Advisory Warrants (as defined in paragraphs 9 and 12 below) (together, the "Registrable Capital Stock") with the SEC and use its best efforts to have such Shelf Registration Statement declared effective by the SEC prior to the date which is 75 days after the Final Closing Date (subject to penalties for failure to effect such registration in the time frames required) and (b) cause such Shelf Registration Statement to remain effective until such date as the holders of the securities have completed the distribution described in the Shelf Registration Statement or at such time that such shares are no longer, by reason of Rule 144(k) under the Securities Act, required to be registered for the sale thereof by such holders. If requested by the Placement Agent, and in accordance with applicable securities laws, the Shelf Registration Statement shall cover the direct sale of such Registrable Capital Stock to the holders of such securities. The Registrable Capital Stock will be subject to a staggered "lock-up" as may be deemed advisable by the Placement Agent.

6. The Placement Agent will receive cash commissions equal to 9% of the price of the Units issued in the Offering (the "Cash Commissions"). The Placement Agent may, in its discretion, retain other placement agents, who shall be members in good standing of the National Association of Securities Dealers, Inc. ("NASD"), to act as selected dealers in placing the Units. Such other placement agents will be compensated by the Placement Agent out of its commissions. The Company has advised the Placement Agent that no person is entitled, directly or

indirectly, to compensation from the Company for services as a finder in connection with the proposed Offering or any other transaction contemplated by this Letter of Intent.

7. Pending completion of the Offering and for a 30 day period thereafter, the Company will not issue press releases or engage in other publicity without advising the Placement Agent in advance. The Company shall make a Rule 135(c) (under the Securities Act of 1933 as amended) announcement prior to the commencement of the Offering. During the eighteen months following the completion of the Offering contemplated herein, the Company shall not, without the prior written consent of the Placement Agent, offer or sell any of its securities in reliance on Regulation S of the Securities Act of 1933, as amended. During the 18 month period following the completion of the Offering, the Placement Agent shall have the right of first refusal to act as placement agent for the private offering of any securities of the Company. During the 18 month period following the completion of the Offering, the Company will not extend the expiration date or lower the exercise or the conversion price of any options, warrants or convertible securities, without the prior written consent of the Placement Agent. The Company shall not use the name of the Placement Agent or any officer, director, employee or shareholder without the express written consent of the Placement Agent and such person.

8. The Company shall be responsible for and shall bear all expenses directly and necessarily incurred in connection with the proposed Offering, including but not limited to, the costs of preparing and printing the Memorandum and all exhibits thereto; preparing, printing and delivering exhibits thereto and copies of the preliminary, final and supplemental prospectus: the costs of preparing, printing and filing with the Securities and Exchange Commission (the "SEC") the Shelf Registration Statement and amendments, post-effective amendments and supplements thereto; preparing, printing and delivering exhibits thereto and copies of the preliminary, final and supplemental prospectus: preparing, printing and delivering (including by facsimile) all selling documents, including but not limited to the Private Placement Memorandum, Placement Agency Agreements, subscription agreements, warrant agreements, blue sky memorandum and stock and warrant certificates; blue sky fees, filing fees and legal fees and disbursements of our counsel in connection with blue sky matters; fees and disbursements of the transfer and warrant agent; the cost of a total of two sets of bound closing volumes for the Placement Agent and its counsel; and the cost of three tombstone advertisements, at least one of which shall be in a national business newspaper and one of which shall be in a major New York newspaper (or at the Placement Agent's option, 40 lucite deal mementos)(collectively, the "Company Expenses"). The Company agrees to use a printer designated by the Placement Agent

and which is reasonably acceptable to the Company. The Company shall pay to the Placement Agent a non-accountable expense allowance equal to 4% of the total proceeds of the Offering (the "Expense Allowance"), of which \$20,000 shall be due and payable upon the execution of this Letter of Intent and of which another \$20,000 shall be due and payable upon the date that the Memorandum is completed, to cover the cost of our mailing, telephone, telegraph, travel, due diligence meetings and other similar expenses including legal fees of our counsel (other than legal fees in connection with blue sky matters as to which fees you shall be responsible). Such prepaid expense allowances shall be non-refundable. If the proposed financing is not completed because the Company prevents it or because of a breach by the Company of any covenants, representations or warranties contained herein which is not cured within 15 days of written notice, the Company shall pay to the Placement Agent a fee of \$100,000 (in addition to the Company Expenses for which the Company shall in all events remain liable and the prepaid expense allowance).

9. Upon the Final Closing of the sale of the Units being offered, the Company will grant to the Placement Agent and/or its designees (i) warrants (the "Placement Warrants") to purchase additional Units equal to 10% of the Units sold in the Offering exercisable for a period of ten years commencing six months after the Final Closing Date at an exercise price equal to 110% of the initial offering price of the Units. The securities underlying the Placement Warrants will not be subject to mandatory conversion or redemption by the Company nor will they be callable by the Company. The Placement Warrants cannot be transferred, sold, assigned or hypothecated for six months except that they may be assigned in whole or in part during such period to any NASD member participating in the Offering or any officer or employee of the Placement Agent or any such NASD member. The Placement Warrants will contain a cashless exercise feature, antidilution provisions and the right to have the Common Stock underlying the Placement Warrants included on the Shelf Registration Statement.

10. If requested by the Placement Agent, the Company will use its best efforts to obtain from its 5% stockholders, executive officers and Directors of the Company an agreement that, for a period of up to thirteen months from the closing of the Offering, they will not sell, assign or transfer any of their shares of the Company's securities without the Placement Agent's prior written consent.

11. The Cash Commissions, Expenses Allowance and Placement and Advisory Warrants as set forth in this letter of intent will apply to investors introduced to the Company by the Placement Agent who invest in the Company during the twelve months following the Final Closing Date of the Offering. In addition, upon the closing of the Offering, the Company and the Placement Agent will enter into an engagement agreement whereby Paramount will act as the Company's non-exclusive financial

advisor. Such engagement agreement will provide that Paramount receive a retainer equal to \$4,000 for each month of engagement, with a minimum engagement period of twenty-four months (the "Engagement Period"), out-of-pocket expenses and standard success fees.

12. The Company shall not use any proceeds from the Offering to repay any indebtedness of the Company, including but not limited to any indebtedness to current executive officers or principal stockholders of the Company, but excluding accounts payable incurred in the ordinary course.

13. To the extent that this letter of intent, the proposed Placement Agency Agreement and related documents (the "Placement Documents") conflicts with any other agreements entered into between the Company and the Placement Agent, the terms of the Placement Documents shall prevail.

The foregoing is only a brief outline of the proposed financing and each of the foregoing terms must be interpreted in the form in which it finally appears in the proposed Placement Agency Agreement and related documents. We will, of course, continue to conduct our due diligence investigation of the Company until the Offering is completed, and such due diligence investigation shall, in all events, be subject to our satisfaction as to which we shall be to sole judge. While it is the intention of the parties hereto that the Offering of the Company's Units be made, this letter cannot in any way be construed as a commitment by us to complete the placement of the Units and we may, in our sole judgement and discretion, determine at any time not to proceed with the Offering. This letter shall be conditioned in its entirety upon the execution and delivery of a satisfactory Placement Agency Agreement between the Company and us (and this letter is not to be construed as such a contract nor as an agreement to enter into such contracts) to be entered into immediately prior to the time of the Offering and shall be conditioned further upon compliance by the Company with the terms contained in this letter and in such Placement Agency Agreement. The provisions of paragraphs 4, 8 and 9 hereof shall, however, be effective and binding upon the execution hereof.

If the foregoing conforms to your understanding, please sign, date and return to us the enclosed copy of this letter.

Very truly yours,
PARAMOUNT CAPITAL, INC.

By: -----
Lindsay A. Rosenwald, M.D.
Chairman

The foregoing is in conformity with our understanding:
ATLANTIC PHARMACEUTICALS, INC.

By: /s/ J.D. Lindjord

J.D. Lindjord
President and Chief Executive Officer

RIGHTS AND PREFERENCES OF PREMIUM PREFERRED STOCK(TM)

Premium Preferred Stock(TM)

The Company will file a Certificate of Designation designating 825,000 shares of Preferred Stock as Premium Preferred Stock(TM) (the "Preferred Stock"). Giving effect to the sale of the Minimum Offering, 200,000 shares of Preferred Stock will be fully paid, validly issued and non-assessable. Giving effect to the sale of the Maximum Offering, 500,000 shares of Preferred Stock will be fully paid, validly issued and non-assessable. The stated value per share of Preferred Stock shall be \$10.00.

Voting

The holders of the Preferred Stock will have the right at all meetings of the stockholders to that number of votes equal to the number of shares of Common Stock issuable upon conversion of such shares at the record date for the determination of the stockholders entitled to vote on such matters or, if no such record date is established, at the date such vote is taken. As long as a majority of the shares of Preferred Stock remain outstanding, the holders of 66-2/3% of the outstanding shares of the Preferred Stock will be entitled to (i) approve any securities issued by the Company which are senior to or on parity with the Preferred Stock with respect to liquidation or dividends, (ii) approve any securities issued by the Company which are senior to the Preferred Stock with respect to voting (except for class voting rights required by law), (iii) approve any alteration or change to the rights, preferences or privileges of the Preferred Stock, (iv) approve any liquidation, dissolution, sale of substantially all of the assets of the Company, (v) approve the incorporation of any subsidiary company, (vi) approve any transactions between the Company and its affiliates and (vii) approve the issuance of any debt securities of the Company in excess in the aggregate of \$60,000, excluding equipment lease lines.

Dividends

The holders of the Preferred Stock shall be entitled to receive dividends as, when and if declared by the Board of Directors out of funds legally available therefor. No dividend or distribution, as the case may be, shall be declared or paid on any junior stock until all accrued and unpaid dividends have been paid on the Series A Preferred Stock. In addition, no dividend or distribution, as the case may be, shall be declared or paid on any junior stock unless the same is paid to the Preferred Stock. In addition, following the Reset Date (as defined below), the Preferred Stock will be entitled to a payment-in-kind dividend of 10% per annum, payable semi-annually.

Liquidation

Upon (i) a liquidation, dissolution or winding up of the Company, whether voluntary or involuntary or (ii) a sale or other disposition of all or substantially all of the assets of the Company (a "Liquidation Event"), after payment or provision for payment of the debts and other liabilities of the Company, the holders of the Preferred Stock then outstanding will first be entitled to receive, pro rata (on the basis of the number of shares of the Preferred Stock then outstanding), in preference to the holders of the Common Stock and any other series of preferred stock, an amount per share equal to \$13 plus accrued but unpaid dividends, if any. Mergers and similar events in which a majority of the voting control of the Company's capital stock is transferred will be treated similarly with respect to the merger consideration.

Conversion

The Preferred Stock will be converted into Common Stock at an initial conversion price (the "Preferred Conversion Price") equal to the lesser of (i) \$5.85 and (ii) 85% of the average closing bid price of the Common Stock on the Nasdaq Small Cap Market for the thirty consecutive trading days immediately preceding (i) the initial closing date (the "Initial Closing Date"), (ii) any interim closing date (each an "Interim Closing Date") or (iii) the final closing date (the "Final Closing Date") of this Offering, whichever is lowest.

The Preferred Stock may be converted at the option of the holder at any time after the initial issuance date of the Preferred Stock for fully paid nonassessable shares of Common Stock.

The Preferred Conversion Price is subject to adjustment upon the occurrence of a merger, reorganization, consolidation, reclassification, stock dividend or stock split which will result in an increase or decrease in the number of shares of Common Stock outstanding and upon the occurrence of below market and below conversion price issuances.

In addition, the conversion price in effect immediately prior to the date that is 12 months after the Final Closing Date (the "Reset Date") will be adjusted and reset effective as of the Reset Date if the average closing price for the 20 consecutive trading days immediately preceding the Reset Date (the "12-Month Trading Price") is less than 130% of the then applicable conversion price (a "Reset Event"). Upon the occurrence of a Reset Event, the then applicable Preferred Conversion Price will be reduced to be equal to the greater of (i) the 12-Month Trading Price divided by 1.3 and (ii) 50% of the then applicable Preferred Conversion Price.

Mandatory Conversion

Unless converted earlier, the Company has the right at any time after the Reset Date to cause the Preferred Stock to be converted, in whole or in part, on a pro rata basis, into shares of Common Stock if the closing price of the Common Stock shall have exceeded 200% of the then applicable Preferred Conversion Price for at least 20 trading days in any 30 consecutive trading day period.

AGREEMENT AND PLAN OF REORGANIZATION

BY AND AMONG

ATLANTIC PHARMACEUTICALS, INC.

CHANNEL THERAPEUTICS, INC.

AND

NEW CHANNEL, INC.

Dated as of February 20, 1997

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EXHIBITS

Exhibit A - Certificate of Merger

AGREEMENT AND PLAN OF REORGANIZATION

This Agreement and Plan of Reorganization (the "Agreement") is made and entered into as of the 20th day of February, 1997, by and among Atlantic Pharmaceuticals, Inc., a Delaware corporation ("Atlantic"), Channel Therapeutics, Inc., a Delaware corporation ("Channel"), and New Channel, Inc., a Delaware corporation ("NCI").

WITNESSETH:

WHEREAS, NCI is a recently formed Delaware corporation organized for the purpose of effecting the transactions contemplated by this Agreement;

WHEREAS, Atlantic owns a majority of the outstanding shares of Common Stock, par value \$.001 per share (the "Channel Common Stock"), of Channel on a fully-diluted basis.

WHEREAS, the respective Boards of Directors of Atlantic, Channel and NCI deem it advisable and in the best interests of Atlantic, Channel and NCI, respectively, that NCI merge with and into Channel (the "Merger") pursuant to this Agreement, with the result that Channel will become a wholly-owned subsidiary of Atlantic.

NOW, THEREFORE, in order to consummate the Merger, and in consideration of the mutual representations, warranties, covenants and agreements contained herein, the parties hereto agree as follows:

ARTICLE I

TERMS OF THE MERGER

1.1 The Merger. (a) Subject to the terms and conditions of this Agreement, NCI shall be merged with and into Channel. NCI and Channel shall be the constituent corporations to the Merger (the "Constituent Corporations"). At the Effective Time (as defined in Section 1.2 hereof), NCI will be merged with and into Channel, and Channel shall be the surviving corporation in the Merger (the "Surviving Corporation"). The identity, existence, rights, privileges, powers, franchises, properties and assets of Channel shall continue unaffected and unimpaired by the Merger. At the Effective Time, the identity and separate existence of NCI shall cease and all the rights, privileges, powers, franchises, properties and assets of NCI shall be vested in Channel in accordance with the applicable provisions of Chapter 9 of the Delaware General Corporations Code (the "Corporations Code"). The name of the Surviving Corporation

shall continue to be Channel Therapeutics, Inc. To effectuate the Merger, Channel and NCI shall, concurrently with the Closing (as hereafter defined), execute and file, among other things, the Certificate of Merger, substantially in the form attached hereto as Exhibit A, in the office of the Secretary of State of the State of Delaware ("Secretary of State") in accordance with the applicable provisions of the Corporations Code.

(b) On the Effective Time, (i) the Certificate of Incorporation of Channel as in effect immediately prior to the Effective Time shall remain unchanged and unaffected by the Merger until thereafter amended as provided by law; (ii) the Bylaws of Channel as in effect immediately prior to the Effective Time shall remain unchanged and unaffected by the Merger until thereafter amended as provided by law; (iii) the directors of Channel holding office immediately prior to the Effective Time shall remain the directors after the Merger, each of such directors to hold office, subject to the applicable provisions of the Bylaws of Channel, until the next annual stockholders' meeting of Channel or until such director's successor is elected and shall have qualified, or until his earlier resignation or removal; (iv) the officers of Channel holding office immediately prior to the Effective Time shall remain the officers after the Merger, each of such officers to hold office subject to the applicable provisions of the Bylaws of Channel, at the pleasure of the Board of Directors of Channel or until such officer's successor is elected and shall duly qualify; and (v) the Merger shall, from and after the Effective Time, have all the effects provided by applicable law.

1.2 Effective Time. The Merger shall become effective at the time of the filing of the Certificate of Merger with the Secretary of State in accordance with Chapter 9 of the Corporations Code. The time when the Merger becomes effective is herein referred to as the "Effective Time."

1.3 Status and Conversion of Shares. At the Effective Time, and without any action on the part of Atlantic, Channel, NCI or the holder of any of the following securities:

(a) each share of Channel Common Stock which is issued and outstanding immediately prior to the Effective Time, other than any shares of Channel Common Stock held by Atlantic, shall automatically by virtue of the Merger be converted into the right to receive 0.75 shares (the "Merger Consideration") of Atlantic's common stock, par value \$.001 per share (the "Atlantic Common Stock"); provided, however, that cash will be paid in lieu of any fractional shares of Atlantic Common Stock as provided in Section 1.5 hereof;

(b) each share of Channel Common Stock which is unissued or held in the treasury of Channel shall be unaffected by the Merger.

1.4 Exchange of Certificates.

(a) At the Effective Time, holders of shares of Channel Common Stock who are to receive shares of Atlantic Common Stock by virtue of the Merger shall surrender their stock certificates evidencing such shares of Channel Common Stock to Channel for cancellation.

(b) Upon surrender to Channel of such certificates, together with such other documents as may be reasonably requested and subject to the provisions of paragraph (c) of this Section 1.4, Atlantic shall cause to be distributed to the person in whose name such certificate shall have been registered certificates registered in the name of such person representing the number of whole shares of Atlantic Common Stock into which any shares previously represented by the surrendered certificate shall have been converted at the Effective Time and cash to be paid to such person in lieu of fractional shares of Atlantic Common Stock eliminated pursuant to Section 1.5. Until surrendered as contemplated by the preceding sentence, each certificate which immediately prior to the Effective Time shall have represented any shares of Channel Common Stock shall be deemed at and after the Effective Time to represent only the shares of Atlantic Common Stock and/or the right to receive cash in lieu of any fractional shares of Atlantic Common Stock contemplated by the preceding sentence.

(c) If the shares of Atlantic Common Stock are to be issued to a person other than the person in whose name a surrendered certificate is registered, it shall be a condition to such issuance that the certificate so surrendered shall be properly endorsed or shall be otherwise in proper form for transfer and that the person requesting such issuance shall have paid any transfer and other taxes required by reason of such issuance in a name other than that of the registered holder of the certificate surrendered or shall have established to the satisfaction of Atlantic that such tax either has been paid or is not payable.

(d) At the Effective Time, the stock transfer books of Channel shall be closed and there shall be no further registration of transfers of shares of Channel Common Stock thereafter on the records of Channel. From and after the Effective Time, the holders of certificates evidencing ownership of shares of Channel Common Stock outstanding immediately prior to the Effective Time shall cease to have any rights with respect to such shares except as otherwise provided herein or by law.

1.5 Treatment of Fractional Shares. No fractional shares of Atlantic Common Stock shall be issued in the Merger. In lieu thereof, any holder of Channel Common Stock otherwise entitled to receive a fractional share of Atlantic Common Stock shall be paid an amount in cash equal to the value of such fractional share interest based on the average of the closing sales price of a share of Atlantic Common Stock as reported on the SmallCap Market of the National Association of Securities Dealers, Inc. on the last ten consecutive trading days prior to the Effective Time. If more than one

certificate representing shares of Channel Common Stock shall be surrendered for the account of the same stockholder, the number of full shares of Atlantic Common Stock for which certificates shall be delivered shall be computed on the basis of the aggregate number of Channel Common Shares represented by the certificates so surrendered.

1.6 Assumption of Stock Options. At the Effective Time, all options granted by Channel to purchase Channel Common Stock then outstanding (the "Channel Options") shall be assumed by Atlantic in accordance with the provisions of Section 4.2.6 below.

1.7 Tax Consequences. For Federal income tax purposes, the parties intend the Merger to be treated as a tax-free reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the "Code").

1.8 Restricted Securities. The shares of Atlantic Common Stock issued in connection with the Merger are characterized as "restricted securities" under the federal securities laws inasmuch as they are being acquired in a transaction not involving a public offering and that under such laws and applicable regulations such securities may be resold without registration under the Securities Act of 1933, as amended (the "Act"), only in certain limited circumstances.

1.9 Legends. The certificates evidencing the shares of Atlantic Common Stock may bear one or all of the following legends:

(a) "These securities have not been registered under the Securities Act of 1933. They may not be sold, offered for sale, pledged or hypothecated in the absence of a registration statement in effect with respect to the securities under such Act or an opinion of counsel satisfactory to the Company that such registration is not required or unless sold pursuant to Rule 144 of such Act."

(b) Any legend required by the blue sky laws of any state.

1.10 Closing. The closing (the "Closing") of the transactions contemplated by this Agreement shall take place in the offices of Brobeck, Phleger & Harrison LLP, Two Embarcadero Place, 2200 Geng Road, Palo Alto, California 94303, at 10:00 a.m. (Pacific Standard Time) on February 20, 1997, or, if mutually agreed to by the parties, at a later date (the "Closing Date").

ARTICLE II

REPRESENTATIONS AND WARRANTIES OF CHANNEL AND NCI

Subject to the exceptions set forth in the disclosure schedule (the "Channel/NCI Schedule") delivered to and acknowledged by Channel and NCI concurrently herewith, Channel and NCI each hereby severally and not jointly represent and warrant to Atlantic and to each other as follows:

2.1 Organization and Qualification. Each of Channel and NCI is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, with all necessary corporate power and authority to own, operate and lease its properties and to carry on its business as now being conducted.

2.2 Capitalization.

(a) The authorized capital stock of Channel consists of 10,000,000 shares, par value \$.001 per share, of Preferred Stock (the "Channel Preferred Stock") and 15,000,000 shares of Channel Common Stock. Immediately prior to the Closing, no shares of Channel Preferred Stock and 1,000,000 shares of Channel Common Stock will be validly issued and outstanding, fully paid and nonassessable. Immediately prior to the Closing, there will be outstanding options to purchase or otherwise acquire 50,000 shares of Channel Common Stock. Immediately prior to the Closing, there will be no other outstanding options, convertible securities or other rights (contingent or other) issued by Channel to purchase or otherwise acquire shares of capital stock of Channel.

(b) The authorized capital stock of NCI consists of 100 shares of Common Stock, par value \$.001 per share, none of which is issued or outstanding or will be issued or outstanding immediately prior to the Closing. Immediately prior to the Closing, there will be no outstanding options, convertible securities or other rights (contingent or other) to purchase or otherwise acquire shares of capital stock of NCI.

2.3 Securityholders. Except as identified by name, address and security holdings on Schedule 2.3 hereto, there are no holders of shares of Channel Common Stock or options, convertible securities or other rights (contingent or other) to acquire shares of Channel Common Stock.

2.4 Subsidiaries and Investments. Neither Channel nor NCI has any subsidiaries and neither owns, directly or indirectly, any outstanding capital stock or equity interest in any corporation, partnership, joint venture or other entity.

2.5 Authority. Each of Channel and NCI has all necessary corporate power and authority to execute and deliver this Agreement, and to perform their respective obligations under and to consummate the transactions contemplated by such

agreement, and all corporate action of each of Channel and NCI necessary for such execution, delivery and performance has been duly and validly taken. Assuming due execution and delivery by Atlantic, Channel and NCI, as applicable, this Agreement constitutes the legal, valid and binding obligation of each of Channel and NCI enforceable against each of Channel and NCI in accordance with its terms subject, as to enforcement of remedies, to applicable bankruptcy, insolvency, moratorium, reorganization or similar laws affecting creditors' rights generally and to general equitable principles. The execution and delivery of this Agreement by each of Channel and NCI does not, and the performance and consummation by each of Channel and NCI of the transactions contemplated by this Agreement and the Agreement of Merger will not, (i) in any material respect, conflict with or result in a breach or violation of, or default under, or give rise to any right of acceleration (whether by notice or lapse of time or both) or termination of, any of the terms, conditions or provisions of any note, bond, mortgage, indenture, lease, material license, material agreement or other material instrument or obligation to which either Channel or NCI is a party or by which any of their respective assets or properties are bound; (ii) violate in any material respect any judgment, order, injunction or decree applicable to either Channel or NCI or any of their assets or properties; or (iii) violate, in any material respect, any statute, rule or regulation applicable to either Channel or NCI or any of their assets or properties; or (iv) contravene, violate or be impermissible under the Certificate of Incorporation or Bylaws of either Channel or NCI.

2.6 Corporate Documents. Each of Channel and NCI has heretofore furnished or made available to Atlantic for its examination (i) true and complete copies of the Certificate of Incorporation and Bylaws of each of Channel and NCI, each as amended to date; and (ii) the minute books of each of Channel and NCI containing accurate and complete records of all proceedings, consents, actions, and meetings of the stockholders and Board of Directors of each of Channel and NCI.

2.7 Disclosure. All information relating to and concerning each of Channel and NCI contained in this Agreement, any Schedule to this Agreement or in any other certificate, instrument or schedule given by each of Channel and NCI to Atlantic or its representatives in connection with this Agreement is true and correct in all material respects and neither Channel nor NCI has omitted to state any material fact necessary to prevent the statements made herein and therein, in light of the circumstances under which they were made, from being not misleading.

2.8 Brokers. Neither Channel nor NCI has retained or used the services of any individual, firm or corporation in such a manner as to entitle such individual, firm or corporation to compensation as a broker or finder as a result of the execution of this Agreement or consummation of the transactions contemplated hereby.

2.9 Payment of Certain Expenses. Neither Channel nor NCI has paid or agreed to pay on behalf of any Channel or NCI stockholder any costs incurred by any

Channel securityholder in connection with this Agreement or the transactions contemplated hereby.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF ATLANTIC

Subject to the exceptions set forth in the disclosure schedule (the "Atlantic Schedule") delivered to and acknowledged by each of Channel and NCI concurrently herewith, Atlantic hereby represents and warrants to Channel and NCI as follows:

3.1 Organization and Qualification. Atlantic is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, with all necessary corporate power and authority to own, operate and lease its properties and to carry on its business as now being conducted. Atlantic is qualified or licensed to conduct its business and is in good standing in each jurisdiction where the nature of its activities or where the character of its properties makes such qualification or licensing necessary and in which failure to so qualify would have a material adverse effect on Atlantic.

3.2 Capitalization.

(a) The authorized capital stock of Atlantic consists of (i) 50,000,000 shares of Preferred Stock, \$.001 par value (the "Atlantic Preferred Stock"), and (ii) 80,000,000 shares of Atlantic Common Stock. Immediately prior to the Closing, no shares of Atlantic Preferred Stock will be issued or outstanding, 2,913,720 shares of Atlantic Common Stock (as may be adjusted to reflect the exercise of any stock options or warrants outstanding on the date hereof) will be validly issued and outstanding, fully paid and nonassessable, options to purchase 560,598 shares of Atlantic Common Stock will be issued and outstanding and warrants to purchase 3,765,250 shares of Atlantic Common Stock will be issued and outstanding.

3.3 Authority. Atlantic has all necessary corporate power and authority to execute and deliver this Agreement to perform its obligations under and to consummate the transactions contemplated by such agreement, and all corporate action of Atlantic necessary for such execution, delivery and performance has been duly and validly taken. Assuming due execution and delivery by Atlantic, Channel and NCI, this Agreement constitutes the legal, valid and binding obligation of Atlantic enforceable against Atlantic in accordance with its terms subject, as to enforcement of remedies, to applicable bankruptcy, insolvency, moratorium, reorganization or similar laws affecting creditors' rights generally and to general equitable principles. The execution and delivery of this Agreement by Atlantic does not, and the performance and

consummation by Atlantic of the transactions contemplated by this Agreement will not, (i) conflict in any material respect with or result in a breach or violation of, or default under, or give rise to any right of acceleration (whether by notice or lapse of time or both) or termination of, any of the terms, conditions or provisions of any note, bond, mortgage, indenture, lease, material license, material agreement or other material instrument or obligation to which Atlantic is a party or by which any of its assets or properties are bound; (ii) violate in any material respect any judgment, order, injunction, or decree applicable to Atlantic or any of its assets or properties, or (iii) violate, in any material respect, any statute, rule or regulation applicable to Atlantic or any of its assets or properties; or (iv) contravene, violate or be impermissible in any material respect under the Certificate of Incorporation or Bylaws of Atlantic.

3.4 Brokers. Atlantic has not retained or used the services of any individual, firm or corporation in such a manner as to entitle such individual, firm or corporation to compensation as a broker or finder as a result of the execution of this Agreement or consummation of the transactions contemplated hereby.

3.5 Payment of Certain Expenses. Atlantic has not paid or agreed to pay on behalf of any Atlantic stockholder any costs incurred by any Atlantic stockholder in connection with this Agreement or the transactions contemplated hereby, other than customary employee or director expense reimbursement.

3.6 Shares of Common Stock. The shares of Atlantic Common Stock to be issued pursuant to this Agreement (including any shares of Atlantic Common Stock to be issued pursuant to options assumed by Atlantic in connection with this Agreement) have been reserved for such issuance and, when issued and delivered to the security holders of Channel in accordance with this Agreement will be duly and validly authorized and issued, fully paid and nonassessable.

ARTICLE IV

COVENANTS

4.1 Covenants of Channel and NCI.

4.1.1 Conduct of Business. From and after the execution of this Agreement through the Closing Date, each of Channel and NCI, severally and not jointly, covenant that it will conduct its respective business in the ordinary course. In addition, each of Channel and NCI, severally and not jointly, covenants that it will not (except as otherwise contemplated or permitted by this Agreement or consented to by Atlantic in writing):

(a) make any change in its Certificate of Incorporation or Bylaws as currently in force and effect on the date hereof;

(b) authorize for issuance or issue any capital stock, or options, warrants or rights to subscribe for any capital stock or securities convertible into or exchangeable for capital stock;

(c) borrow or lend any money or guarantee any debt for borrowed money;

(d) increase the compensation (in any form) of, or enter into an employment contract or agreement (oral or written) with, any of its stockholders or any existing or prospective employee, director or officer of Channel or NCI;

(e) fail in any material respect to comply with any laws, ordinances, regulations or other governmental restrictions applicable to Channel or NCI;

(f) declare or pay any dividend or distribution on any class of Channel or NCI capital stock or acquire or redeem any Channel or NCI equity securities, other than repurchases at cost from terminated employees;

(g) merge or consolidate with, purchase substantially all of the assets of, or otherwise acquire any business or any proprietorship, firm, association, corporation or other business organization or division thereof;

(h) other than in the ordinary and usual course of business and consistent with past practice, incur any material liability or obligation (absolute, accrued, contingent or otherwise) (other than liabilities incurred in connection with or as contemplated by this Agreement) or issue any debt securities or assume, guarantee, endorse or otherwise as an accommodation become responsible for, the obligations of any other individual or entity, or change any assumption underlying, or methods of calculating, any bad debt, contingency or other reserve;

(i) enter into, adopt or amend any employee benefit plan or other employee related agreement, including any acceleration of vesting or reduction in the exercise or purchase price of any employee stock option or right, or grant or become obligated to grant, any increase in the compensation (including without limitation bonuses) payable to or become payable to any of its officers or directors or any general increase in the compensation (including without limitation bonuses) payable to or become payable to its employees (including, in each case, any such increase pursuant to any employee benefit plan or other employee related agreement);

(j) acquire (including by lease) any material assets or properties or dispose of, mortgage or encumber any material assets or properties other than in the ordinary course of business and in accordance with past practice;

(k) make any change (except for changes in authorized signatories arising out of personnel changes) in its banking or safety deposit box arrangements;

(l) grant any powers of attorney (other than powers of attorney granted in the ordinary course of business with respect to tax or customs matters);

(m) grant, deliver or enter into any license, assignment or other transfer of any technology or intellectual property right of Channel or NCI; or

(n) engage in or enter into any material transaction of any nature not expressly provided for herein, except transactions in the ordinary course of business of Channel or NCI.

4.1.2 Preservation of Organization. Except as otherwise permitted or contemplated by this Agreement or otherwise consented to by Atlantic in advance, from the date hereof through the Closing Date, each of Channel and NCI, severally and not jointly, covenants that it will:

(a) conduct its business substantially in the same manner as it has heretofore and not introduce any new method of management, operation or accounting materially different than presently utilized;

(b) maintain its properties and facilities in as good working order and condition as at present, ordinary wear and tear excepted;

(c) perform, in all material respects all its obligations under agreements related to or affecting its assets, properties and rights;

(d) pay any and all premiums necessary to keep in full force and effect present insurance policies or other comparable insurance coverage; and

(e) use its best efforts to maintain and preserve its business organizations intact, maintain its present employees and maintain good relationships with the suppliers, customers and others having business relations with Channel or NCI.

4.1.3 Access. Each of Channel and NCI, severally and not jointly, covenants that Atlantic and its counsel, accountants and other representatives shall have full access during normal business hours to all of its respective properties, books, accounts, records, contracts and documents of or related to Channel or NCI, and will furnish or cause to be furnished to Atlantic and its representatives all data and

information concerning the business reasonably requested by Atlantic from the date hereof through the Closing Date. Such access shall be provided at times reasonably convenient to Channel or NCI upon reasonable advance notice by Atlantic.

4.2 Covenants of Atlantic.

4.2.1 Assumption of Options. Effective as of the Effective Time, Atlantic shall assume and perform Channel's obligations under all stock options granted by Channel which remain outstanding as of the Effective Time so that after the Effective Time each such Channel stock option shall be represented by a warrant to purchase Atlantic Common Stock on the same terms and conditions currently applicable to such option, including without limitation credit toward vesting, except that (i) the per share exercise price (rounded upward to the nearest full cent) shall be the quotient determined by dividing the then current per share option exercise price of the option by the Merger Consideration (defined in Section 1.3 hereof); and (ii) the number of shares of Atlantic Common Stock subject to the option (with any fractional share of Atlantic Common Stock being disregarded) shall be the product determined by multiplying the number of shares of Channel Common Stock subject to the option by the Merger Consideration.

4.2.2 Blue Sky. As soon as practicable after the date hereof, Atlantic will use its best efforts to qualify the Atlantic Common Stock to be issued pursuant to the Merger under the securities or "blue sky" laws of every jurisdiction of the United States in which any registered stockholder of Channel has an address on the stockholder records of Channel except any such jurisdiction with respect to which counsel for Channel has determined that such qualification is not required under the securities or "blue sky" laws of such jurisdiction.

4.3 Covenants of Atlantic, Channel and NCI.

4.3.1 Best Efforts. Upon the terms and subject to the conditions hereof, Atlantic, Channel and NCI each agrees to use its best efforts promptly to take, or cause to be taken, all action and to do, or cause to be done, all things necessary, proper or advisable to consummate and make effective the transactions contemplated by this Agreement and will use its best efforts to obtain all waivers, permits, consents and approvals and to effect all registrations, filings and notices with or to third parties or governmental or public bodies or authorities which are in the opinion of Atlantic, Channel or NCI necessary or desirable in connection with the transactions contemplated by this Agreement. If at any time after the Effective Time any further action is necessary or desirable to carry out the purposes of this Agreement, the proper officers or directors of Atlantic and Channel will take such action.

4.3.2 Notification of Certain Matters. Atlantic, Channel and NCI will give prompt notice to one another of (i) the occurrence, or failure to occur, of any event the occurrence or failure of which to occur would be likely to cause any of their respective representations or warranties contained in this Agreement to be untrue or incorrect at any time from the date hereof to the Effective Time, and (ii) any failure on its part or on the part of any of their respective officers, directors, employees, representatives or agents to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by them under this Agreement; provided, however, that no such notification will alter or otherwise affect such representations, warranties, covenants, conditions or agreements.

4.3.3 Representations True. Neither party shall take, or agree in writing or otherwise to take, any of the actions prohibited by this Article IV or any action which would make any of the representations or warranties made by it in this Agreement untrue or incorrect as of the date when made or would result in any of the conditions set forth in this Agreement not being satisfied.

4.3.4 Actions Contrary to Stated Intent. Neither Atlantic, Channel nor NCI will, either before or after the consummation of the Merger, take any action which would prevent the Merger from qualifying as a tax-free reorganization under Section 368(a) of the Internal Revenue Code of 1986, as amended. Each party will use reasonable efforts to prevent any of its officers or directors from taking or permitting any such action.

ARTICLE V

CONDITIONS TO THE OBLIGATIONS OF ATLANTIC

The obligation of Atlantic to effect the transactions contemplated hereby are subject to satisfaction at or prior to the Closing Date of the following conditions, any of which may be waived in whole or in part by Atlantic in writing:

5.1 Stockholder Approval. This Agreement shall have been approved by all of the stockholders of Channel in accordance with and to the extent required by the rules of the NASD, the Corporations Code, the Certificate of Incorporation and Bylaws, as applicable, of Channel.

5.2 No Actions or Proceedings. No claim, action, suit, investigation or proceeding shall be pending or threatened before any court or governmental agency which presents a substantial risk of the restraint or prohibition of the transactions contemplated by this Agreement or the obtaining of material damages or other relief in connection therewith.

5.3 Government Approvals. All authorizations, consents, orders or approvals of, or declarations or filings with, or expiration of waiting periods imposed by, any governmental entity necessary for the consummation of the transactions contemplated by this Agreement including, but not limited to, such requirements under applicable state securities laws, shall have been filed, occurred or been obtained, other than filings with and approvals by foreign governments relating to the Merger if failure to make such filings or obtain such approvals would not be materially adverse to Atlantic, Channel or NCI.

5.4 Third-Party Approvals. Any and all consents required from third parties relating to contracts, licenses, leases and other instruments, material to the respective businesses of Atlantic and Channel, shall have been obtained.

5.5 Channel and NCI Authorizations and Permits. All authorizations and permits required by Channel and NCI to perform this Agreement shall have been obtained and shall be in form and substance satisfactory to Atlantic.

5.6 Representations, Warranties and Agreements of Channel and NCI. All representations and warranties made herein by each of Channel and NCI shall be true in all material respects as of the date made and shall be true and correct as if made again on the Closing Date and each of Channel and NCI shall have performed in all material respects all obligations, covenants and agreements undertaken by each of Channel and NCI herein to be performed at or prior to the Closing Date. Atlantic shall have received at the Closing a certificate to such effect, dated the Closing Date and executed by the President and the Secretary of each of Channel and NCI.

5.7 Other Documentation. Each of Channel and NCI shall have delivered to Atlantic such other usual and customary closing certificates and instruments as Atlantic and its counsel may reasonably request. The form and substance of all certificates, instruments, opinions and other documentation delivered to Atlantic under this Agreement shall be reasonably satisfactory to Atlantic and its counsel.

ARTICLE VI

TERMINATION, AMENDMENT AND WAIVER

7.1 Termination by Mutual Consent. This Agreement may be terminated at any time prior to the Closing by the mutual written consent of Atlantic, Channel and NCI.

ARTICLE VII

GENERAL PROVISIONS

8.1 Amendment. This Agreement may be amended or modified in whole or in part at any time by an agreement in writing executed in the same manner as this Agreement.

8.2 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument.

8.3 Governing Law. This Agreement shall be governed by, interpreted under, and construed and enforced in accordance with the laws of the State of California applicable to agreements made and to be performed wholly within the State of California.

8.4 Agreement. The terms of this Agreement together with the other documents and instruments referred to herein are intended by the parties as a final expression of their agreement with respect to the subject matter of this Agreement and may not be contradicted by evidence of any prior or contemporaneous agreement. The parties further intend that this Agreement constitutes the complete and exclusive statement of its terms and that no extrinsic evidence whatsoever may be introduced in any judicial proceeding, if any, involving this Agreement.

8.5 Third Party Rights. The parties do not intend to confer any benefit hereunder on any person, firm or corporation other than the parties hereto.

8.6 Titles and Headings. Titles and headings of sections of this Agreement are for convenience of reference only and shall not affect the construction of any provision of this Agreement.

8.7 Exhibits. Each of the Exhibits referred to herein and attached hereto is an integral part of this Agreement and is incorporated herein by this reference.

8.8 Further Assurances. The parties agree to do such further acts and things and to execute and deliver such additional agreements and instruments as the other may reasonably require to consummate, evidence or confirm the agreements contained in the manner contemplated hereby.

8.9 Assignment. This Agreement and the rights, duties and obligations hereunder may not be assigned by either party without the prior written consent of the other party, and any attempted assignment is void.

8.10 Successors and Assigns. This Agreement and the provisions hereof shall be binding upon each of the parties, their permitted successors and assigns.

8.11 Partial Invalidity. If any provision of this Agreement is found to be invalid by any court, the invalidity of such provision shall not affect the validity of the remaining provisions hereof.

8.12 Attorneys' Fees. In the event of litigation concerning this Agreement the prevailing party or parties in such litigation shall be entitled to reimbursement from the party or parties opposing such prevailing party or parties of all reasonable attorneys' fees and costs incurred in such litigation.

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed and delivered as of the date first written above.

ATLANTIC PHARMACEUTICALS, INC.

By: /s/ J.D. Lindjord

J.D. Lindjord, President and
Chief Executive Officer

CHANNEL THERAPEUTICS, INC.

By: /s/ J.D. Lindjord

J.D. Lindjord, President and
Chief Executive Officer

NEW CHANNEL, INC.

By: /s/ J.D. Lindjord

J.D. Lindjord, President and
Chief Executive Officer

EXHIBIT A

CERTIFICATE OF MERGER
MERGING
NEW CHANNEL, INC. INTO
CHANNEL THERAPEUTICS, INC.

Pursuant to Section 251(c)
of the General Corporation Law
of the State of Delaware

Channel Therapeutics, Inc. ("Channel") desiring to merge New Channel, Inc. ("NCI") with and into Channel (the "Merger"), pursuant to Section 251 of the General Corporation Law of the State of Delaware (the "GCL"), does hereby certify as follows:

1 The names of the constituent corporations to the Merger (the "Constituent Corporations") are Channel Therapeutics, Inc. and New Channel, Inc. The state of incorporation of each of the Constituent Corporations is Delaware.

2 An Agreement and Plan of Reorganization, dated February __, 1997, among Channel, NCI and Atlantic Pharmaceuticals, Inc., a Delaware corporation (the "Agreement"), has been approved, adopted, certified, executed and acknowledged by the Board of Directors (the "Board") of each of the Constituent Corporations in accordance with Section 251 of the GCL.

3 Written consent of the stockholders of Channel has been given in accordance with Section 228 of the GCL and written notice has been given as provided in Section 228 of the GCL. Written consent of the stockholders of NCI is not required pursuant to Section 251(f) of the GCL because no shares of the stock of NCI have been issued prior to the adoption by the Board of NCI of the resolution approving the Agreement.

4 The surviving corporation of the Merger (the "Surviving Corporation") is Channel, and the name of the Surviving Corporation is Channel Therapeutics, Inc.

5 The Certificate of Incorporation of Channel shall be the Certificate of Incorporation of the Surviving Corporation.

6 The executed Agreement is on file at the principal place of business of Channel, the address of which is 142 Cypress Point Road, Half Moon Bay, California 94019.

7 A copy of the Agreement will be furnished by Channel, on request and without cost, to any stockholder of either Constituent Corporation.

IN WITNESS WHEREOF, the undersigned corporations have caused this Certificate of Merger to be executed in their names as of this _____ day of February, 1997.

CHANNEL THERAPEUTICS, INC.

By

Jon D. Lindjord,
President and Chief Executive Officer

ATTEST:

Michael Weiss
Secretary

NEW CHANNEL, INC.

By

Jon D. Lindjord,
President and Chief Executive Officer

ATTEST:

Michael Weiss Secretary

SCHEDULE 2.3

SHARES OF CHANNEL COMMON STOCK OWNED
BY CHANNEL STOCKHOLDERS

Stockholder -----	No. of Shares -----
Scott Wolf Itasca Ventures, LLC 3800 First Bank Place P.O. Box 357 Minneapolis, MN 55440	5,000
Sumner Burstein, Ph.D. Professor, Biochemistry Department of Biochemistry University of Massachusetts Medical Center 55 Lake Avenue North Worcester, MA 01655	15,000
William A. Ryan, Jr. 200 Perry Parkway, #1 Gaithersburg, MD 20877	10,000
A Joseph Rudick, Jr., M.D. 901 Lexington Avenue New York, NY 10019	40,000
Carl Spana, Ph.D. Paramount Capital 787 Seventh Avenue New York, NY 10019	5,000
Paul Weisz, Ph.D., Sc.D. Distinguished Professor Chemical and Bio-Engineering Sciences University of Pennsylvania School of Engineering and Applied Sciences Department of Bioengineering 113 Hayden Hall 240 S. 33rd Street Philadelphia, PA 19104-6392	10,000

<p>Elliot Barnathan, M.D. Assistant Professor of Medicine University of Pennsylvania School of Medicine 524 Johnson Pavilion 3610 Hamilton Walk Philadelphia, PA 19104</p>	10,000
<p>University of Pennsylvania Attn: Alan Dickason Center for Technology Transfer 3700 Market Street, Suite 300 Philadelphia, PA 19104-3147</p>	20,000
<p>Alexander W. Clowes, M.D. Professor and Vice-Chair, Department of Surgery Department of Surgery, RF25 University of Washington School of Medicine 1959 N.E. Pacific Street, Room BB442 Seattle, WA 98195</p>	1,000
<p>Dwight Robinson, M.D. Professor of Medicine Harvard Medical School Arthritis Unit, Bulfinch 165 Massachusetts General Hospital Fruit Street Boston, MA 02114</p>	1,000
<p>Paul Rys, Ph.D. Professor, Technisch-Chemisches Institut Swiss Federal Institute of Technology Universitaets Strasse 6Ch-8092 Zurich SWITZERLAND</p>	1,000
<p>David DeWitt, Ph.D. Assistant Professor, Biochemistry 513 Biochemistry Building, Room 510 Michigan State University East Lansing, MI 48824</p>	1,000

Robert B. Zurier, M.D. 1,000
Professor of Medicine
Director, Rheumatology Division
Division of Rheumatology
University of Massachusetts Medical Center
55 Lake Avenue North
Worcester, MA 01655

H. Laurence Shaw, M.D. 17,600
86 Druid Hill Road
Summit, New Jersey 07901

Optionholder
- - - - -

John K.A. Prendergast, Ph.D. 50,000
Paramount Capital
787 Seventh Avenue
44th Floor
New York, NY 10019

WARRANT TO PURCHASE
SHARES OF COMMON STOCK

THIS WARRANT HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAWS AND MAY NOT BE SOLD, OFFERED FOR SALE, TRANSFERRED, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT WITH RESPECT TO THE SECURITIES UNDER SUCH ACT AND ANY APPLICABLE STATE SECURITIES LAW OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED.

ATLANTIC PHARMACEUTICALS, INC.

INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE

Void after July 14, 2006

THIS CERTIFIES THAT, for value received, John K. A. Prendergast, Ph.D. ("Holder") is entitled to purchase, on the terms hereof, Thirty-Seven Thousand Five Hundred (37,500) shares of Common Stock (as adjusted pursuant to Section 4 hereof, the "Shares") of Atlantic Pharmaceuticals, Inc., a Delaware corporation (the "Company"), subject to the provisions and upon the terms and conditions hereinafter set forth. As used herein, the term "Common Stock" shall mean the Company's presently authorized Common Stock, par value \$.001 per share, and any stock into or for which such Common Stock may hereafter be converted or exchanged. The term "Warrant" as used herein shall include this Warrant, and any warrants delivered in substitution or exchange therefor as provided herein.

The following terms shall apply to this Warrant:

1. Term of Warrant. Subject to the terms and conditions set forth herein, the term of this Warrant shall commence and this Warrant shall be exercisable for the Shares, commencing on the date hereof and expiring at 5:00 p.m. Pacific Standard Time on July 14, 2006.

2. Exercise Price; Number of Shares. The exercise price ("Exercise Price") at which this Warrant may be exercised shall be Five Dollars and Thirty-Three Cents (\$5.33), as adjusted from time to time pursuant to Section 4 hereof. The number of shares of Common Stock for which this Warrant is initially exercisable is Thirty-Seven Thousand Five Hundred (37,500) shares of Common Stock, which number is subject to adjustment pursuant to Section 4 of this Warrant.

3. Exercise of Warrant. Subject to the terms of Section 1 hereof, the purchase rights represented by this Warrant are exercisable by Holder during the term hereof, in whole or in part and from time to time, by the surrender of this Warrant (with the notice of exercise form attached hereto as Exhibit A duly executed) at the principal office of the Company and by payment to the Company, by check or wire transfer of an amount equal to the then applicable Exercise Price multiplied by the number of Shares then being purchased. In the event of any exercise of the rights represented by this Warrant, certificates for the Shares so purchased shall be delivered to Holder hereof as soon as possible and, unless this Warrant has been fully exercised or expired, a new Warrant representing the portion of the Shares, if any, with respect to which this Warrant shall not then have been exercised shall also be issued to Holder hereof as soon as possible.

4. Certain Adjustments.

4.1. Adjustments for Splits, Subdivisions, Recapitalizations and other Combinations. In case the Company shall (i) pay a dividend in Common Stock or make distribution in the form of Common Stock, (ii) subdivide the outstanding shares of Common Stock, (iii) combine its outstanding shares of Common Stock into a smaller number of shares of Common Stock, (iv) issue by reclassification of its Common Stock other securities of the Company, or (v) take any other action, the effect of which is to reclassify or reorganize the outstanding shares of Common Stock into a different number of shares or class of securities, the number of shares purchasable upon exercise of this Warrant immediately prior thereto shall be adjusted so that the Holder shall be entitled to receive the kind and number of shares or other securities of the Company which it would have owned or would have been entitled to receive immediately after the happening of any of the events described above, had the Warrant been exercised immediately prior to the happening of such event or any record date with respect thereto. Any adjustment made with respect to this Section 4.1 shall become effective immediately after the effective date of such event retroactive to the record date, if any, for such event. Whenever the number of Shares purchasable upon the exercise of this Warrant is adjusted, as herein provided, the Exercise Price payable upon the exercise of this Warrant shall be adjusted by multiplying such

Exercise Price immediately prior to such adjustment by a fraction, of which the numerator shall be the number of Shares purchasable upon the exercise of the Warrant immediately prior to such adjustment, and of which the denominator shall be the number of Warrant shares so purchasable immediately thereafter. Except as provided above, no adjustment in respect of any dividends or distributions out of earnings shall be made during the term of this Warrant or upon the exercise of this Warrant.

4.4. Mergers, Consolidations or Sale of Assets. If at any time there shall be a capital reorganization (other than a combination or subdivision of Shares otherwise provided for herein), or a merger or consolidation of the Company with or into another corporation, or the sale of the Company's properties and assets as, or substantially as, an entirety to any other person, then, as a part of such reorganization, merger, consolidation or sale, lawful provision shall be made so that the Holder shall thereafter be entitled to receive upon exercise of this Warrant, during the period specified in this Warrant and upon payment of the purchase price, the number of shares of stock or other securities or property of the Company or the successor corporation resulting from such reorganization, merger, consolidation or sale, to which a holder of Common Stock deliverable upon exercise of this Warrant would have been entitled under the provisions of the agreement in such reorganization, merger, consolidation or sale if this Warrant had been exercised immediately before that reorganization, merger, consolidation or sale. In any such case, appropriate adjustment (as determined in good faith by the Company's Board of Directors) shall be made in the application of the provisions of this Warrant with respect to the rights and interests of the Holder after the reorganization, merger, consolidation or sale to the end that the provisions of this Warrant (including adjustment of the purchase price then in effect and the number of the Shares) shall be applicable after that event, as near as reasonably may be, in relation to any shares or other property deliverable after that event upon exercise of this Warrant; provided, however, that the aggregate purchase price shall not be adjusted.

4.3. Certificate as to Adjustments. In the case of each adjustment or readjustment of the purchase price pursuant to this Section 4, the Company will promptly compute such adjustment or readjustment in accordance with the terms hereof and cause a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based to be delivered to the Holder of this Warrant. The Company will, upon the written request at any time of the Holder of this Warrant, furnish or cause to be furnished to such Holder a certificate setting forth:

- (a) Such adjustments and readjustments;
- (b) The purchase price at the time in effect; and

(c) The number of Shares and the amount, if any, of other property at the time receivable upon the exercise of the Warrant.

5. Fractional Stock No. fractional shares shall be issued in connection with any exercise of this Warrant. In lieu of the issuance of such fractional share, the Company shall make a cash payment equal to the then fair market value of such fractional share as determined in good faith by the Company's Board of Directors.

6. Reservation of Common Stock. The Company shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, solely for the purpose of effecting the exercise of this Warrant, such number of its shares of Common Stock as shall from time to time be sufficient to effect the exercise of this Warrant.

7. Restrictions on Transfer. Unless the issuance of the Shares has been registered under the Securities Act of 1933, as amended (the "1933 Act"):

(a) this Warrant and any Shares may not be sold, transferred, pledged, hypothecated or otherwise disposed of except: (i) to a person who, in the opinion of counsel to the Company, is a person to whom this Warrant or the Shares may legally be transferred without registration and without the delivery of a current prospectus under the 1933 Act with respect thereto and then only against receipt of an agreement of such person to comply with the provisions of this Section 6 with respect to any resale or other disposition of such securities; or (ii) to any person upon the delivery of a prospectus then meeting the requirements of the 1933 Act relating to such securities and the offering thereof for such sale or disposition, and thereafter to all successive assignees;

(b) upon exercise of any of the Warrants and the issuance of any of the Shares, all certificates representing such shares shall bear on the face thereof substantially the following legend, insofar as is consistent with California law, as well as any other legends necessary to comply with applicable state and federal laws for the issuance of such shares:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "1933 ACT"), OR UNDER THE PROVISIONS OF ANY APPLICABLE STATE SECURITIES LAWS, BUT HAVE BEEN ACQUIRED BY THE REGISTERED HOLDER HEREOF FOR PURPOSES OF INVESTMENT AND IN RELIANCE ON STATUTORY EXEMPTIONS UNDER THE 1933 ACT, AND UNDER ANY APPLICABLE STATE SECURITIES LAWS. THESE SECURITIES MAY NOT BE SOLD, PLEDGED, TRANSFERRED OR ASSIGNED, EXCEPT IN A TRANSACTION WHICH IS EXEMPT UNDER PROVISIONS OF THE 1933 ACT AND ANY APPLICABLE STATE SECURITIES LAWS OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT; AND IN THE CASE OF AN EXEMPTION; ONLY IF THE COMPANY HAS RECEIVED AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH TRANSACTION DOES NOT REQUIRE REGISTRATION OF ANY SUCH SECURITIES.

8. Rights as Stockholders; Information. Holder shall not be entitled to vote or receive dividends or be deemed the holder of Common Stock or any other securities of the Company which may at any time be issuable on the exercise hereof for any purpose, nor shall anything contained herein be construed to confer upon Holder any of the rights of a stockholder of the Company or any right to vote for the election of

directors or upon any matter submitted to shareholders or at any meeting thereof, or to receive notice of meetings, or to receive dividends or subscription rights or otherwise until this Warrant shall have been exercised and the Shares purchasable upon the exercise hereof shall have become deliverable, as provided herein.

9. Net Issuance.

(a) Right to Convert. In addition to and without limiting the rights of the Holder under the terms of this Warrant, the Holder shall have the right to convert this Warrant or any portion thereof (the "Conversion Right") into shares of Common Stock as provided in this Section 9(a) at any time or from time to time during the term of this Warrant. Upon exercise of the Conversion Right with respect to a particular number of shares subject to this Warrant (the "Converted Warrant Shares"), the Company shall deliver to the Holder (without payment by the Holder of any exercise price or any cash or other consideration) that number of shares of fully paid and nonassessable Common Stock equal to the quotient obtained by dividing (x) the value of this Warrant (or the specified portion hereof) on the Conversion Date (as defined in subsection (b) hereof), which value shall be determined by subtracting (1) the aggregate Exercise Price of the Converted Warrant Shares immediately prior to the exercise of the Conversion Right from (2) the aggregate fair market value of the Converted Warrant Shares issuable upon exercise of this Warrant (or the specified portion hereof) on the Conversion Date (as herein defined) by (y) the fair market value of one share of Common Stock on the Conversion Date (as herein defined). No fractional shares shall be issuable upon exercise of the Conversion Right, and, if the number of shares to be issued determined in accordance with the foregoing formula is other than a whole number, the Company shall pay to the Holder an amount in cash equal to the fair market value of the resulting fractional share on the Conversion Date (as hereinafter defined). For purposes of Section 9 of this Warrant, shares issued pursuant to the Conversion Right shall be treated as if they were issued upon the exercise of this Warrant.

(b) Method of Exercise. The Conversion Right may be exercised by the Holder by the surrender of this Warrant at the principal office of the Company together with a written statement specifying that the Holder thereby intends to exercise the Conversion Right and indicating the number of shares subject to this Warrant which are being surrendered (referred to in subsection (a) hereof as the Converted Warrant Shares) in exercise of the Conversion Right. Such Conversion shall be effective upon receipt by the Company of this Warrant together with the aforesaid written statement, or on such later date as is specified therein (the "Conversion Date"). Certificates for the shares issuable upon exercise of the Conversion Right and, if applicable, a new warrant evidencing the balance of the shares remaining subject to this Warrant, shall be issued as of the Conversion Date and shall be delivered to the Holder within thirty (30) days following the Conversion Date.

(c) Determination of Fair Market Value. For purposes of this Section 9(c), "fair market value" of a share of Common Stock or a Converted Warrant Share, as the case may be, as of a particular date (the "Determination Date") shall mean:

(i) If traded on a securities exchange or on Nasdaq, the fair market value of the Common Stock shall be deemed to be the closing price of the Common Stock on such exchange on the business day prior to the Determination Date;

(ii) If traded over-the-counter, the fair market value of the Common Stock shall be deemed to be the closing price of the Common Stock on the business day prior to the determination Date; and

(iii) If there is no public market for the Common Stock, then fair market value shall be determined by the Board of Directors of the Company; provided, however, that if the Holder shall not agree with the fair market value determined by the Board, the Company shall engage an investment banker of national reputation (or such other party as shall be mutually acceptable to the parties) to determine the fair market value. If the valuation of the investment banker is less than the value determined the Board of Directors or does not

exceed such valuation by 10%, the expenses of the valuation shall be borne by the Holder. If the valuation of the investment banker is greater than the value determined by the Board of Directors by more than 10%, the expenses of such valuation shall be borne by the Company.

10. Transfers and Exchanges. Subject to the terms and conditions of the applicable Federal and state securities laws, this Warrant is transferable in whole or in part by the Holder. All new warrants issued in connection with transfers or exchanges shall be identical in form and provision to this Warrant except as to the number of shares.

11. Successors and Assigns. The terms and provisions of this Warrant shall be binding upon the Company and the Holder and their respective successors and assigns.

12. Amendments. This Warrant and any provision hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of the same is sought.

13. Letter Agreement. This Warrant is issued pursuant to the Agreement and Plan of Reorganization, dated February 20, 1997, among the Company, Channel Therapeutics, Inc. and New Channel, Inc.

14. Loss, Theft, Destruction or Mutilation of Warrant. Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant, and in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to the Company, and upon reimbursement to the Company of all reasonable expenses incidental thereto, and upon surrender and cancellation of this Warrant, if mutilated, the Company will make and deliver a new warrant of like tenor and dated as of such cancellation, in lieu of this Warrant.

15. Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall be a Saturday or Sunday or shall be a legal holiday, then such action may be taken or such right may be exercised on the next succeeding day not a legal holiday.

16. Governing Law. The terms and conditions of this Warrant shall be governed by and construed in accordance with New York law as such laws are applied to agreements which are entered into solely between New York residents and are to be performed entirely within that state.

Dated: February 20, 1997

ATLANTIC PHARMACEUTICALS, INC.

By: /s/ Jon D. Lindjord

Jon D. Lindjord
President and Chief Executive Officer

Dated: February 20, 1997

John K. A. Prendergast, Ph.D.

6.

EXHIBIT A

NOTICE OF EXERCISE

To: Atlantic Pharmaceuticals, Inc.

1. The undersigned hereby elects to purchase _____ shares of Common Stock of Atlantic Pharmaceuticals, Inc. pursuant to the terms of the attached Warrant, and tenders herewith payment of the purchase price of such shares in full.

2. Please issue a certificate or certificates representing said shares in the name of the undersigned or in such other name or names as are specified below:

(Name)

(Address)

3. The undersigned represents that the aforesaid shares are being acquired for the account of the undersigned for investment and not with a view to, or for resale in connection with, the distribution thereof and that the undersigned has no present intention of distributing or reselling such shares.

HOLDER

By: -----

Its: -----

Dated: -----

WARRANT TO PURCHASE
SHARES OF COMMON STOCK

THIS WARRANT HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAWS AND MAY NOT BE SOLD, OFFERED FOR SALE, TRANSFERRED, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF A REGISTRATION STATEMENT IN EFFECT WITH RESPECT TO THE SECURITIES UNDER SUCH ACT AND ANY APPLICABLE STATE SECURITIES LAW OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED.

ATLANTIC PHARMACEUTICALS, INC.

INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE

Void after November 22, 2001

THIS CERTIFIES THAT, for value received, Dian Griesel ("Holder") is entitled to purchase, on the terms hereof, Twenty Four Thousand (24,000) shares of Common Stock (as adjusted pursuant to Sections 3 and 4 hereof, the "Shares") of Atlantic Pharmaceuticals, Inc., a Delaware corporation (the "Company"), subject to the provisions and upon the terms and conditions hereinafter set forth. As used herein, the term "Common Stock" shall mean the Company's presently authorized Common Stock, par value \$.001 per share, and any stock into or for which such Common Stock may hereafter be converted or exchanged. The term "Warrant" as used herein shall include this Warrant, and any warrants delivered in substitution or exchange therefor as provided herein.

The following terms shall apply to this Warrant:

1. Term of Warrant. Subject to the terms and conditions set forth herein, the term of this Warrant shall commence and this Warrant shall be exercisable for the Shares, commencing on the date hereof and expiring at 5:00 p.m. Pacific Standard Time on November 22, 2001.

2. Exercise Price: Number of Shares. The exercise price ("Exercise Price") at which this Warrant may be exercised shall be Seven Dollars (\$7.00), as adjusted from time to time pursuant to Section 4 hereof. The number of shares of Common Stock for which this Warrant is initially exercisable is Twenty Four Thousand (24,000) shares of Common Stock, which number is subject to adjustment pursuant to Sections 3 and 4 of this Warrant.

3. Exercise and Vesting.

3.1. Exercise of Warrant. Subject to the terms of Sections 1 and 32 hereof, the purchase rights represented by this Warrant are exercisable by Holder during the term hereof, in whole or in part and from time to time, by the surrender of this Warrant (with the notice of exercise form attached hereto as Exhibit A duly executed) at the principal office of the Company and by payment to the Company, by check or wire transfer of an amount equal to the then applicable Exercise Price multiplied by the number of Shares then being purchased. In the event of any exercise of the rights represented by this Warrant, certificates for the Shares so purchased shall be delivered to Holder hereof as soon as possible and, unless this Warrant has been fully exercised or expired, a new Warrant representing the portion of the Shares, if any, with respect to which this Warrant shall not then have been exercised shall also be issued to Holder hereof as soon as possible.

3.2 Vesting of Warrant.

(a) From the issuance hereof until and including May 21, 1997, the purchase rights represented by this Warrant are exercisable only as to Eight Thousand (8,000) shares of Common Stock.

(b) From and including May 22, 1997 until and including November 21, 1997, the purchase rights represented by this Warrant are exercisable only as to Sixteen Thousand (16,000) shares of Common Stock.

(c) From November 22, 1997 until the expiration of this Warrant, the purchase rights represented by this Warrant are exercisable as to Twenty Four Thousand (24,000) shares of Common Stock.

(d) Notwithstanding the foregoing subdivisions of this Section 3.2, in no event shall any of the shares vest after termination of the Letter Agreement, as defined in Section 13 hereof.

4. Certain Adjustments.

4.1. Adjustments for Splits, Subdivisions, Recapitalizations

and other Combinations. In case the Company shall (i) pay a dividend in Common Stock or make a distribution in the form of Common Stock, (ii) subdivide the outstanding shares of Common Stock, (iii) combine its outstanding shares of Common Stock into a smaller number of shares of Common Stock, (iv) issue by reclassification of its Common Stock other securities of the Company, or (v) take any other action, the effect of which is to reclassify or reorganize the outstanding shares of Common Stock into a different number of shares or class of securities, the number of shares purchasable upon exercise of this Warrant immediately prior thereto shall be adjusted so that the Holder shall be entitled to receive the kind and number of shares or other securities of the Company which it would have owned or would have been entitled to receive immediately after the happening of any of the events described above, had the Warrant been exercised immediately prior to the happening of such event or any record date with respect thereto. Any adjustment made with respect to this Section 4.1 shall become effective immediately after the effective date of such event retroactive to the record date, if any, for such event. Whenever the number of Shares purchasable upon the exercise of this Warrant is adjusted, as herein provided, the Exercise Price payable upon the exercise of this Warrant shall be adjusted by multiplying such Exercise Price immediately prior to such adjustment by a fraction, of which the numerator shall be the number of Shares purchasable upon the exercise of the Warrant immediately prior to such adjustment, and of which the denominator shall be the number of Warrant shares so purchasable immediately thereafter. Except as provided above, no adjustment in respect of any dividends or distributions out of earnings shall be made during the term of this Warrant or upon the exercise of this Warrant.

4.2. Mergers, Consolidations or Sale of Assets. If at any time there shall be a capital reorganization (other than a combination or subdivision of Shares otherwise provided for herein), or a merger or consolidation of the Company with or into another corporation, or the sale of the Company's properties and assets as, or substantially as, an entirety to any other person, then, as a part of such reorganization, merger, consolidation or sale, lawful provision shall be made so that the Holder shall thereafter be entitled to receive upon exercise of this Warrant, during the period specified in this Warrant and upon payment of the purchase price, the number of shares of stock or other securities or property of the Company or the successor corporation resulting from such reorganization, merger, consolidation or sale, to which a holder of Common Stock deliverable upon exercise of this Warrant would have been entitled under the provisions of the agreement in such reorganization, merger, consolidation or sale if this Warrant had

been exercised immediately before that reorganization, merger, consolidation or sale. In any such case, appropriate adjustment (as determined in good faith by the Company's Board of Directors) shall be made in the application of the provisions of this Warrant with respect to the rights and interests of the Holder after the reorganization, merger, consolidation or sale to the end that the provisions of this Warrant (including adjustment of the purchase price then in effect and the number of the Shares) shall be applicable after that event, as near as reasonably may be, in relation to any shares or other property deliverable after that event upon exercise of this Warrant; provided, however, that the aggregate purchase price shall not be adjusted.

4.3. Certificate as to Adjustments. In the case of each adjustment or readjustment of the purchase price pursuant to this Section 4, the Company will promptly compute such adjustment or readjustment in accordance with the terms hereof and cause a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based to be delivered to the Holder of this Warrant. The Company will, upon the written request at any time of the Holder of this Warrant, furnish or cause to be furnished to such Holder a certificate setting forth:

(a) Such adjustments and readjustments;

(b) The purchase price at the time in effect; and

(c) The number of Shares and the amount, if any, of other property at the time receivable upon the exercise of the Warrant.

5. Fractional Stock. No fractional shares shall be issued in connection with any exercise of this Warrant. In lieu of the issuance of such fractional share, the Company shall make a cash payment equal to the then fair market value of such fractional share as determined in good faith by the Company's Board of Directors.

6. Reservation of Common Stock. The Company shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, solely for the purpose of effecting the exercise of this Warrant, such number of its shares of Common Stock as shall from time to time be sufficient to effect the exercise of this Warrant.

7. Restrictions on Transfer.

Unless the issuance of the Shares has been registered under the Securities Act of 1933, as amended (the "1933 Act"):

(a) this Warrant and any Shares may not be sold, transferred, pledged, hypothecated or otherwise disposed of except: (i) to a person who, in the opinion of counsel to the Company, is a person to whom this Warrant or the Shares may legally be transferred without registration and without the delivery of a current prospectus under the 1933 Act with respect thereto and then only against receipt of an agreement of such person to comply with the provisions of this Section 6 with respect to any resale or other disposition of such securities; or (ii) to any person upon the delivery of a prospectus then meeting the requirements of the 1933 Act relating to such securities and the offering thereof for such sale or disposition, and thereafter to all successive assignees;

(b) upon exercise of any of the Warrants and the issuance of any of the Shares, all certificates representing such shares shall bear on the face thereof substantially the following legend, insofar as is consistent with California law, as well as any other legends necessary to comply with applicable state and federal laws for the issuance of such shares:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "1933 ACT"), OR UNDER THE PROVISIONS OF ANY APPLICABLE STATE SECURITIES LAWS, BUT HAVE BEEN ACQUIRED BY THE REGISTERED HOLDER HEREOF FOR PURPOSES OF INVESTMENT AND IN RELIANCE ON STATUTORY EXEMPTIONS UNDER THE 1933 ACT, AND UNDER ANY APPLICABLE STATE SECURITIES LAWS. THESE SECURITIES MAY NOT BE SOLD, PLEDGED, TRANSFERRED OR ASSIGNED, EXCEPT IN A TRANSACTION WHICH IS EXEMPT UNDER PROVISIONS OF THE 1933 ACT AND ANY APPLICABLE STATE SECURITIES LAWS OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT; AND IN THE CASE OF AN EXEMPTION; ONLY IF THE COMPANY HAS RECEIVED AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH TRANSACTION DOES NOT REQUIRE REGISTRATION OF ANY SUCH SECURITIES.

8. Rights as Stockholders; Information. Holder shall not be entitled to vote or receive dividends or be deemed the holder of Common Stock or any other securities of the Company which may at any time be issuable on the exercise hereof for any purpose, nor shall anything contained herein be construed to confer upon Holder any of the rights of a stockholder of the Company or any right to vote for the election of directors or upon any matter submitted to shareholders or at any meeting thereof, or to receive notice of meeting, or to receive dividends or subscription rights or otherwise until this warrant shall have been exercised and the Shares purchasable upon the exercise hereof shall have become deliverable, as provided herein.

9. Net Issuance.

(a) Right to Convert. In addition to and without limiting the rights of the Holder under the terms of this Warrant, the Holder shall have the right to convert this Warrant or any portion thereof (the "Conversion Right") into shares of Common Stock as provided in this Section 9(a) at any time or from time to time during the term of this Warrant. Upon exercise of the Conversion Right with respect to a particular number of shares subject to this Warrant (the "Converted Warrant Shares"), the Company shall deliver to the Holder (without payment by the Holder of any exercise price or any cash or other consideration) that number of shares of fully paid and nonassessable Common Stock equal to the quotient obtained by dividing (x) the value of this Warrant (or the specified portion hereof) on the Conversion Date (as defined in subsection (b) hereof), which value shall be determined by subtracting (1) the aggregate Exercise Price of the Converted Warrant Shares immediately prior to the exercise of the Conversion Right from (2) the aggregate fair market value of the Converted Warrant Shares issuable upon exercise of this Warrant (or the specified portion hereof) on the Conversion Date (as herein defined) by (y) the fair market value of one share of Common Stock on the Conversion Date (as herein defined). No fractional shares shall be issuable upon exercise of the Conversion Right, and, if the number of shares to be issued determined in accordance with the foregoing formula is other than a whole number, the Company shall pay to the Holder an amount in cash equal to the fair market value of the resulting fractional share on the Conversion Date (as hereinafter defined). For purposes of Section 9 of this Warrant, shares issued pursuant to the Conversion Right shall be treated as if they were issued upon the exercise of this Warrant.

(b) Method of Exercise. The Conversion Right may be exercised by the Holder by the surrender of this Warrant at the principal office of the Company together with a written statement specifying that the Holder thereby intends to exercise the Conversion Right and indicating the number of shares subject to this Warrant which are being surrendered (referred to in subsection (a) hereof as the Converted Warrant Shares) in exercise of the Conversion Right. Such conversion shall be effective

upon receipt by the Company of this Warrant together with the aforesaid written statement, or on such later date as is specified therein (the "Conversion Date"). Certificates for the shares issuable upon exercise of the Conversion Right and, if applicable, a new warrant evidencing the balance of the shares remaining subject to this Warrant, shall be issued as of the Conversion Date and shall be delivered to the Holder within thirty (30) days following the Conversion Date.

(c) Determination of Fair Market Value. For purposes of this Section 9(c), "fair market value" of a share of Common Stock or a Converted Warrant Share, as the case may be, as of a particular date (the "Determination Date") shall mean:

(i) If traded on a securities exchange or on Nasdaq, the fair market value of the Common Stock shall be deemed to be the closing price of the Common Stock on such exchange on the business day prior to the Determination Date;

(ii) If traded over-the-counter, the fair market value of the Common Stock shall be deemed to be the closing price of the Common Stock on the business day prior to the Determination Date; and

(iii) If there is no public market for the Common Stock, then fair market value shall be determined by the Board of Directors of the Company; provided, however, that if the Holder shall not agree with the fair market value determined by the Board, the Company shall engage an investment banker of national reputation (or such other party as shall be mutually acceptable to the parties) to determine the fair market value. If the valuation of the investment banker is less than the value determined the Board of Directors or does not exceed such valuation by 10%, the expenses of the valuation shall be borne by the Holder. If the valuation of the investment banker is greater than the value determined by the Board of Directors by more than 10%, the expenses of such valuation shall be borne by the Company.

10. Transfers and Exchanges. This Warrant may not be transferred in whole or in part by the Holder without the prior written consent of the Company. All new warrants issued in connection with transfers or exchanges shall be identical in form and provision to this Warrant except as to the number of shares.

11. Successors and Assigns. The terms and provisions of this Warrant shall be binding upon the Company and the Holder and their respective successors and assigns.

12. Amendments. This Warrant and any provision hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of the same is sought.

13. Letter Agreement. This Warrant is issued pursuant to the Letter of Agreement (the "Letter Agreement"), dated as of November 22, 1996, between the Company and The Investor's Relationship Group, Inc. The issuance of this Warrant shall not be construed to indicate that an employment or consulting relationship exists between the Company and Holder, except to the extent set forth in the Letter Agreement.

14. Loss, Theft, Destruction or Mutilation of Warrant. Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant, and in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to the Company, and upon reimbursement to the Company of all reasonable expenses incidental thereto, and upon surrender and cancellation of this Warrant, if mutilated, the Company will make and deliver a new warrant of like tenor and dated as of such cancellation, in lieu of this Warrant.

15. Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall be a Saturday or Sunday or shall be a legal holiday, then such action may be taken or such right may be exercised on the next succeeding day not a legal holiday.

16. Governing Law. The terms and conditions of this Warrant shall be governed by and construed in accordance with New York law as such laws are applied to agreements which are entered into solely between New York residents and are to be performed entirely within that state.

Dated: ATLANTIC PHARMACEUTICALS, INC.

By: /s/ Jon D. Lindjord

Jon D. Lindjord
President and Chief Executive Officer

Dated: -----

Dian Griesel, Ph.D.

EXHIBIT A

NOTICE OF EXERCISE

To: Atlantic Pharmaceuticals, Inc.

1. The undersigned hereby elects to purchase _____ shares of Common Stock of Atlantic Pharmaceuticals, Inc. pursuant to the terms of the attached Warrant, and tenders herewith payment of the purchase of such shares in full.

2. Please issue a certificate or certificates representing said shares in the name of the undersigned or in such other name or names as are specified below:

(Name)

(Address)

3. The undersigned represents that the aforesaid shares are being acquired for the account of the undersigned for investment and not with a view to, or for resale in connection with, the distribution thereof and that the undersigned has no present intention of distributing or reselling such shares.

HOLDER

By: -----

Its: -----

Dated: -----

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM FINANCIAL STATEMENTS FOR THE PERIOD ENDED MARCH 31, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS

3-MOS	DEC-31-1997		
	MAR-31-1997		
		1,438,496	
		0	
		0	
		0	
	1,519,371		80,560
	86,679		
	1,599,931		
	343,473		0
	0		0
		0	
		2,914	
1,599,931	10,720,398		
			0
	0		0
	0		
	(954,504)		
	0		
	(22,852)		
	(931,652)		
	0		
	(931,652)		
	0		
	0		
		0	
	(931,652)		
	(0.32)		
	(0.32)		