UNITED STATES 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 June 30, 1997

Commission File No. 0-27282

Atlantic Pharmaceuticals, Inc.

1017 Main Campus Drive, Suite 3900
Raleigh, North Carolina, 27606

Telephone (919)513-7020

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 /X/ No / /

3,016,920 shares of common stock, $.001 par value per share, were outstanding on June 30, 1997

Transitional Small Business Disclousre Format Yes / / No /X/

Atlantic Pharmaceuticals , Inc. and Subsidiaries

ATLANTIC PHARMACEUTICALS, INC. AND SUBSIDIARIES
(a development stage company)
Consolidated Balance Sheets
June 30, 1997 and December 31, 1996

ASSETS	30-JUN-97	31-DEC-96
	(UNAUDITED)	
Current assets:		
Cash and cash equivalents	$ 2,310,163	2,269,532
Prepaid expenses	43,123	24,949
Total current assets	2,353,286	2,294,481
Furniture and equipment, net of accumulated depreciation of $98,328 and $75,133 at June 30,1997 and December 31, 1996, respectively.	185,611	82,761
Total assets	$ 2,538,897	2,377,242
Liabilities and Stockholders' Equity		
Current liabilities:		
Accrued expenses	$ 364,387	281,792
Total current liabilities	364,387	281,792
Stockholders' equity		
Preferred stock, $.001 par value. Authorized 50,000,000 shares; none issued and none outstanding.	--	--
Series A Convertible Preferred stock, $.001 par value. Authorized 1,100,000 shares; 230,000 issued and outstanding at June 30, 1997.	230	--
Common stock $.001 par value. Authorized 80,000,000 shares; 3,016,920 and 2,913,720 shares issued and outstanding at June 30, 1997 and December 31,1996, respectively	3,017	2,914
Common stock subscribed. 182 shares at June 30,1997 and December 31,1996.	--	--
Additional paid -in capital	13,536,958	10,634,938
Deficit accumulated during development stage	(11,276,353)	(8,438,660)
Deferred compensation	(88,800)	(103,200)
	2,175,052	2,095,992
Less common stock subscriptions receivable	(218)	(218)
Less treasury stock, at cost	(324)	(324)
Total stockholders' equity	2,174,510	2,095,450
Total liabilities and stockholders' equity	$ 2,538,897	2,377,242

See accompanying notes to consolidated financial statements.

ATLANTIC PHARMACEUTICALS, INC. AND SUBSIDIARIES
(a development stage company)
Consolidated Statements of Operations (Unaudited)
Three months ended June 30, 1997 and 1996, the six months ended June 30, 1997
and 1996 and the period from July 13, 1993 (inception) to June 30, 1997.

	THREE MONTHS ENDED		SIX MONTHS ENDED		CUMULATIVE FROM JULY13,
	JUNE 30, 1997	JUNE 30, 1996	JUNE 30, 1997	JUNE 30, 1996	1993 (INCEPTION) TO JUNE 30,1997
Revenue:					
Grant Revenue	$ 2,288	--	2,288	--	99,932
Total Revenue	2,288	--	2,288	--	99,932
Costs and expenses:					
Research and development	$1,072,625	248,061	1,288,181	487,313	2,974,516
License fees	--	--	--	--	173,500
General and administrative	736,811	531,952	1,475,759	1,109,869	7,695,923
Total operating expenses	1,809,436	780,013	2,763,940	1,597,182	10,843,939
Other expense (income):					
Interest income	(22,221)	(37,300)	(45,073)	(89,501)	(214,343)
Interest expense	--	--	--	--	
Total other expense (income)	(22,221)	(37,300)	(45,073)	(89,501)	411,232
Net loss	$(1,784,927)	(742,713)	(2,716,579)	(1,507,681)	(11,155,239)
Imputed Preferred Stock dividend	$ (121,114)	--	(121,114)	--	(121,114)
Net Loss to common stockholders	(1,906,041)	--	(2,837,693)	--	(11,276,353)
Net loss per share	$ (0.64)	(0.28)	(0.97)	(0.57)	(10.29)
Shares used in calculation of net loss per share	2,965,887	2,663,720	2,939,948	2,663,720	1,095,328

See accompanying notes to consolidated financial statements.

ATLANTIC PHARMACEUTICALS, INC. AND SUBSIDIARIES
(a development stage company)
Consolidated Statements of Cash Flows (Unaudited)
Six months ended June 30, 1997 and 1996 and the period from July 13, 1993 (inception) to June 30, 1997

	SIX MONTHS ENDED JUNE 30, 1997	JUNE 30, 1996	CUMULATIVE FROM JULY 13, 1993 (INCEPTION) TO JUNE 30, 1997
Cash flows from operating activities:			
Net loss	$ (2,837,693)	(1,507,681)	(11,276,353)
Adjustments to reconcile net loss to net cash used in operating activities:			
Stock based compensation- development	657,900	--	657,900
Stock based compensation- general and administrative	136,722	14,400	381,304
Imputed Preferred Stock dividend	121,114		121,114
Discount on notes payable-bridge financing	--	--	300,000
Depreciation	21,886	21,543	97,019
Changes in assets and liabilities:			
(Increase) decrease in prepaid expenses	(18,174)	12,000	
Increase (decrease) in accrued expenses	82,595	(423,188)	364,386
Increase (decrease) in accrued interest		(115,011)	172,305
Net cash used in operating activities	(1,835,650)	(1,997,937)	(9,225,448)
Net cash used in investing activities			
Acquisition of furniture and equipment	(124,737)	(51,384)	(282,631)
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
Proceeds from the issuance of Preferred Stock	2,001,000	--	2,001,000
Net cash provided by (used in) financing activities	2,001,018	(200,000)	11,818,242
Net increase (decrease) in cash and cash equivalents	40,631	(2,249,321)	2,310,163
Cash and cash equivalents at beginning of period	2,269,532	5,044,632	--
Cash and cash equivalents at end of period	$ 2,310,163	2,795,311	2,310,163
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.

Atlantic Pharmaceuticals, Inc. and Subsidiaries
(a development stage company)
Notes to Consolidated Financial Statements (Unaudited)
June 30, 1997 and 1996

(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, Atlantic Pharmaceuticals, Inc.(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 the remainder of the shares will be exercisable in an equal successive one-year installments. No options have been exercised as of June 30, 1997.

(3) Issuance of Warrants

A warrant to purchase 24,000 shares of the Company's Common Stock at $7.00 per share was issued to a consultant. That warrant expires on November 22, 2001. In connection with the issuance of these warrants, the Company recognized an expense in the amount of $36,880 in the first quarter and an expense in the amount of $36,880 in the second quarter. 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. On May 16, 1997 the Company issued 103,200 shares of Common Stock of the Company to stockholders of Channel. In connection with the issuance of these shares the Company recognized an expense in the amount of $657,900. This expense is included in research and development expenses in the accompanying Consolidated Statements of Operations.

(5) Private Placement

Pursuant to the first closing of a private placement (the "Private Placement") of its Series A Convertible Preferred Stock, par value $0.001 per share (the "Preferred Stock"), the Company issued and sold an aggregate of 230,000 shares of Preferred Stock to certain accredited investors on May 22, 1997 in consideration of an aggregate amount equal to $2,300,000. The net proceeds to the Company after deducting commissions and expenses of the private placement agent were $2,001,000.

The rights and preferences of the Preferred Stock are as described in the Certificate of Designations of Series A Convertible Preferred Stock which was filed with the Secretary of State of Delaware on May 22, 1997. The holders of the Preferred Stock have registration rights as to the shares of common stock, par value $0.001, underlying the Preferred Stock.

Paramount Capital, Inc. ("Paramount") acted as placement agent for the Private Placement. Lindsay A. Rosenwald, M.D. a greater than five percent stockholder of the Company, is the sole stockholder of Paramount.

(6) Subsequent Events

On August 7, 1997 the Company completed the Private Placement of its Preferred Stock. On such date the Company issued and sold an aggregate of [1,007,200] shares of its Preferred Stock to certain accredited investors in consideration of an aggregate amount equal to [$10,072,000]. The net proceeds to the Company after deducting commissions and expenses of the private placement agent were [$8,742,695].

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 June 30, 1997

For the second quarter ended June 30, 1997, research and development expense increased by 332% over the similar period in 1996, primarily due to increased research and development activities and the recognition of a research and development expense in the amount of $657,900 in connection with the issuance of common stock to the Channel minority shareholders.

For the second quarter of 1997 general and administrative expense increased by 38% over the second quarter of 1996, primarily as a result of warrant compensation expenses, legal expenses and other general and administrative expenses.

For the second quarter of 1997, interest income was $22,221, compared to $37,300 in the second quarter of 1996. The decrease is due to a reduction in the Company's cash and cash equivalents.

Results of Operations for the six-month period ended June 30, 1997

For the six-months period ended June 30, 1997, research and development expense increased by 164% over the similar period in 1996, primarily due to increased research and development activities and the recognition of a research and development expense in the amount of $657,900 in connection with the issuance of common stock to the Channel minority shareholders.

For the six-months period ended June 30, 1997, general and administrative expense increased by 33% over the similar period of 1996 primarily as a result of warrant compensation expenses, legal expenses and other general and administrative expenses.

For the six-months period ended June 30, 1997, interest income was $45,073, compared to $89,501 for the six-months period ended June 30, 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 $11,276,353 since inception and expects to continue to incur additional losses through the year ending December 31, 1997 and the foreseeable future.

As of June 30 the Company anticipated that its current resources will be sufficient to finance the Company's currently anticipated needs for operating and capital expenditures for at least six months; however, subsequent to June 30, 1997 the Company completed its Private

Placement of Preferred Stock . The Company anticipate that the funds that were generated in the Private Placement will be sufficient to finance the Company's currently anticipated needs for operating and capital expenditures for at least two years. 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 according to plan.

Gemini's 2-5A antisense enhancing technology is continuing to make good progress. New oligonucleotides against the RSV (Respiratory Sensational Virus) have demonstrated a potential for broad spectrum and powerful virucidal activity. These new molecules are being readied for advanced animal testing. Additional work on a promising cancer target has yielded encouraging data and a patent has been filed in connection therewith. A promising lead compound against Chronic Myelogenous Leukemia is currently undergoing verification and, if consistently potent, will be tested in vivo. The Company has also filed a patent relating to anti-PKR (Phoshporkinase Signaling Device) oligonucleotides, which have the potential to disrupt certain critical aspects of intracellular signalling pathways.

Channel's sulfated cyclodextrin technology is yielding new compound leads, some of which appear to be highly active and potentially non-toxic. These compounds are undergoing early in vivo characterization. CT-1 porcine testing and in vivo CT-2 AV shunt testing are expected to be completed before the second quarter in 1998. The stent-bonding program is being refined to achieve optimal stability. Additionally, discussions are underway regarding the potential incorporation of sulfated cyclodextrins into synthetic vascular graft material.

Atlantic's CT-3 technology is progressing towards definitive toxicology assessments, following which an IND (Investigation of New Drug) will be filed, thus paving the way for human testing.

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, as amended, 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 June 30, 1997, the Company's working capital and accumulated deficit were $1,988,899 and $11,276,353 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 consolidated 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 December 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 United States. 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 Opthalmologics, 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 Optex. 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 26% 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

Two of the four 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 15g-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

Future sales by existing stockholders could adversely affect the prevailing market price of the Company's Common Stock. The outstanding shares of the Company's Common Stock are all freely tradeable, subject to volume and other restrictions imposed by Rule 144 under the Securities Act with respect to sales by affiliates of the Company. An 18-month restriction on transfer applicable to the shares of Common Stock now owned or hereafter acquired by the Company's officers, directors and certain stockholders expired on June 14, 1997. sales of substantial amounts of Common Stock may have an adverse effect on the market price of the Company's Common Stock.

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. The Company granted to holders of the warrants issued to such underwriter 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.

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. 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 November 1996 and February 1997, related complaints alleging claims under the Securities Exchange Act of 1934, as amended, and common law causes of action were filed against the Company in the United States District Court for the District of Delaware and the Delaware Chancery Court, respectively. The parties have reached a settlement in principle with respect to such complaints, pursuant to which an existing stockholder of the Company owning greater than five percent of the Company's capital stock transferred to plaintiff an aggregate of 5,000 shares of the Company's common stock.

Item 4. Submission of Matters to a Vote of Security Holders

The Company's annual meeting of stockholders was called to order on May 21,1997 pursuant to due notice and adjourned to June 17, 1997, upon due notice. Total shares voted were 1,721,536 out of 2,913,720 entitled to vote.

Matters voted on:

1. ELECTION OF DIRECTORS:	FOR	WITHHELD
Jon D. Lindjord	1,714,636	6,900
John K.A. Predergast, Ph.D	1,714,636	6,900
Steve H. Kanzer	1,714,636	6,900
Yuichi Iwaki, M.D., Ph.D.	1,714,636	6,900

Accordingly, following the June 17, 1997 meeting the members of the Board of Directors standing for election were re-elected. Dr. Lindsay A. Rosenwald, M.D. did not stand for re-election to the Company's Board of Directors. Therefore the Company's Board of Directors now consist of Jon D. Lindjord, Yuichi Iwaki, M.D., Ph.D., Steve H. Kanzer and John K.A. Prendergast, Ph.D. The Board of Directors currently has one vacancy.

2. To approve a form of indemnification agreement to be entered into by and between the Company and its officers and directors.

For	Against	Abstain
1,677,436	32,350	11,750

3. To ratify the Board of Director's selection of KPMG Peat Marwick LLP to serve as the Company's independent auditors for the year ending December 31, 1997.

For	Against	Abstain
1,712,636	1,500	7,400

Item 6. Exhibits and Reports on Form 8-K

a. Exhibits

27.1 Financial Data Schedule

b. Form 8-K Reports

On June 9, 1997 the Company filed a report on Form 8-K stating that the Company had, pursuant to a private placement, issued and sold an aggregate of 230,000 shares of Preferred Stock to certain accredited investors on May 22, 1997 in consideration of an aggregate amount equal to $2,300,000. The net proceeds to the Company after deducting commissions and expenses of the private placement agent were $2,001,000.

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.

August 14, 1997 Jon D. Lindjord

Jon D. Lindjord
Chief Executive Officer and President

August 14, 1997 Shimshon Mizrachi

Shimshon Mizrachi
Controller
Principal Accounting and Financial Officer

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM FINANCIAL STATEMENTS FOR THE PERIOD ENDED June 30, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS

6-MOS
JUN-30-1997
JUN-30-1997
2,310,163
0
0
0
0
2,353,286
288,939
88,328
2,538,897
364,387
0
0
230
3,017
13,415,844
2,538,897
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2,288
0
0
2,763,940
0
(45,073)
(2,837,693)
0
(2,837,693)
0
0
0
(2,837,693)
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