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, 1999

Commission File No. 0-27282

Atlantic Pharmaceuticals, Inc.

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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 [ ]

4,642,631 shares of common stock, $.001 par value per share were outstanding on March 31, 1999

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

ATLANTIC PHARMACEUTICALS , INC. AND SUBSIDIARIES

PART ONE - FINANCIAL INFORMATION

PART ONE- FINANCIAL INFORMATION
ITEM 1- FINANCIAL STATEMENTS

ATLANTIC PHARMACEUTICALS, INC. AND SUBSIDIARIES
(a development stage company)
Consolidated Balance Sheets
March 31, 1999 (unaudited) and December 31, 1998 (audited)

Assets	3/31/99	12/31/98
Current assets:		
Cash and cash equivalents	$ 5,002,900	$ 5,835,669
Prepaid expenses	31,871	42,108
Account receivable	302,026	381,015
Total current assets	5,336,797	6,258,792
Furniture and equipment, net of accumulated depreciation of $346,914 and $316,639 at March 31,1999 (unaudited) and December 31, 1998, respectively	236,594	262,173
	5,573,391	6,520,965
Liabilities and Stockholders' Equity		
Current liabilities:		
Accrued expenses	576,395	657,001
Total current liabilities	576,395	657,001
Stockholders' equity		
Preferred stock, $.001 par value. Authorized 10,000,000 shares; 1,375,000 designated as Series A convertible preferred stock Series A convertible preferred stock, $.001 par value; authorized 1,375,000 shares, 589,886 and 632,468 shares issued and outstanding at March 31, 1999 (unaudited) and December 31, 1998, respectively	590	632
Convertible preferred stock warrants, 117,195 issued and outstanding at March 31, 1999 (unaudited) and December 31, 1998, respectively	540,074	540,074
Common stock $.001 par value. Authorized 50,000,000 shares; 4,642,631 and 4,503,388 shares issued and outstanding at March 31, 1999 (unaudited) and December 31,1998, respectively	4,643	4,503
Common stock subscribed. 182 shares at March 31,1999 (unaudited) and December 31,1998	--	--
Additional paid-in capital	21,662,783	21,662,881
Deficit accumulated during development stage	(17,210,552)	(16,343,584)
	4,997,538	5,864,506
Less common stock subscriptions receivable	(218)	(218)
Less treasury stock, at cost	(324)	(324)
Total stockholders' equity	4,996,996	5,863,964
	$ 5,573,391	$ 6,520,965

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, 1999 and 1998 and the period from July 13, 1993 (inception) to March 31, 1999.

	Quarter ended March 31		Cumulative from July 13, 1993 (inception) to March 31,1998
	1999	1998	
Revenue:			
License Revenue	--	--	$ 2,500,000
Grant revenue	--	--	$ 99,932
Total Revenue	--	--	$ 2,599,932
Costs and expenses:			
Research and development	$ 560,339	$ 756,726	7,843,613
License fees	--	--	173,500
General and administrative	370,850	623,993	12,097,853
Total operating expenses	931,189	1,380,719	20,114,966
Other expense (income):			
Interest income	(64,221)	(108,485)	(930,057)
Interest expense	--	--	625,575
Total other expense (income)	(64,221)	(108,485)	(304,482)
Net loss	(866,968)	(1,272,233)	(17,210,552)
Imputed convertible preferred stock dividend	--	1,016,702	5,331,555
Net loss applicable to common shares	(866,968)	(2,288,935)	(22,542,107)
Net loss per common share -basic	($ 0.19)	($ 0.70)	($ 13.67)
Shares used in calculation of net loss per share	4,573,009	3,256,021	1,649,259

See accompanying notes to consolidated financial statements.

ATLANTIC PHARMACEUTICALS, INC. AND SUBSIDIARIES
(a development stage company)
Consolidated Statements of Cash Flows (Unaudited)
Quarters ended March 31, 1999 and 1998 and the period
from July 13, 1993 (inception) to March 31, 1999

	Quarter ended March 31,		Cumulative from July 13, 1993 (inception) to March, 31
	1999	1998	1999
Cash flows from operating activities:			
Net loss	$ (866,968)	(1,272,233)	(17,210,552)
Adjustments to reconcile net loss to net cash used in operating activities:			
Expense relating to issuance of warrants	--	--	298,202
Expense relating to issuance of options	--	34,518	81,952
Expense related to Channel merger	--	--	657,900
Compensation expense relating to stock options	--	--	208,782
Discount on notes payable - bridge financing	--	--	300,000
Depreciation	30,275	37,933	346,914
Changes in assets and liabilities:			
(Increase) decrease in prepaid expenses	10,237	(71,582)	(31,871)
Increase (decrease) in accrued expenses	(80,606)	(149,728)	576,395
Increase (decrease) in accrued interest	--	--	172,305
(Increase) decrease in account receivable	78,989	--	(302,026)
Net cash used in operating activities	(828,073)	(1,421,093)	(14,901,999)
Net cash used in investing activities - acquisition of furniture and equipment	(4,696)	(128,365)	(583,509)
Cash flows from financing activities:			
Proceeds from exercise of warrants	--	--	5,500
Proceeds from exercise of options	--	--	52,500
Proceeds from issuance of demand notes payable	--	--	2,395,000
Repayment of demand notes payable	--	--	(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	--	--	(1,500,000)
Repurchase of common stock	--	--	(324)
Proceeds from the issuance of common stock	--	5,498	7,547,548
Proceeds from the issuance of convertible preferred stock	--	--	10,613,184
Net cash provided by (used in) financing activities	--	5,498	20,488,408
Net increase (decrease) in cash and cash equivalents	(832,769)	(1,543,959)	5,002,900
Cash and cash equivalents at beginning of period	5,835,669	8,543,495	--
Cash and cash equivalents at end of period	$ 5,002,900	6,999,536	5,002,900
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
Cashless exercise of preferred warrant	--	--	$ 30,069
Conversion of preferred to common stock	$ 140	--	$ 1,555

See accompanying notes to consolidated financial statements.

Atlantic Pharmaceuticals, Inc. and Subsidiaries
(a development stage company)
Notes to Consolidated Financial Statements (Unaudited)
March 31, 1999 and 1998

(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, 1999 or for any subsequent period. These financial statements should be read in conjunction with Atlantic Pharmaceuticals, Inc., and Subsidiaries' (the "Company") Annual Report on Form 10 - KSB for the year ended December 31, 1998.

(2) COMPUTATION OF NET LOSS PER COMMON SHARE

The Company has adopted Statement of Financial Accounting Standards No. 128 "Earnings Per Share" ("SFAS No. 128"). In accordance with this statement, primary net loss per common share is replaced with basic loss per common share which is calculated by dividing net loss by the weighted average number of common shares outstanding for the period. Fully diluted net income per common share is replaced with diluted net income per common share reflecting the maximum dilutive effect of common stock issuable upon exercise of stock options, stock warrants, stock subscriptions and conversion of preferred stock. Diluted net loss per common share is not shown, as common equivalent shares from stock options, stock warrants, stock subscriptions and convertible preferred stock would have an antidilutive effect.

(3) LIQUIDITY

The accompanying financial statements have been prepared assuming that the company will operate as a going concern. Management expects to raise adequate capital to fund its research, product development and administrative expenses. The ability of the Company to raise these funds is dependent on raising adequate funds from investors and corporate partners. The financial statements do not include any adjustments that might be necessary if the Company is unable to raise these funds.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of the Company's 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, 1998.

Results of Operations for the Quarter Ended March 31, 1998

In accordance with its license and development agreement with the Company, Bausch &Lomb Surgical ("Bausch & Lomb") reimbursed Atlantic's subsidiary, Optex Ophthalmologics, Inc. ("Optex") in the amount of $540,347 for Optex's costs related to the development of the Catarex(TM) technology in the first quarter. This reimbursement reduced the Company's research and development expense by $508,867 and general and administrative expenses by $31,480.

For the first quarter ended March 31, 1999, research and development expense was $1,069,206 compared to $756,726 in the first quarter of 1998, an increase of 41%. (The Company was reimbursed $508,867 by Bausch & Lomb and the net research and development expense was $560,339) The increase is largely due to accelerated spending on the CT -3 program and the Catarex technology.

For the first quarter ended March 31, 1999, general and administrative expense was $402,330 compared to $623,993 in the first quarter of 1998, a decrease of 35.5%. (The Company was reimbursed $31,480 by Bausch & Lomb and the net general and administrative expense was $370,850). The decrease is largely due to reduction in marketing and compensation expenses.

For the first quarter of 1999, interest income was $64,221 compared to $108,485 in the first quarter of 1998, a decrease of 41%. The decrease is due to the decline in the Company's cash reserves.

Liquidity and Capital Resources

From inception to March 31, 1999 the Company had incurred an accumulated deficit of $17,210,552 and expects to continue to incur additional losses through the year ending December 31, 1999 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 the next fifteen months. In addition, the Company may 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.

RESEARCH AND DEVELOPMENT ACTIVITIES

Preclinical studies with all four of the Company's primary technologies are proceeding according to plan.

Optex's development of the Catarex device is continuing in cooperation with Bausch & Lomb. Recent work has been focused on the validation of the production design prototype. The Company anticipates that Bausch & Lomb will file a 510(k) application with the U.S. Food and Drug Administration ("FDA") in 1999.

Gemini Technologies, Inc.s', ("Gemini") research on the antisense enhancing technology is continuing. The primate proof-of-principle studies are currently scheduled to begin in the second quarter of 1999. Production of the oligonucletoide to be tested in these studies was delayed by several weeks due to technical difficulties in scaling up the production of the molecules. The Company believes that these problems have been solved and delivery is scheduled at the testing laboratory. In addition to the Respiratory Syncytial Virus ("RSV') work, refinements to the chemical synthesis process are continuing along with basic work on the anti-telomerase molecules.

The toxicology program for CT-3 has completed all dosing. Bioanalytical analyses are ongoing, as is completion of reports on the toxicology studies. To date, these studies have not resulted in any data that would cause the discontinuation or delay in the development of CT-3. The results of these studies will be summarized for submission to an ethics committee. Ethics committee approval is required prior to beginning the planned studies to determine the safety and tolerance of rising doses of CT-3 in normal volunteers. The design of this study is in progress. The Company believes that it is crucial to conduct studies to determine the safety and tolerance of CT-3 in addition to assessing the potential for any detrimental central nervous system side effects of CT-3. The design of the clinical program will require additional toxicology testing and formulation development prior to beginning large-scale clinical trials.

In addition to the work to support the above-mentioned studies with CT-3, studies on the mechanism of action of CT-3 are underway. The studies are designed to determine if there is any addiction or tolerance potential, which are significant drawbacks of narcotic analgesics. To date, no information is available from these studies.

No work was conducted on the Company's cyclodextrin technology during the first quarter of 1999. The Company is currently seeking an alliance to continue the development of CT-1.

Future Outlook
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Except for the historical information contained herein, this Quarterly Report may contain certain forward looking statements that involve risks and uncertainties, such as statements of the Company's plans, objectives, expectations and intentions. 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 many factors including 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 25, 1999 as well as those set forth elsewhere herein.

RISK FACTORS

AN INVESTMENT IN OUR SECURITIES INVOLVES A HIGH DEGREE OF RISK. IN ADDITION TO THE OTHER INFORMATION IN THIS FORM 10-QSB, YOU SHOULD CAREFULLY CONSIDER THE RISKS BELOW IN EVALUATING AN INVESTMENT DECISION IN OUR COMPANY. THE RISKS BELOW ARE NOT THE ONLY RISKS FACING OUR COMPANY. THERE MAY BE ADDITIONAL RISKS AND UNCERTAINTIES NOT PRESENTLY KNOWN TO US OR THAT WE HAVE DEEMED IMMATERIAL WHICH COULD ALSO NEGATIVELY IMPACT OUR BUSINESS OPERATIONS. IF ANY OF THE FOLLOWING RISKS ACTUALLY OCCUR, OUR BUSINESS, FINANCIAL CONDITION AND RESULTS OF OPERATIONS WOULD LIKELY BE MATERIALLY ADVERSELY AFFECTED. IN THAT EVENT, THE TRADING PRICE OF OUR SECURITIES COULD DECLINE AND YOU COULD LOSE ALL OR PART OF YOUR INVESTMENT. THIS FORM 10-QSB MAY CONTAIN FORWARD-LOOKING STATEMENTS THAT INVOLVE RISKS AND UNCERTAINTIES, SUCH AS STATEMENTS OF OUR PLANS, OBJECTIVES, EXPECTATIONS AND INTENTIONS. OUR ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE ANTICIPATED IN THESE FORWARD-LOOKING STATEMENTS FOR REASONS INCLUDING THE RISKS DESCRIBED BELOW AS WELL AS THE OTHER INFORMATION IN THIS FORM 10-QSB.

WE HAVE A DIVIDED BOARD

Certain members of our Board of Directors currently have significant disagreements with one another, including disagreements concerning the composition of the board of directors, the strategic direction of our company, corporate governance and operations matters. Preliminary and definitive proxy statements, which have been filed with the U.S. Securities and Exchange Commission (the "SEC") by us and by a group of individuals including one of our board members, are available for review at http://www.sec.gov, and describe the directors' disagreements in more detail. Among the proposals for which the Company and the insurgents are soliciting stockholder consent are the removal of various board members and the election of others. Consequently, the board's composition may change in the near future, and the new directors may express different views as to the Company's strategic direction. We currently do not know when or how these disagreements will be resolved. We cannot take any action requiring board approval until a majority of our board is in agreement on the matter. Actions that require board approval include election of our president and chief executive, embarking on significant new research initiatives, engaging in merger or acquisition activity, issuing our securities and entering into material agreements. For example, we are currently without a president and chief executive officer. Consequently, the Company's ability to undertake any significant activity has been and will continue for the foreseeable future to be, limited to those matters on which a majority of directors agree.

HOLDERS OF OUR SERIES A PREFERRED STOCK HAVE RIGHTS SUPERIOR TO THOSE OF THE HOLDERS OF OUR COMMON STOCK

Holders of shares of our outstanding Series A Preferred Stock can convert each share into 3.27 shares of Common Stock without payment of any cash to us. The conversion price of the Series A Preferred Stock is $3.06 per share. Both the conversion rate and the conversion price may be adjusted in favor of the holders of the Series A Preferred Stock upon certain triggering events. Accordingly, the number of shares of Common Stock that holders of the Series A Preferred Stock receive upon conversion may increase, which could adversely affect the prevailing market price of our other securities.

In addition, each February 7 and August 7 we are obligated to pay dividends, in arrears, to the holders of the Series A Preferred Stock, and the dividends consist of 0.065 additional shares of

Series A Preferred Stock for each outstanding share of Series A Preferred Stock. Our obligation to issue additional shares of Series A Preferred Stock without payment of any cash to us could adversely affect the prevailing market price of our other securities. No dividends were declared in the first quarter ended March 31,1999.

If we are liquidated, sold to or merged with another entity (and we are not the surviving entity after the merger), we are obligated to pay the holders of the Series A Preferred Stock a liquidation preference of $13.00 per share before any payment is made to the holders of the Common Stock. After payment of the liquidation preference, we might not have any assets remaining to pay the holders of the Common Stock. The liquidation preference could adversely affect the market price of our other securities.

We need to obtain the approval of a supermajority (66.67%) of the outstanding shares of the Series A Preferred Stock, voting separately as a class, to approve certain actions that we may wish to take and have failed in the past to obtain a quorum or a supermajority in connection with certain proposals. Accordingly, if we continue to be unable to obtain the required approval on a timely basis from the holders of the Series A Preferred Stock, our ability to conduct business may be impaired, which could adversely affect our business, financial condition and results of operations.

The holders of the Series A Preferred Stock have rights in addition to those summarily described above. A complete description of the rights of the Series A Preferred Stock is contained in the Certificate of Designations for such securities filed with the Secretary of State of the State of Delaware and incorporated by reference in our Annual Report on form 10KSB as filed with the SEC on March 25, 1999.

OUR FUTURE PROFITABILITY IS UNCERTAIN

Our Company was incorporated in 1993 and has incurred significant operating losses in each of our fiscal years since then. As of March 31, 1999, our accumulated deficit was $17,210,552. We have not completed development of any of our products or generated any product sales to date. All of our technologies and products under development are in the research and development stage, which requires substantial expenditures. Our operating revenue of $2,599,932 from inception through March 31, 1999 consists of a government grant and up-front and milestone payments made by Bausch & Lomb. Except for additional milestone payments from Bausch & Lomb, which we do not anticipate receiving until at least the year 2000, we do not expect to generate any revenues in the near future. It is possible that we may not receive any additional payments from Bausch & Lomb. We expect to incur significant operating losses over the next several years, primarily due to continuation and expansion of our research and development programs, including preclinical studies and clinical trials for our products and technologies under development, as well as costs incurred in identifying and, possibly, acquiring, additional technologies. To generate revenues or profits, we (alone or with corporate partners) must successfully develop, test, obtain regulatory approval for, manufacture and commercialize our potential products. It is possible that our product development efforts may not be successful or that we may not obtain required regulatory approvals. Even if our products are developed and introduced, they may not be successfully commercialized.

WE HAVE CONTINUING FUTURE CAPITAL NEEDS; WE ARE UNSURE WHETHER ADDITIONAL FUNDING WILL BE AVAILABLE

As of March 31, 1999, we had cash, cash equivalents and short-term investment balances of $5,002,900. Based on a budget prepared by our management team, we currently anticipate that we will spend all of our current cash resources by the end of the first quarter of 2000, although unanticipated expenses could cause us to spend all of our current cash resources prior to that time. We will require substantial additional resources to continue to conduct the development and testing of our potential products, to obtain regulatory approvals and to manufacture and commercialize any products that may be developed. Our future capital requirements will depend on numerous factors, including:

- A change in our strategic focus or direction;
- the progress of our research and development programs;
- the cost of acquiring additional products and technologies, if any;
- the progress of our ongoing and planned preclinical and clinical testing;
- the time and costs involved in obtaining regulatory approvals;
- the cost of filing, prosecuting, defending and enforcing patent claims and other intellectual property rights;
- competing technological and market developments;
- changes in our existing collaborative and licensing relationships;
- our ability to establish additional collaborative relationships for the development, testing, obtaining regulatory approvals, manufacture and commercialization of our potential products;
- the status of competitors;
- the level of resources we must devote to the development of manufacturing and commercialization capabilities; and
- our need, if any, to purchase capital equipment.

We will need to obtain additional funding through public or private equity or debt financings, collaborative arrangements or from other sources to continue our research and development activities, to fund operating expenses and to pursue regulatory approvals and commercialization for our products in development. Current stockholders may experience significant dilution if we raise funds by issuing equity securities. In addition, if one of our subsidiaries raises additional funds by issuing equity securities, our interest and that of our stockholders in the subsidiary could be diluted. Moreover, if our voting interest in any of our subsidiaries fell below 50%, we might not be able to exercise an adequate degree of control over the affairs of the subsidiary. If we obtain additional funds through collaborative agreements, we may be required to relinquish rights to certain of our technologies, product candidates, products or marketing territories that we would otherwise seek to develop or commercialize ourselves. Additional financing sources may not be available on acceptable terms, if at all. If adequate funds are not available, significant reductions in spending and the delay, scaling back or elimination of one or more of our research, discovery or development programs may be necessary, which would materially and adversely affect our business, financial condition and results of operations.

OUR CAPITALIZATION STRUCTURE MAY ADVERSELY AFFECT THE PRICE OF OUR COMMON STOCK AND IMPEDE OUR ABILITY TO OBTAIN ADDITIONAL FUNDING

As of March 31, 1999, our outstanding convertible securities (other than those relating to the Series A Preferred Stock), both vested and unvested, were convertible into 4,663,549 shares of Common Stock at prices ranging from $1.00 to $10.00 per share. As of March 31, 1999, there were outstanding 589,886 shares of Series A Preferred Stock and warrants to purchase 117,195 shares of Series A Preferred Stock, which may be converted into shares of Common Stock at a conversion rate of 3.27 shares of Common Stock for each share of Series A Preferred Stock. The exercise of these convertible securities or the conversion of the Series A Preferred Stock into shares of Common Stock may adversely affect the market price of the Common Stock as well as the market price of our publicly traded Redeemable Warrants and Units. The Certificate of Designations of the Series A Preferred Stock provides that we may not issue securities that have superior rights to the Series A Preferred Stock without the consent of the holders of the Series A Preferred Stock. Accordingly, so long as these convertible securities remain unexercised and shares of the Series A Preferred Stock remain unconverted, the terms under which we could obtain additional funding, if at all, may be adversely affected.

RISKS CONCERNING COMMERCIALIZATION OF CATAREX

In May 1998, we entered into a worldwide licensing and development agreement with Bausch & Lomb to complete the development of Catarex, the cataract removal technology developed by Optex. Under the terms of the agreement, Optex and Bausch & Lomb committed to jointly pursue the development of Catarex and Bausch & Lomb assumed responsibility for clinical testing, obtaining regulatory approvals, manufacturing and commercializing Catarex globally. Bausch & Lomb has reimbursed some of Optex's development expenses, has paid Optex up-front and milestone payments and may be obligated to pay Optex additional milestone payments. In addition, Bausch & Lomb has committed to pay ongoing royalties on potential future sales of Catarex products. However, Bausch & Lomb and we may not be able to complete the development of Catarex, the milestones that trigger payment obligations from Bausch & Lomb might not be reached or Bausch & Lomb might not be able to successfully complete clinical testing, obtain regulatory approvals or manufacture and commercialize Catarex. Consequently, we may not receive any further payment or revenue in connection with the Catarex technology.

RISKS CONCERNING DEVELOPMENT OF CT-3

We have decided to focus our research and development resources related to CT-3 on toxicology testing and subsequent Phase I studies to determine the potential for any detrimental central nervous systems effects of CT-3. If the toxicology testing or Phase I studies indicates significant central nervous effects of CT-3, we may elect to sublicense or relinquish our rights to the CT-3 technology. If the Phase I studies do not indicate significant detrimental central nervous system effects of CT-3, our current plan, because of the expense involved in clinical development after Phase I studies, is to withhold additional development of CT-3 until we reach a collaborative agreement with a partner to help fund the development of CT-3. We may not be successful in negotiating or entering into such an agreement on terms favorable to us or at all, and any

agreement, if entered into, may be unsuccessful. A failure to successfully enter into such an agreement may result in our sublicensing or relinquishing all of our rights to the CT-3 technology. Consequently, we may not receive any payment or revenue in connection with the CT-3 technology.

RISKS CONCERNING FUNDING OF DEVELOPMENT OF CYCLODEXTRIN TECHNOLOGY

We have decided to focus our research and development resources related to the cyclodextrin technology on the CT-1 compound and to discontinue research and development on our other cyclodextrin compounds. We have decided not to fund any additional research and development on the CT-1 compound until we reach a collaborative agreement with a partner to help further fund the research and development of CT-1. We may not be successful in negotiating or entering into such an agreement on terms favorable to us or at all, and any agreement, if entered into, may be unsuccessful. A failure to successfully enter into such an agreement may result in our relinquishing all of our rights to the cyclodextrin technology. Consequently, we may not receive any payment or revenue in connection with the cyclodextrin technology.

WE DEPEND ON OTHERS FOR CLINICAL DEVELOPMENT, REGULATORY APPROVALS AND THE MANUFACTURE AND COMMERCIALIZATION OF OUR PRODUCTS

We do not have the resources to directly conduct full clinical development, obtain regulatory approvals, manufacture or commercialize any of our proposed products and we have no current plans to acquire such resources. Optex has entered into a License & Development Agreement with Bausch & Lomb, and we anticipate that we may enter into additional collaborative agreements with pharmaceutical and/or biotechnology companies for the research and development, clinical testing, seeking of regulatory approval, manufacturing or commercialization of our proposed products. If we were unable to enter into such third party arrangements on commercially acceptable terms it would materially and adversely affect our business. These agreements could limit our control over the resources devoted to these activities as well as our flexibility in considering alternatives for the commercialization of such products. We can give no assurance that we will be able to enter into any additional arrangements for the development, clinical testing, seeking of regulatory approval, manufacturing and commercialization of our products, or that, if such arrangements are entered into, such future partners will be successful in commercializing products or that we will derive any revenues from such arrangements.

RISKS RELATED TO TECHNOLOGICAL UNCERTAINTY AND THE EARLY STAGE OF OUR PRODUCT DEVELOPMENT

To achieve profitable operations, we must, alone or with others, successfully commercialize our technologies and products under development. However, our technologies and product candidates are in the early stages of development, will 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. Our product candidate with the most advanced development is the Catarex technology and we do not anticipate that this product

candidate will enter into clinical testing until the year 2000. The agreements with our licensors do not contain any representations by the licensors as to the safety or efficacy of the inventions or discoveries licensed to us. It is possible that:

- we will not be able to maintain our current research and development schedules;
- we will not be able to successfully develop any or all of our technologies and products;
- we will not be able to enter into human clinical trials with any of our products because of scientific, governmental and/or financial reasons;
- we will encounter problems in clinical trials that will cause us to delay or suspend product development;
- our technologies and products will be found to be ineffective or unsafe;
- our technologies and products will fail to meet applicable regulatory standards; or
- our technologies and products will fail to obtain required regulatory approvals.

Similarly, it is possible that our technologies and product candidates, once developed, although effective,

- are uneconomical to commercialize;
- are not eligible for third party reimbursement from government or private insurers;
- cannot be effectively commercialized by us because third parties hold proprietary rights that preclude us from commercializing such technologies and products;
- cannot be effectively commercialized by us because third parties market superior or equivalent technologies and products;
- cannot be effectively commercialized by us because third parties have superior resources to market similar products or technologies; or
- cannot be effectively commercialized by us because the technologies and products have undesirable or unintended side effects that prevent or limit their commercial use.

The failure of any of our product candidates to be commercialized could materially and adversely affect our business, financial condition and results of operations.

CERTAIN INTERLOCKING RELATIONSHIPS; POTENTIAL CONFLICTS OF INTEREST

Lindsay A. Rosenwald, M.D., one of our principal stockholders, is the president and sole stockholder of Paramount Capital, Incorporated, a New York-based merchant and investment banking firm specializing in the biotechnology industry, ("Paramount"). Paramount was the

placement agent for our 1997 private placement of Series A Preferred Stock. Michael S. Weiss, our secretary, is the Senior Managing Director, Head of Investment Banking of Paramount. Yuichi Iwaki, M.D., Ph.D., one of our directors, is a director of the Aries Fund, an affiliate of Paramount. Steven H. Kanzer, one of our directors, was the Senior Managing Director, Head of Venture Capital of Paramount until December 31, 1998. A. Joseph Rudick, Jr., M.D., a director of two of our subsidiaries, Channel Therapeutics, Inc. and Optex Ophthalmologics, Inc., was an associate of Paramount and Paramount Capital Investments, LLC, a company wholly owned by Dr. Rosenwald, until December 31, 1998. Dr. Rudick is also a nominee for election to Atlantic's board of directors, pursuant to the proxy statement filed with the SEC by Mr. Kanzer, Dr. Rudick and Frederic Zotos. In the regular course of its business, Paramount identifies, evaluates and pursues investment opportunities in biomedical and pharmaceutical products, technologies and companies. Generally, Delaware corporate law requires that any transactions between us and any of our affiliates be on terms that, when taken as a whole, are substantially as favorable to us as those reasonably obtainable from a person who is not an affiliate in an arms-length transaction. We are bound by agreements with Paramount pursuant to which Paramount agreed to provide financial advisory services to us and pursuant to which Paramount agreed to provide placement advisory services in connection with the private placement of the Series A Preferred Stock. Nevertheless, none of Paramount, Dr. Rosenwald, Mr. Kanzer, Mr. Weiss or Dr. Rudick is obligated pursuant to any agreement or understanding with us to make any additional products or technologies available to us, nor can there be any assurance, and we do not expect and securityholders should not expect, that any biomedical or pharmaceutical product or technology identified by Paramount, Dr. Rosenwald, Mr. Kanzer, Mr. Weiss or Dr. Rudick in the future will be made available to us. In addition, some of our officers and directors may from time to time serve as officers or directors of other biopharmaceutical or biotechnology companies. We can give no assurance that such other companies will not, in the future, have interests in conflict with ours.

OUR EXISTING STOCKHOLDERS HAVE SIGNIFICANT CONTROL OVER OUR COMPANY

Dr. Rosenwald and VentureTek, L.P., a limited partnership controlled by certain relatives of Dr. Rosenwald but as to the partnership interests of which Dr. Rosenwald disclaims beneficial ownership, together beneficially own approximately 22% of the outstanding shares of our Common Stock and Dr. Rosenwald and certain affiliates of Paramount own warrants to purchase approximately 7% of the Series A Preferred Stock. Generally, the holders of the Common Stock and the Series A Preferred Stock vote together as a single class. Accordingly, such holders, if acting together, may have the ability to exert significant influence over the election of our Board of Directors and other matters submitted to our stockholders for approval. The voting power of these holders may discourage or prevent any proposed takeover of our company.

UNCERTAINTY REGARDING PATENTS AND PROPRIETARY RIGHTS

Our success depends in large part on our ability, alone or with our collaborative partners, to obtain and maintain patents, protect trade secrets and operate without infringing upon the proprietary rights of others. However, others may have filed patent applications, may have been issued patents or may obtain additional patents and proprietary rights relating to competitive products or processes. Our patent applications may not be approved, we may be unable to develop additional proprietary products that are patentable, issued patents may not provide us with adequate protection for our inventions or they may be challenged, invalidated or circumvented by others, the patents of others may impair our ability to commercialize our products or our patents

might not provide us with competitive advantages. The issuance of a patent is not conclusive as to its validity or enforceability. The patent position of companies in the biotechnology or pharmaceutical industries is highly uncertain, involves complex legal and factual questions and has recently been the subject of much litigation. No consistent policy has emerged from the U.S. Patent and Trademark Office, or PTO, or the courts regarding the breadth of claims allowed or the degree of protection afforded under pharmaceutical and biotechnology patents. There is considerable variation between countries as to the level of protection afforded under patents and other proprietary rights. Such differences may expose us to differing risks of commercialization in each foreign country in which we may sell products. Others may independently develop similar products, duplicate any of our products or design around any of our patents.

We rely on certain United States patents and pending United States and foreign patent applications relating to various aspects of our products and technologies. With the exception of intellectual property owned by Optex, all of these patents and patent applications are owned by third parties and are licensed or sublicensed to us. Although Optex owns the patents and the patent applications relating to the Catarex technology, Optex has licensed those rights to Bausch & Lomb. Accordingly, our control over these patents may be limited by our contractual rights. In addition, the patent application and issuance process can be expected to take several years and entail considerable expense to us because we are responsible for such costs under the terms of our license agreements.

Our competitive position is also dependent upon unpatented trade secrets. Others may independently develop substantially equivalent information and techniques or otherwise gain access to our trade secrets, our trade secrets may be disclosed or we may be unable to effectively protect our rights to unpatented trade secrets. Our management and scientific consultants have been recruited primarily from other scientific companies, pharmaceutical companies and academic institutions. Furthermore, most of our scientific consultants are currently employed by employers unrelated to us. To the extent that we or our consultants or research collaborators use intellectual property owned by others in their work with us, disputes may also arise as to the rights in related or resulting know-how and inventions. Such disputes could, regardless of merit, be time consuming, expensive to defend, and materially and adversely affect our business, results of operations and financial condition.

Patent applications in the United States are generally maintained under conditions of confidentiality until the patents are issued. Because publication of inventions in the scientific or patent literature tends to lag behind actual inventions by several months and we cannot evaluate any inventions being claimed in pending patent applications filed by our competitors, we cannot be certain that we were the first to invent the inventions covered by our pending patent applications or the first to file patent applications on such inventions. Our patent applications may not result in issued patents and issued patents may not afford comprehensive protection against potential infringement. Litigation, which could result in substantial cost to us, may be necessary to defend or enforce our 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 us, and can result in the diversion of substantial resources from our other activities. An adverse outcome could subject us to significant liabilities to third parties, require us to obtain licenses from third parties, require us to alter our products or technologies or require us to cease altogether any related research and development activities or product sales, any of which could materially and adversely affect our business, results of operations and financial condition.

The issuance of a patent does not provide the patent holder with freedom to operate without infringing the patent rights of others. Accordingly, the practice of a patentable invention may require litigation to resolve ownership rights or a license from the holder of dominant patent rights. We have certain proprietary rights and in the future we may require additional licenses from other parties to develop, manufacture and commercialize products effectively. Our commercial success could depend in part on obtaining and maintaining such licenses. We can give no assurance that such licenses could be obtained or maintained on commercially reasonable terms, if at all, that the patents underlying such licenses would be valid and enforceable or that the proprietary nature of the patented technology underlying such licenses would remain proprietary.

OUR MARKETS ARE HIGHLY COMPETITIVE

Technological changes in the pharmaceutical and medical device industries are rapid and substantial, and competition from pharmaceutical and biotechnology companies and universities is intense. Many of these entities have significantly greater research and development capabilities, than we do, as well as substantial technical, marketing, manufacturing, distribution, financial and managerial resources and represent significant competition for us. In addition, some of our competitors have experience in undertaking testing and clinical trials of new or improved products similar in nature or that have a similar therapeutic effect to that which we are developing. Developments by others may render our products or technologies noncompetitive, and we may not be able to keep pace with technological developments. Competitors have, and continue to develop, technologies that are, or in the future may be, the basis for competitive products and competitors may introduce such products and technologies before we are able to do so. Some of these products may have an entirely different approach or means of accomplishing the desired therapeutic effect than the products we may develop. These competing products may be more effective, more widely accepted or less costly than the products we develop. The development of competing compounds, medical devices and other forms of medical treatment could materially and adversely affect our business, financial condition and results of operations. We can give no assurance that developments by others will not render our products or technologies noncompetitive or that we will be able to keep pace with technological developments. Further, it is expected that competition in our fields will intensify. We can give no assurance that we will be able to compete successfully in the future.

RISKS RELATED TO REGULATORY APPROVALS

The federal government, principally the FDA, and comparable agencies in state and local jurisdictions and in foreign countries extensively and rigorously regulate all new drugs and medical devices, including our products and technologies under development. These authorities, particularly the FDA, impose substantial requirements upon preclinical and clinical testing, manufacturing and commercialization of pharmaceutical and medical device products. Before a drug may be approved for commercialization in the United States, the manufacturer of the drug must:

- satisfactorily complete preclinical laboratory and animal tests;
- submit to the FDA an Investigational New Drug Application, or IND, for human clinical testing;
- conduct adequate and well controlled human clinical trials to establish the safety and efficacy of the drug;

- submit to the FDA a New Drug Application, or NDA; and

- satisfactorily complete an FDA inspection of the manufacturing facility or facilities at which the drug or device is made to assess compliance with Good Manufacturing Practices, or GMP.

We hope to obtain FDA approval for the Catarex device through the submission of a 510(k) application, which is a procedure allowed if we can show that the Catarex device is "substantially equivalent" to a medical device that has already received FDA approval. The FDA recently has been requiring more rigorous demonstration of "substantial equivalence" than in the past. Although the FDA generally takes from 4 to 12 months from submission to issue 510(k) clearance, we do not know how long, if at all, it will us take to obtain FDA clearance for the Catarex device. If we are able to obtain 510(k) clearance for the Catarex device, any modifications or enhancements to the device that could significantly alter safety or effectiveness, or constitute a major change to the intended use of the device, will require new 510(k) submissions and consequently delay 510(k) clearance, if it is obtained at all.

There are many costly and time-consuming procedures required for approval of a new drug, including lengthy and detailed preclinical and clinical testing and validation of manufacturing and quality control processes. Several years may be needed to satisfy these requirements, and this time period may vary substantially depending on the type, complexity and novelty of the product candidate. Government regulation can delay or prevent marketing of potential products for a considerable period of time and impose costly procedures upon our activities. Moreover, the FDA or other regulatory agency may not grant approval for any products developed or not grant approval on a timely basis, and success in preclinical or early stage clinical trials does not assure success in later stage clinical trials.

Data obtained from preclinical and clinical activities are susceptible to varying interpretations, which could delay, limit or prevent regulatory approval. Even if regulatory approval of a product is granted, limitations may be imposed on the indicated uses of a product. Further, later discovery of previously unknown problems with a product may result in added restrictions on the product, including withdrawal of the product from the market. Any delay or failure in obtaining regulatory approvals would materially and adversely affect our business, financial condition and results of operations.

A drug and medical device manufacturer (either us or one of our third-party manufacturers) must conform to GMP regulations strictly enforced by the FDA on an ongoing basis through their facilities inspection programs. Contract manufacturing facilities must pass a pre-approval inspection of their manufacturing facilities before the FDA will approve an NDA. Certain material manufacturing changes that occur after approval are also subject to FDA review and clearance or approval. FDA or other regulatory agencies may not approve the process or the facilities by which any of our products may be manufactured. Our dependence on third parties for the manufacture of our products may adversely affect our ability to develop and deliver products on a timely and competitive basis. If we are required to manufacture our own products we will be required to build or purchase a manufacturing facility, will be subject to the regulatory requirements described above, to similar risks regarding delays or difficulties encountered in manufacturing any such products and will require substantial additional capital. We may be unable to manufacture any such products successfully or in a cost-effective manner.

The FDA's policies may change and additional government regulations and policies may be instituted, both of which could prevent or delay regulatory approval of our potential products. Moreover, increased attention to the containment of health care costs in the United States could result in new government regulations that could materially and adversely affect our business. We are unable to predict the likelihood of adverse governmental regulations that could arise from future legislative or administrative action, either in the United States or abroad.

We will also be subject to a variety of foreign regulations governing clinical trials, registration and sales of our products. Regardless of whether FDA approval is obtained, approval of a product by comparable regulatory authorities of foreign countries must be obtained prior to marketing the product in those countries. The approval process varies from country to country and the time needed to secure approval may be longer or shorter than that required for FDA approval. Delays in the approval process or failure to obtain such foreign approvals would materially and adversely affect our business, financial condition and results of operations.

RISKS RELATED TO THE UNCERTAINTY OF PRODUCT PRICING AND REIMBURSEMENT; HEALTH CARE REFORM AND RELATED MEASURES

The continuing efforts of governmental and third party payors to contain or reduce the costs of health care may adversely affect our revenues and profitability. For example, in certain foreign markets, pricing or profitability of health care products is subject to government control. In the United States there have been, and we expect that there will continue to be, a number of federal and state proposals to implement similar governmental control. Although we cannot predict what legislative or regulatory proposals or reforms will be adopted or what actions will be taken by third party payors, the announcement of such proposals or reforms could materially and adversely affect our ability to raise capital or form collaborations and, therefore, the adoption of such proposals or reforms could materially and adversely affect our business, financial condition and results of operations.

In addition, in both the United States and elsewhere, sales of health care products depend in part on the availability of reimbursement from third party payors, such as government and private insurance plans. Significant uncertainty exists as to the reimbursement status of newly approved health care products, and third party payors are increasingly challenging the prices charged for health care products. Even if we succeed in bringing one or more products to the market, third party payors may not reimburse us adequately, or at all.

WE DEPEND UPON OUR KEY PERSONNEL AND CONSULTANTS

Our ability to maintain our competitive position depends in part upon the continued contributions of our officers, directors, Scientific Advisory Board members, consultants and collaborating scientists and our ability to attract and retain qualified management and scientific personnel. Our management team currently consists of only three people. In July 1998, Jon D. Lindjord resigned as our President and Chief Executive Officer and we have not replaced Mr. Lindjord. Our search for a replacement is currently on hold pending resolution of the proxy contest in which we are involved. Competition for qualified management and scientific personnel is intense, and we may be unable to attract, assimilate, retain or motivate qualified management and scientific

personnel. The loss of key personnel or the failure to recruit additional personnel or to develop needed expertise could materially and adversely affect our business, financial condition and results of operations. The proxy contest and a subsequent change in the composition of our board of directors could also affect our strategic focus or direction and delay or re-prioritize our products under development.

WE DEPEND UPON OUR KEY LICENSE AGREEMENTS

With the exception of the Catarex technology, we depend on license agreements from third parties that form the basis of our proprietary technology. If we do not meet our financial, development or other obligations under our license agreements in a timely manner, we could lose the rights to some or all of our proprietary technologies, which could materially and adversely affect our business and financial condition and results of operations. In addition, our rights to the 2-5A Chimeric Antisense Technology are contingent on the Cleveland Clinic upholding its obligations concerning the 2-5A Chimeric Antisense Technology to the National Institutes of Health. We could lose our rights to the 2-5A Chimeric Antisense Technology if the Cleveland Clinic did not properly discharge its obligations to the National Institutes of Health, which could materially and adversely affect our business, financial condition and results of operations.

WE CAN GIVE NO ASSURANCE THAT WE WILL BE ABLE TO IDENTIFY ADDITIONAL PROJECTS

We develop and hope to commercialize biomedical and pharmaceutical product candidates and technologies. From time to time, if our resources allow, we may explore the acquisition and subsequent development and commercialization of additional biomedical and pharmaceutical products and technologies. However, we cannot assure you that we will be able to identify any additional products or technologies and, even if suitable products or technologies are identified, we may not have sufficient resources to pursue them.

RISKS RELATED TO OUR ABILITY TO REDEEM OUR REDEEMABLE WARRANTS

Under certain conditions, we may redeem our outstanding Redeemable Warrants. Our stated intention to redeem the Redeemable Warrants could encourage holders to exercise the Redeemable Warrants and pay the exercise price at a time when it may be disadvantageous for the holders to do so, to sell the Redeemable Warrants at the current market price when they might otherwise wish to hold the Redeemable Warrants or to accept the redemption price, which may be substantially less than the market value of the Redeemable Warrants at the time of redemption. The holders of the Redeemable Warrants will automatically forfeit their rights to purchase the shares of Common Stock issuable upon exercise of the Redeemable Warrants unless the Redeemable Warrants are exercised before they are redeemed. The holders of Redeemable Warrants do not possess any rights as Atlantic stockholders unless and until the Redeemable Warrants are exercised.

RISKS RELATED TO THE SECURITIES LAW RESTRICTIONS ON THE EXERCISE OF OUR REDEEMABLE WARRANTS

A holder of Redeemable Warrants has the right to exercise the Redeemable Warrants for the purchase of shares of Common Stock only if we have filed with the SEC a current prospectus covering the resale of the shares of Common Stock issuable upon exercise of the Redeemable Warrants and only if the resale of the shares of Common Stock 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. We have filed and have undertaken to keep effective and current a prospectus permitting the purchase and sale of the Common Stock underlying the Redeemable Warrants, but we cannot assure you that we will be able to keep the prospectus effective and current. Although we intend to seek to qualify for sale the resale of the shares of Common Stock underlying the Redeemable Warrants in those states in which the securities are to be offered, no assurance can be given that this qualification will occur. The Redeemable Warrants may be deprived of any value if a prospectus covering the shares of Common Stock issuable upon the exercise thereof is not kept effective and current or if the underlying shares are not, or cannot be, registered in the applicable states.

WE HAVE NOT DECLARED DIVIDENDS ON OUR COMMON STOCK AND ANY DECLARATION OF DIVIDENDS ON OUR SERIES A PREFERRED STOCK WILL HAVE A DILUTIVE EFFECT

We have not paid any dividends on the Common Stock and do not anticipate paying any dividends in the foreseeable future. We are obligated to pay dividends in shares of Series A Preferred Stock on the outstanding shares of Series A Preferred Stock, which could have a dilutive effect on the value of the Common Stock. We anticipate that all of our earnings and other resources, if any, will be retained by us for investment in its business.

A DELISTING FROM NASDAQ AND THE RESULTING MARKET ILLIQUIDITY COULD ADVERSELY AFFECT OUR SECURITYHOLDERS AND ABILITY TO RAISE FUNDS

Although our Common Stock, Redeemable Warrants and Units are quoted on the SmallCap tier of The Nasdaq Stock Market ("Nasdaq"), continued inclusion of such securities on Nasdaq will require that (i) we maintain at least $2,000,000 in net tangible assets, (ii) the minimum bid price for the Common Stock be at least $1.00 per share, (iii) the public float consist of at least 500,000 shares of Common Stock, valued in the aggregate at more than $1,000,000, (iv) the Common Stock have at least two active market makers, (v) the Common Stock be held by at least 300 holders and (vi) we adhere to certain corporate governance requirements. If we are unable to satisfy these maintenance requirements, our securities may be delisted from Nasdaq. In that event, trading, if any, in the securities would thereafter be conducted in the over-the-counter market in the "pink sheets" or the National Association of Securities Dealers' "Electronic Bulletin Board." Consequently, the liquidity of our securities could be materially impaired, not only in the number of securities that could 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 us, which could result in lower prices for our securities than might otherwise be attained and could also result in a larger

spread between the bid and asked prices for our securities. In addition, if our securities were delisted it could materially and adversely affect our ability to raise funding.

In addition, if our securities are delisted from trading on Nasdaq and the trading price of the Common Stock is less than $5.00 per share, trading in the securities would also be subject to the requirements of Rule 15g-9 promulgated under the, Securities Exchange Act of 1934, as amended. Under this 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 SEC, 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 our Common Stock, Redeemable Warrants or Units. We can give no assurance that such securities will not be delisted or treated as "penny stock".

RISKS RELATED TO THE REDUCED LIQUIDITY OF YOUR INVESTMENT AND THE LOW TRADING VOLUME OF OUR SECURITIES

Our securities are traded on the Nasdaq SmallCap Market and lack the liquidity of securities traded on the principal trading markets. Accordingly, an investor may be unable to promptly liquidate an investment in our securities. Similarly, the sale of a larger block of our securities could depress the price of our securities to a greater degree than a company that typically has a higher volume of trading in its securities.

OUR STOCK PRICE HAS BEEN AND MAY CONTINUE TO BE VOLATILE

The securities markets have, from time to time, experienced significant price and volume fluctuations that may be unrelated to the operating performance of particular companies or industries. Thus, the market price of our securities, like the stock prices of many publicly traded biotechnology and smaller companies, has been and may continue to be especially volatile. Announcements regarding technological innovations, regulatory matters, new commercial products by us or our competitors, developments or disputes concerning patent or proprietary rights, publicity regarding actual or potential medical results relating to products under development by us or our competitors, regulatory developments in both the United States and foreign countries, public concern as to the safety of pharmaceutical products and economic and other external factors, as well as continued operating losses by us and period-to-period fluctuations in our financial results and the volatility of the U.S. and worldwide economies and securities markets generally, may have a significant impact on the market price of our securities.

RISKS RELATED TO POTENTIAL PRODUCT LIABILITY AND OUR LACK OF PRODUCT LIABILITY INSURANCE

If we develop and commercialize any products, through third-party arrangements or otherwise, we may be exposed to product liability claims. We presently do not carry product liability insurance. Some of our license agreements require us to obtain product liability insurance, if and when we begin clinical testing or commercialization of our proposed products and to indemnify our licensors against product liability claims brought against them as a result of the products developed by us. If necessary, we may not be able to obtain such insurance at all, in sufficient amounts to protect us against such liability or at a reasonable cost. None of our licensors has made, nor is expected to make, any representations to us as to the safety or efficacy of the inventions covered by the license agreements or as to any products which may be made or used under rights granted therein. In addition, Optex is required to indemnify Bausch & Lomb for certain matters under the terms of their Development & License Agreement. Product liability claims brought against us or a party that we are obligated to indemnify could materially and adversely affect our business, financial condition and results of operations.

RISKS RELATED TO ENVIRONMENTAL REGULATION

Federal, state and local laws, rules, regulations and policies govern our use, generation, manufacture, storage, air emission, effluent discharge, handling and disposal of certain materials and wastes. Although we believe that we have complied with these laws and regulations in all material respects and have not been required to take any action to correct any noncompliance, we may be required to incur significant costs to comply with environmental and health and safety regulations in the future. In addition, our research and development activities involve the controlled use of hazardous materials and we cannot eliminate the risk of accidental contamination or injury from these materials, although we believe that our safety procedures for handling and disposing of such materials complies with the standards prescribed by state and federal regulations. In the event of an accident, we could be held liable for any resulting damages and we do not have insurance to cover this contingency. Such liability could materially and adversely affect our business, financial condition and results of operations.

WE HAVE ANTI-TAKEOVER DEFENSES THAT COULD DELAY OR PREVENT AN ACQUISITION OF OUR COMPANY

Our Restated Certificate of Incorporation authorizes the issuance of shares of "blank check" preferred stock. Our 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 our company without further action by our stockholders. 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.

We are also 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. This statute could have the effect of discouraging others from making tender offers for our shares and, as a consequence, may inhibit fluctuations in the market price of our shares that could result from actual or rumored takeover attempts. This statute also may have the effect of preventing changes in our management.

WE HAVE THE ABILITY TO LIMIT THE LIABILITY AND TO INDEMNIFY OUR OFFICERS AND DIRECTORS FROM LIABILITY

Our Certificate of Incorporation limits, to the maximum extent permitted by Delaware law, the personal liability of directors for monetary damages for breach of their fiduciary duties as a director. Our Certificate of Incorporation and Bylaws provide that we must indemnify our officers and directors and may indemnify our employees and other agents to the fullest extent permitted by law. We have entered into indemnification agreements with our officers and directors containing provisions that are in some respects broader than the specific indemnification provisions contained in Delaware law. The indemnification agreements may require us, among other things, to indemnify our officers and directors against liabilities that may arise by reason of their status or service as directors or officers (other than liabilities arising from willful misconduct of a culpable nature) and to advance their expenses incurred as a result of any proceeding against them as to which they could be indemnified. Section 145 of the Delaware General Corporation Law provides that a corporation may indemnify a director, officer, employee or agent made or threatened to be made a party to an action by reason of the fact that he was a director, officer, employee or agent of the corporation or was serving at the request of the corporation against expenses actually and reasonably incurred in connection with such action if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. Delaware law does not permit a corporation to eliminate a director's duty of care, and the provisions of our Certificate of Incorporation and Bylaws have no effect on the availability of equitable remedies, such as injunction or rescission, for a director's breach of the duty of care.

POTENTIAL YEAR 2000 PROBLEMS COULD ADVERSELY AFFECT OUR BUSINESS

Many currently installed computer systems and software products are coded to accept only two digit entries in the date code field. Beginning in the year 2000, these date code fields will need to accept four digit entries to distinguish 21st century dates from 20th century dates. As a result, next year computer systems and/or software used by many companies may need to be upgraded to comply with the "Year 2000" requirements. Significant uncertainty exists concerning the potential effects associated with this compliance. We have reviewed our internal system and have concluded that it is Year 2000 compliant without incurring any significant expense. All of our hardware and software was purchased or licensed less than four years ago. We have received verbal assurances from our service providers that they will be Year 2000 compliant in a timely fashion. Accordingly, we do not expect Year 2000 issues to have any material effect on our business, financial condition or operating results.

Part Two - Other Information

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits

27.1 Financial Data Schedule

b. Form 8-K Reports

No Current reports on Form 8-K were filed in the quarter ended March 31, 1999.

SIGNATURES
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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 5, 1999

/S/ Robert A. Fildes, PH.D

Robert A. Fildes

Chairman of the Board

/S/ Shimshon Mizrachi

Shimshon Mizrachi

Chief Financial Officer
(Principal Accounting and Financial Officer)

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM FINANCIAL STATEMENTS FOR THE PERIOD ENDED MARCH 31, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS

3-MOS
DEC-31-1999
JAN-01-1999
MAR-31-1999
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0
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(64,221)
(866,968)
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(866,968)
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(866,968)
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