United States Securities and Exchange Commission

WASHINGTON DC 20549

Form 10-QSB

Quarterly Report under Section 13 or 15d of the Securities Exchange Act of 1934

For the Quarterly Period Ended September 30, 1998

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 [ ]

4,466,829 shares of common stock, $.001 par value per share, were outstanding on September 30, 1998

Transitional Small Business Disclousre Format Yes [ ] No [X]

Atlantic Pharmaceuticals , Inc. and Subsidiaries

PART ONE- FINANCIAL INFORMATION
ITEM 1- FINANCIAL STATEMENTS
ATLANTIC PHARMACEUTICALS, INC. AND SUBSIDIARIES
(a development stage company)
Consolidated Balance Sheets
September 30, 1998 (unaudited) and December 31, 1997

Assets	9/30/98	12/31/97
	(unaudited)	(audited)
Current assets:		
Cash and cash equivalents	$ 7,025,389	8,543,495
Amounts due from Bausch & Lomb	293,480	--
Prepaid expenses	52,365	1,250
Total current assets	7,371,234	8,544,745
Furniture and equipment, net of accumulated depreciation of $273,764 and $150,086 at September 30,1998 (unaudited) and December 31, 1997, respectively	305,045	250,961
	7,676,279	8,795,706
Liabilities and Stockholders' Equity		
Current liabilities:		
Accrued expenses	576,648	392,566
Total current liabilities	576,648	392,566
Stockholders' equity		
Preferred stock, $.001 par value. Authorized 50,000,000 shares; 1,375,000 designated as Series A convertible preferred stock Series A convertible preferred stock, $.001 par value; authorized 1,375,000 shares, 642,956 and 1,214,723 shares issued and outstanding at September 30, 1998 (unaudited) and December 31, 1997, respectively	643	1,215
Series A convertible preferred stock warrants,117,195 and 123,720 issued and outstanding at September 30, 1998 (unaudited)and December 31, 1997, respectively	540,073	570,143
Common stock $.001 par value. Authorized 80,000,000 shares; 4,466,829 and 3,064,571 shares issued and outstanding at September 30, 1998 (unaudited) and December 31,1997, respectively	4,467	3,065
Common stock subscribed. 182 shares at September 30,1998 (unaudited) and December 31,1997	--	--
Additional paid-in capital	21,607,770	21,493,715
Deficit accumulated during development stage	(15,052,780)	(13,590,056)
Deferred compensation	--	(74,400)
	7,100,173	8,403,682
Less common stock subscriptions receivable	(218)	(218)
Less treasury stock, at cost	(324)	(324)
Total stockholders' equity	7,099,631	8,403,140
	$ 7,676,279	$ 8,795,706

See accompanying notes to consolidated financial statements.

ATLANTIC PHARMACEUTICALS, INC. AND SUBSIDIARIES
(a development stage company)
Consolidated Statements of Operations (Unaudited)
Three months ended September 30, 1998 and 1997, the nine months
ended September 30, 1998 and 1997 and the period from July 13,
1993 (inception) to September 30, 1998.

	Three Months Ended		Nine Months Ended		
	September, 30 1998	September, 30 1997	September, 30 1998	September, 30 1997	Cumulative from July 13, 1993 (inception) to September 30, 1998
Revenue:					
Grant Revenue	$ --	--	--	2,288	99,932
License Rvenue			2,500,000	--	2,500,000
Total Revenue			2,500,000	2,288	2,599,932
Costs and expenses:					
Research and development	$ 476,744	507,194	1,885,001	1,795,375	6,131,920
License fees	--	--	--	--	173,500
General and administrative	842,605	555,121	2,439,311	2,030,880	11,497,806
Total operating expenses	1,319,349	1,062,315	4,324,312	3,826,255	17,803,226
Other expense (income):					
Interest income	(106,304)	(80,483)	(361,588)	(125,556)	(776,089)
Interest expense	--	--	--	--	625,575
Total other expense (income)	(106,304)	(80,483)	(361,588)	(125,556)	(150,514)
Net Income (Loss)	$(1,213,045)	(981,832)	(1,462,724)	(3,698,411)	(15,052,780)
Imputed Preferred Stock dividend	$ (106,009)	(1,775,479)	(1,628,431)	(1,896,593)	(5,225,547)
Net Income(Loss) to common stockholders	(1,319,054)	(2,757,311)	(3,091,155)	(5,595,004)	(20,278,327)
Basic net income (loss) per common share	$ (0.37)	(0.91)	(0.91)	(1.89)	(13.28)
Shares used in calculation of basic net Income(loss) per common share	3,608,211	3,016,920	3,408,417	2,965,887	1,527,431

See accompanying notes to consolidated financial statements.

ATLANTIC PHARMACEUTICALS, INC. AND SUBSIDIARIES
(a development stage company)
Consolidated Statements of Cash Flows (Unaudited)
Nine months ended September 30, 1998 and 1997 and the period from
July 13, 1993 (inception) to September 30, 1998

	Nine Months Ended September 30, 1998	Nine Months Ended September 30, 1997	Cumulative from July 13, 1993 (inception) to September 30, 1998
Cash flows from operating activities:			
Net loss	$(1,462,724)	(3,698,411)	(15,052,780)
Adjustments to reconcile net loss to net cash used in operating activities:			
Compensation Expense relating to Warrants	129,036	143,922	427,238
Stock Options	--	--	134,382
Channel Merger	--	657,900	657,900
Discount on notes payable-bridge financing	--	--	300,000
Depreciation	123,678	47,390	273,764
Changes in assets and liabilities:			
(Increase) decrease in prepaid expenses	(51,115)	(3,366)	(52,365)
(Increase) decrease in accounts receivable	(293,480)	--	(293,480)
Increase (decrease) in accrued expenses	184,082	1,102	576,648
Increase (decrease) in accrued interest	--	--	172,305
Net cash used in operating activities	(1,370,523)	(2,851,463)	(12,856,388)
Net cash used in investing activities			
Acquisition of furniture and equipment	(177,762)	(181,675)	(578,810)
Cash flows from financing activities:			
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	30,179	18	7,577,727
Proceeds from the issuance of Preferred Stock	--	10,703,082	10,613,184
Net cash provided by (used in) financing activities	30,179	10,703,100	20,460,587
Net increase (decrease) in cash and cash equivalents	(1,518,106)	7,669,962	7,025,389
Cash and cash equivalents at beginning of period	8,543,495	2,269,532	--
Cash and cash equivalents at end of period	$ 7,025,389	9,939,494	7,025,389
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)
September 30, 1998 and 1997

(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, 1998. These financial statements should be read in conjunction with the Company's Annual Report on Form 10 - KSB for the year ended December 31, 1997.

(2) STOCK OPTIONS

The 1995 Stock Option Plan, as amended, provides for the granting of equity incentives of up to 1,009,783 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.

On August 7, 1998 the Company granted 175,000 options to various employees and directors of the Company at an exercise price of $3.25 a share which was the fair market value at the date of grant. These options will vest over a three-year period.

Jon Douglas Lindjord, formerly the Chief Executive Officer and President as well as a member of the Board of Directors of the Company, as of September 30, 1998 had exercised during the third quarter of fiscal 1998 33,000 options at an exercise price of $ 0.75 a share.

As of September 30, 1998, options to purchase 94,428 shares of the Company's Common Stock were available for future issuance under the Company's 1995 Stock Option Plan.

(3) COMPENSATION EXPENSE

In connection with the resignation of the Chief Executive Officer and President, Jon Douglas Lindjord, the Company recognized an expense of $211,250 in the third quarter for severance pay in the form of salary continuation for the next nine months.

ITEM 2 - 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, 1997.

Results of Operations for the quarter ended September 30, 1998

For the third quarter ended September 30, 1998, research and development expense was $476,744 which represents a decrease of 6% over the similar period in 1997, primarily due to the fact that Bausch & Lomb Surgical ("Bausch & Lomb") is paying for the Catarex technology development.

For the third quarter of 1998, general and administrative expense was $842,605 which represents an increase of 52% over the similar period of 1997, primarily as a result of an increase in compensation and consulting expenses, as well as severance expense that is described in note # 3.

For the third quarter of 1998, interest income was $106,304, compared to $80,483 in the third quarter of 1997. The increase is due to the continued availability of cash from the May and August 1997 private placement of the Company's Series A Convertible Preferred Stock (the "Series A Preferred") and from the first milestone payment from Bausch & Lomb.

Results of Operations for the nine-month period ended September 30, 1998

For the nine-month period ended September 30, 1998, license revenue was $2,500,000 compared with no license revenue in the similar period of 1997. This license revenue represents a milestone payment that was received from Bausch & Lomb in connection with the Development & License Agreement (the "Development & License Agreement") dated May 14, 1998, between Optex and Bausch & Lomb.

For the nine-month period ended September 30, 1998, research and development expense was $1,885,001 which represents an increase of 5% over the similar period in 1997, primarily due to increased spending on the Company's technologies as money became available from the proceeds of the May and August 1997 private placement of the Company's Series A Preferred.

For the nine-month period ended September 30, 1998, general and administrative expense was $2,439,311 which represents an increase of 20% over the similar period of 1997, primarily as a result of increased compensation expenses, legal expenses and consulting expenses.

For the nine-month period ended September 30, 1998, interest income was $361,588, compared to $125,556 for the nine-month period ended September 30, 1997. The increase is due to the availability of cash from the May and August 1997 private placement of the Company's Series A Preferred and from the first milestone payment from Bausch & Lomb.

Liquidity and Capital Resources

The Company has incurred an accumulated deficit of $15,052,780 since inception and expects to continue to incur additional losses through the year ending December 31, 1998 and the foreseeable future as it continues to develop its product candidates.

As of September 30, 1998 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 eighteen months. In addition, the Company will attempt to generate additional capital through a combination of collaborative agreements, strategic alliances and public and private equity and debt financings. However, no assurance can be

provided that additional capital will be obtained through these or other sources. If the Company is not able to obtain continued financing, the Company may cease operation and in all likelihood all of the Company's securityholders 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; 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 technologies are proceeding as follows:

Optex's development of the Catarex device is continuing. Bausch & Lomb, pursuant to the Development & License Agreement, is directing the further development of the device. The focus is on the continued refinement of the clinical prototype device and the subsequent integration of the device into other systems, with the aim of beginning human clinical trials as soon as possible. Much of the current engineering work is focused on refinement of the manufacturing process to decrease manufacturing expense and subsequent total cost of the device. Provisional patent applications have been filed and additional patent applications are likely for new developments with the device. A development team consisting of members of both Optex and Bausch & Lomb is working on the development program.

The toxicology program for CT-3, the potential analgesic and anti-inflammatory analgesic agent under development by Atlantic, is in progress. The focus of the toxicology program is to prepare for Clinical Phase I study in man to be conducted in the third quarter of 1999. To date, initial dose ranging and tolerance studies have been completed as well as the necessary formulation work. The Company believes that data available to date supports the continued development of the compound. In addition to the toxicology work, studies are being evaluated to further define the mechanism of action of CT-3. The current focus of the development program is on the analgesic action of the compound. In vivo studies have shown potent analgesic activity with CT-3.

Gemini Technologies, Inc. ("Gemini") research on the antisense enhancing technology is continuing with a focus on the program to treat Respiratory Syncytial Virus ("RSV"). A lead product candidate oligonucletoide against RSV has been selected and has completed in vitro testing. The Company believes that data obtained to date supports the continued development of the compound. The planned definitive in vivo studies will be in a primate model and are scheduled to begin in the second quarter 1999 with results anticipated to be available in the third quarter of 1999. Some of the data from the RSV program was published in the July 1998 issue of the Proceedings of the National Academy of Sciences. The published data indicates that the in vitro activity of the 2-5A oligonucletoide under development would be 80 to 100 times more potent in inhibiting RSV replication than ribavarin, the only FDA-approved treatment available for RSV. In vitro and in vivo studies are continuing using an anti-telomerase oligonucletoide against several potential cancer targets. Continued in vitro and in vivo testing will be undertaken against a variety of malignancies, utilizing a variety of regimens, including potential combination therapy. The research in the telomerase program in the next several months will be focused on defining the mechanism of action of the telomerase oligonucleotides. Additional work will continue on increasing the stability of all selected oligonucleotides, with supporting work on the mechanism of action of the 2-5A technology.

Data analysis for the large animal studies has been completed for Channel's sulfated cyclodextrin compounds CT-1 (the monomeric form) and CT-2 (the polymeric form). The data showed promising results with continuous intravenous ("IV") infusion with CT-1 but significant inflammation was seen with CT-2. Consequently, no additional resources will be used to further the development of CT-2. The results of the studies were presented during the third quarter at the IBC Restenosis Conference. The current focus is on testing follow up compounds to CT-1 in large animal models which are scheduled to begin during the first quarter 1999 and continuing business development discussions with potential partners for CT-1. In addition, work is continuing to

determine the feasibility of binding CT-1 to vascular stents. The Company intends to conduct additional studies on the compounds that have been developed as follow up compounds to CT-1 and CT-2.

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 19, 1998.

YEAR 2000 COMPLIANCE

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, in approximately two years, computer systems and/or software used by many companies may need to be upgraded to comply with such "Year 2000" requirements. Significant uncertainty exists concerning the potential effects associated with such compliance. The Company has reviewed its internal system. The Company's internal system is Year 2000 compliant. All the hardware and software used by the Company was purchased or licensed less than three years ago and the Company does not expect Year 2000 issues to have any material effect on the Company's business, financial condition or operating results. The Company is in the process of reviewing third party providers and their compliance status of year 2000.

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 ACT OF 1933 AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934. 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.

RESET DATE OF SERIES A CONVERTIBLE PREFERRED STOCK; PAYMENT IN KIND DIVIDENDS

The shares of the Company's Series A Preferred are convertible into shares of Common Stock of the Company. Prior to August 7, 1998 (the "Reset Date"), each share of Series A Preferred was convertible into 2.12 shares of Common Stock and the conversion price of the Series A Preferred was $4.72 per share. Pursuant to the Certificate of Designations for the Series A Preferred (the "Certificate of Designations"), the conversion price was adjusted on the Reset Date such that the new conversion price equals $3.06 per share and each share of Series A Preferred is convertible into 3.27 shares of Common Stock. The conversion price is subject to adjustment as more fully described in the Certificate of Designations. No cash is paid to the Company upon the conversion of the Series A Preferred into shares of the Company's Common Stock. In addition, commencing on the Reset Date the holders of the Series A Preferred are entitled to payment-in-kind dividends ("PIK dividends"), payable semi-annually in arrears, on their shares of Series A Preferred at the rate of 0.13 shares of Series A Preferred for each outstanding share of Series A Preferred.

As a result of the reduction of the conversion price of the Series A Preferred, the holders of the Series A Preferred are entitled to receive a greater number of shares of the Company's Common Stock upon conversion of the Series A Preferred than they would have received upon such conversion prior to August 7, 1998, and this could adversely affect the prevailing market price of the Common Stock. If the Company is obligated to pay PIK dividends to the holders of the Series A Preferred then more shares of Common Stock will be issuable upon conversion of the Series A Preferred, which could also adversely affect the prevailing market price of the Company's Common Stock. The complete description of the rights and preferences of the Series A Preferred is contained in the Certificate of Designations filed with the Secretary of State of the State of Delaware.

DEVELOPMENT STAGE COMPANY; HISTORY OF OPERATING LOSSES; ACCUMULATED DEFICIT; UNCERTAINTY OF FUTURE PROFITABILITY

The technologies and products under development by the Company are in the research and development stage and no operating revenue (outside of a milestone payment made by Bausch & Lomb Surgical ("Bausch & Lomb") and grant revenues) has been generated to date. Except for any payments that Bausch & Lomb may be obligated to make pursuant to the Development & License Agreement (the "Development & License Agreement"), dated May 14, 1998, between Optex Ophthalmologics, Inc., a majority-owned subsidiary of Atlantic ("Optex"), and Bausch & Lomb, 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 recently established businesses. The Company has incurred operating losses since its inception. As of September 30, 1998, the Company's working capital and accumulated deficit were $6,794,586 and $15,052,790, respectively. Operating losses have resulted principally from costs incurred in identifying and acquiring the technologies under development, research and development activities, patent prosecution and maintenance costs and 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 products and technologies under development, as well as costs incurred in identifying and, possibly, acquiring, additional technologies. The Company's ability to achieve profitability depends upon its ability (alone or with corporate partners) to develop pharmaceutical and medical device products, obtain regulatory approval for its proposed products and/or enter into agreements either for the sale or sublicense of its technologies or 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.

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, independent contractor and employment agreements, the Company currently anticipates that it will spend all of its current cash reserves by the end of the first quarter of 2000. 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 one or more corporate partners. 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 Atlantic and each of its subsidiaries will seek to enter into collaborative ventures with corporate partners to fund some or all of its activities, as well as to manufacture or market the products which may be developed, Atlantic and its subsidiaries currently have only one such arrangement in place with a corporate partner (i.e., Bausch & Lomb), and there can be no assurance that Atlantic or any of its subsidiaries will be able to enter into any additional ventures on favorable terms, if at all. In addition, no assurance can be given that Atlantic or any of its subsidiaries would be able to complete a private placement or public offering of its securities. Failure by Atlantic or any of its subsidiaries to enter into such collaborative ventures or to receive additional funding either through a public offering or a private placement to complete its proposed product development programs 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 convertible securities (other than the Series A Preferred) that are exercisable into an aggregate of 4,739,905 shares of Common Stock at exercise prices ranging from $0.75 to $10.00 per share. Most of such convertible securities are currently exercisable at prices above the per share price of the Common Stock as quoted on Nasdaq as of September 30, 1998. As of September 30, 1998, the Company had outstanding 642,956 shares of its Series A Preferred and warrants to purchase 117,198 shares of Series A Preferred, all of which currently are convertible into shares of the Company's Common Stock at a conversion rate of 3.27 shares of Common Stock for each share of Series A Preferred. The aforementioned conversion rate is subject to adjustment in favor of the holders of the Series A Preferred upon the occurrence of certain events. The

exercise of such convertible securities or the conversion of the Series A Preferred, if any, may dilute the value of the Common Stock. In addition, so long as such convertible securities remain unexercised, the terms under which the Company could obtain additional capital may be adversely affected.

BAUSCH & LOMB DEVELOPMENT & LICENSE AGREEMENT

On May 14, 1998, Atlantic's majority-owned subsidiary, Optex, entered into a worldwide licensing 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 intend to jointly complete the final design and development of Optex's Catarex cataract removal system. Bausch & Lomb will assume responsibility for commercializing Catarex globally. Optex received a milestone payment upon execution of the Development & License Agreement and is to receive certain additional milestone payments from Bausch & Lomb. In addition, Bausch & Lomb has committed to pay ongoing royalties on sales of Catarex products. There can be no assurance that the Company and Bausch & Lomb will be able to complete the development of Catarex, that the milestones that trigger payment obligations from Bausch & Lomb will be reached or that Bausch & Lomb will be able to successfully commercialize Catarex and, consequently, pay royalties to the Company.

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. Most 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 (other than some grant revenues and the milestone payment received from Bausch & Lomb). In addition, the Company has no manufacturing or marketing facilities nor any contracts with any commercial manufacturing or marketing entities to manufacture or market the Company's products to consumers (except for the License & Development Agreement with Bausch & Lomb). 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, will fail to meet applicable regulatory standards or will fail to obtain required regulatory approvals or 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, that third parties market superior or equivalent technologies and products or that third parties have superior resources to market similar products or technologies. Further, the Company's proposed technologies and products might prove to have undesirable or unintended side effects that prevent or limit their commercial use.

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. In addition, there can be no assurance that the Company's research and development schedules will be met. Further, due to the extended testing required before marketing clearance can be obtained from the U.S. 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.

ANALYSIS OF RESULTS OF A PIVOTAL STUDY OF THE CYCLODEXTRIN TECHNOLOGY

The Company has performed several studies in small animal models of its cyclodextrin technology and the results of this research have indicated that the sulfated cyclodextrins may have potential as a treatment for restenosis and late vein graft failure. In the first quarter 1998, the Company completed research in large animal models of the cyclodextrin technology, as the results of studies in large animal models are believed to be more predictive of the effect of the cyclodextrin technology in humans for the treatment of restenosis. Data analyses of the large animal studies of the cyclodextrin technology for restenosis indicated promising results with continuous intravenous infusion of CT-1 and significant inflammatory reactions with CT-2 (each sulfated beta-cyclodextrins). Based on the results of these studies the Company has decided to discontinue the development of CT-2. The Company intends to conduct additional studies on the compounds that have been developed as follow up compounds to CT-1 and CT-2. Depending on the results of these studies of the cyclodextrin technology as well as the results of ongoing additional studies, the Company may elect, among other alternatives, to sublicense all or some of its proprietary rights and/or to relinquish its proprietary rights to the cyclodextrin technology.

GOVERNMENT REGULATION; NO ASSURANCE OF REGULATORY APPROVAL

The Company's proposed products and technologies are in early stages of development. The research, preclinical development, clinical trials, product manufacturing and marketing to be conducted by, or on behalf of, the Company is subject to extensive regulation by the FDA, comparable agencies in state and local jurisdictions 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 processes of obtaining approvals from the FDA are 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.

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.

Before a new medical device can be introduced in the market, the manufacturer must generally obtain FDA clearance or approval through either clearance of a 510(k) notification or approval of a Pre-Market Approval Application. A 510(k) clearance will be granted if the submitted information establishes that the proposed device is "substantially equivalent" to certain categories of legally marketed medical devices. The FDA recently has been requiring more rigorous demonstration of substantial equivalence than in the past, including in some cases requiring submission of clinical data. The FDA may determine that the proposed device is not substantially equivalent to a predicate device or that additional information is needed before a substantial equivalence determination can be made. It generally takes from 4 to 12 months from submission to obtain 510(k) premarket clearance, but may take longer. A "not substantially equivalent" determination, or a request for additional information, could prevent or delay the market introduction of products that fall into this category. For any devices that are cleared through the 510(k) process, modifications or enhancements that could significantly affect

safety or effectiveness, or constitute a major change in the intended use of the device, will require new 510(k) submissions.

The steps required before a drug may be approved by applicable government agencies for marketing in the United States generally include (i) preclinical laboratory and animal tests, (ii) the submission to the FDA of an Investigational New Drug Application, (iii) adequate and well controlled human clinical trials to establish the safety and efficacy of the drug, (iv) submission to the FDA of a New Drug Application and (v) satisfactory completion of an FDA inspection of the manufacturing facility or facilities at which the drug is made to assess compliance with Good Manufacturing Practices. Lengthy and detailed preclinical and clinical testing, validation of manufacturing and quality control processes, and other costly and time-consuming procedures are required. Satisfaction of these requirements typically takes several years and the time needed to satisfy them may vary substantially, based on the type, complexity and novelty of the pharmaceutical product. The effect of government regulation may be to delay or to prevent marketing of potential products for a considerable period of time and to impose costly procedures upon the Company's activities. There can be no assurance that the FDA or any other regulatory agency will grant approval for any products developed by the Company on a timely basis, or at all. 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 that could delay, limit or prevent regulatory approval. If regulatory approval of a product is granted, such approval may impose limitations on the indicated uses for which a product may 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. Any delay or 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.

DEPENDENCE ON LICENSE AND SPONSORED RESEARCH AGREEMENTS

The Company depends on license agreements from third parties that form the basis of its proprietary technology. Optex owns the proprietary rights that form the basis of the Catarex technology. In general, the Company also relies on sponsored research agreements for its research and development efforts. However, the research and development for the Catarex device is jointly conducted at the laboratory facilities of the Company's subsidiary, Optex, and at the laboratory facilities of Bausch & Lomb and some of the research and development concerning the 2-5A Chimeric Antisense Technology is conducted at the laboratory facilities of the Company's subsidiary, Gemini Technologies, Inc. The license agreements that have been entered into by the Company typically require the Company's 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 its license from Optex, the Company is also obligated to make royalty payments on the sales, if any, of products resulting from such licensed technology. The Company is also responsible for the costs of filing and prosecuting patent applications and maintaining issued patents. Certain research and development activities of the Company are 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 and/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 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 the Company. Optex owns the patents and the patent applications relating to the Catarex technology; however, Optex has licensed those rights to Bausch & Lomb. 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 its 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 evaluate any 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 technologies, or cease altogether any related research and development activities or product sales, any of which could have a material adverse effect on the Company's business, results of operations and financial condition.

The Company has certain proprietary rights and in the future may require additional licenses from other parties to develop, manufacture and market commercially viable products effectively, and the Company's commercial success could depend in part on obtaining and maintaining such licenses. There can be 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.

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 (both employees and independent contractors). 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 their employment by 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.

RAPID TECHNOLOGICAL CHANGE; COMPETITION

The Company's business is characterized by intensive research efforts and intense competition and is subject to rapid and substantial technological change. 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, research and development, manufacturing, marketing, distribution and other resources than the Company. Certain of such entities 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 the Company is developing. In addition, certain competitors have already begun testing of similar products or technologies and may introduce such products or technologies before the Company may do so. Accordingly, other entities may succeed in developing products earlier than the Company or that are more effective, more widely accepted or more economical than those proposed to be developed by the Company. There can be no assurance that developments by others will not render the Company's products or technologies noncompetitive or that the Company will be able to keep pace with technological developments. 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 MANUFACTURE AND MARKETING OF PHARMACEUTICAL PRODUCTS

The Company does not have the resources to directly manufacture, market or sell any of its proposed products and the Company has no current plans to acquire such resources. Atlantic's subsidiary, Optex, has entered into a License & Development Agreement with Bausch & Lomb, and the Company anticipates that it may, in the future, enter into additional 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 development, clinical testing, seeking of regulatory approval, manufacturing, distribution, marketing and selling arrangements on commercially acceptable terms for the Company's long-term needs 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 additional arrangements for the development, clinical testing, seeking of regulatory approval, 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.

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 desirable or 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 ten full-time employees, three of whom are officers of Atlantic and each of its subsidiaries, 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 or from competing with the Company, directly or indirectly. 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. On July 10, 1998, Jon Douglas Lindjord, then President and Chief Executive Officer of the Company and a member of its Board of Directors, resigned from such positions. This resignation may have a material adverse effect on the Company. At this time, Robert A Fildes, Ph.D., the Company's Chairman of the Board, is serving as Interim President and Chief Executive Officer, and the Company is conducting an executive search for a replacement for Mr. Lindjord.

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 employers unrelated to the Company and some have entered into one or more additional 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 for which the Company is able to acquire licenses or those which were invented while performing consulting services on behalf of the Company pursuant to a proprietary information agreement, will not become the property of the Company, but will likely 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.

CERTAIN INTERLOCKING RELATIONSHIPS; POTENTIAL CONFLICTS OF INTEREST

Lindsay A. Rosenwald, M.D., a principal stockholder of the Company, 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" or the "Placement Agent"), and the placement agent for the Company's 1997 private placements of its Series A Preferred (the "Private Placement"). Steven H. Kanzer, a director of the Company, is the Senior Managing Director, Head of Venture Capital of Paramount. Michael S. Weiss, the Company's Secretary, is the Senior Managing Director, Head of Investment Banking of Paramount. A. Joseph Rudick, Jr., M.D., an associate of Paramount and Paramount Capital Investments, LLC, a company wholly owned by Dr. Rosenwald, is a director of each of Channel Therapeutics, Inc., a wholly owned subsidiary of the Company, and Optex Ophthalmologics, Inc., a majority-owned subsidiary of the Company. 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 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 reasonably obtainable from a person who is not an affiliate in an arms-length transaction. The Company is bound by agreements between itself and Paramount pursuant to which Paramount agreed to provide financial advisory services to the Company and pursuant to which Paramount agreed to provide placement advisory services in connection with the Private Placement. Nevertheless, none of Paramount, Dr. Rosenwald, Mr. Kanzer, Mr. Weiss or Dr. Rudick is 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 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 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.

CONTROL BY EXISTING STOCKHOLDERS

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 17.6% of the outstanding shares of Common Stock of the Company and Dr. Rosenwald and certain affiliates of Paramount own Placement Warrants to purchase approximately seven percent of the Series A Preferred. Generally, the holders of the Common Stock and the Series A Preferred vote together as a single class. 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 may not have sufficient resources to pursue any such products or technologies.

TERMS OF SERIES A PREFERRED

The Certificate of Designations of the Series A Preferred provides that the holders of the Series A Preferred generally vote with the holders of the Common Stock as a single class. However, so long as at least 687,500 shares of Series A Preferred are outstanding, the Company needs the approval of 66.67% of the outstanding shares of the Series A Preferred, voting separately as a class, to approve certain actions of the Company. In addition, the

holders of the Series A Preferred receive a liquidation preference upon the consummation of certain corporate transactions, are entitled to notice of certain corporate transactions and the conversion price of the Series A Preferred is adjustable upon the occurrence of certain events. The preferences accorded to the Series A Preferred may adversely affect the prevailing market price of the Company's other securities.

POTENTIAL ADVERSE EFFECT OF REDEMPTION OF REDEEMABLE WARRANTS

As of December 14, 1996, the Redeemable Warrants are subject to redemption commencing December 14, 1996 by the Company under certain conditions. Redemption of 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 such Redeemable Warrants unless the Redeemable Warrants are exercised before they are redeemed. The holders of Redeemable Warrants do not possess any rights as stockholders of the Company unless and until such Redeemable Warrants are exercised.

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 securities. The outstanding shares of the Company's Common Stock and the shares of Common Stock issuable upon conversion of the Series A Preferred are all freely tradable, 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. A nine-month restriction on transfer applicable to the shares of Common Stock issuable upon conversion of the Series A Preferred expired on August 11, 1998. Sales of substantial amounts of Common Stock may have an adverse effect on the market price of the Company's securities.

No prediction can be made as to the effect, if any, that sales of Units, Redeemable 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 such securities. 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.

SECURITIES LAW RESTRICTIONS ON THE EXERCISE OF REDEEMABLE WARRANTS

A holder of Redeemable Warrants has the right to exercise such Redeemable Warrants for the purchase of shares of Common Stock only if the Company has filed with the 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 filed and has undertaken to keep effective and current a prospectus permitting 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 keep such prospectus effective and current. Although the Company intends to seek to qualify for sale 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 such 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 such underlying shares are not, or cannot be, registered in the applicable states.

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, Redeemable Warrants and Units of the Company are quoted on Nasdaq, continued inclusion of such securities on Nasdaq will require that (i) the Company 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) the Company adhere to certain corporate governance requirements. 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 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 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 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 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, Redeemable Warrants or Units of the Company. There can be no assurance that such securities will not be delisted or treated as penny stock.

LIQUIDITY OF INVESTMENT; VOLUME OF TRADING

The Company's 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 the Company's securities.

VOLATILITY OF STOCK PRICE

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. These fluctuations often substantially affect the market price of a company's securities. In particular, the market prices for securities of medical device companies and biotechnology companies have in the past been, and can in the future be expected to be, especially

volatile. The market price of the Company's securities has in the past and in the future may be subject to volatility in general and from quarter to quarter in particular depending upon announcements regarding developments of the Company or its competitors, or other external factors, as well as continued operating losses by the Company and fluctuations in the Company's financial results. These factors could have a material adverse effect on the Company's business, financial condition and results of operations and may not be indicative of the prices that may prevail in the public market.

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. In addition, Optex is required to indemnify Bausch & Lomb for certain matters under the terms of their Development & License Agreement.

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.

ANTITAKEOVER EFFECTS OF PROVISIONS OF THE CERTIFICATE OF INCORPORATION AND DELAWARE LAW

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

The Company is subject to Section 203 of the Delaware General Corporation Law, which, subject to certain exceptions, prohibits a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years following the date that such stockholder became an interested stockholder. In general, Section 203 defines an interested stockholder as any entity or person beneficially owning 15% or more of the outstanding voting stock of the corporation and any entity or person affiliated with or controlling or controlled by such entity or person. The foregoing provisions could have the effect of discouraging others from

making tender offers for the Company's shares and, as a consequence, they also may inhibit fluctuations in the market price of the Company's shares that could result from actual or rumored takeover attempts. Such provisions also may have the effect of preventing changes in the management of the Company.

LIMITATION OF LIABILITY AND INDEMNIFICATION

The Company's 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. The Company's Bylaws provide that the Company shall indemnify its officers and directors and may indemnify its employees and other agents to the fullest extent permitted by law. The Company has entered into indemnification agreements with its 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 the Company, among other things, to indemnify such officers and directors against certain 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 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 the Company's Certificate of Incorporation have no effect on the availability of equitable remedies, such as injunction or rescission, for a director's breach of the duty of care.

YEAR 2000 COMPLIANCE

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, in approximately two years, computer systems and/or software used by many companies may need to be upgraded to comply with such "Year 2000" requirements. Significant uncertainty exists concerning the potential effects associated with such compliance. The Company has reviewed its internal system. The Company's internal system is Year 2000 compliant. All the hardware and software used by the Company was purchased or licensed less than three years ago and the Company does not expect Year 2000 issues to have any material effect on the Company's business, financial condition or operating results. The Company is in the process of reviewing third party providers and their compliance status of year 2000.

ITEM-3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable

PART TWO - OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITYHOLDERS

The Company's annual meeting of stockholders was convened on May 11, 1998. A quorum was not present at the May 11, 1998 meeting and, accordingly, the annual meeting was adjourned to June 15, 1998. At the reconvened meeting on June 15, 1998, a quorum was not present and, accordingly, the annual meeting was adjourned to July 15, 1998. At the reconvened meeting on July 15, 1998, a quorum was not present and, accordingly, the annual meeting was adjourned to August 28, 1998, upon due notice. On August 28, 1998 a quorum was present.

Matters Voted on by Holders of Common Stock and Series A Preferred as a Class:

Total shares of Common Stock voted were 2,068,246 out of 3,390,567 entitled to vote. Total shares of Series A Preferred voted were 1,131,354 out of 2,262,708 entitled to vote. Each share of Common Stock was entitled, as of the record date for the annual meeting of stockholders, to one vote for each share of Common Stock held. Each share of Series A Preferred was entitled, as of the record date for the annual meeting of stockholders, to 2.12 votes for each share of Series A Preferred held, and the following tables list the number of shares of Series A Preferred voted and not the number of votes cast by the holders of the Series A Preferred. The holders of shares of Common Stock and the holders of Series A Preferred voted together as a single class on the following four matters.

	Votes of Holders of Common Stock	
1. Election of Directors	For	Withheld
Jon D. Lindjord	2,061,546	6,700
Robert A. Fildes, Ph.D.	2,060,546	7,700
Yuichi Iwaki, M.D., Ph.D.	2,060,546	7,700
Steven H. Kanzer	2,059,846	8,400
John K. A. Prendergast, Ph.D.	2,059,846	8,400
Paul D. Rubin, M.D.	2,060,546	7,700

	Votes of Holders of Series A Preferred	
Election of Directors	For	Withheld
Jon D. Lindjord	1,083,654	47,700
Robert A. Fildes, Ph.D.	1,131,354	0
Yuichi Iwaki, M.D., Ph.D.	1,104,854	26,500
Steven H. Kanzer	1,120,754	10,600
John K. A. Prendergast, Ph.D.	1,126,054	5,300
Paul D. Rubin, M.D.	1,120,754	10,600

On July 10, 1998 Jon D. Lindjord, formerly the Chief Executive Officer, President and a director of the Company, resigned from all of his positions with the Company. Following the August 28, 1998 stockholder meeting the members of the Board of Directors standing for election were re-elected. Subsequently, on October 7, 1998 Paul D. Rubin, M.D. resigned from the Board. Therefore, the Company's Board of Directors now consists of Robert A. Fildes, Ph.D., Yuichi Iwaki, M.D., Ph.D., John K.A. Prendergast, Ph.D. and Steven H. Kanzer. The Board of Directors currently has two vacancies.

2. Approving an amendment to the Company's Restated Certificate of Incorporation, as amended, to decrease the number of authorized shares of Common Stock of the Company from 80,000,000 to 50,000,000 and to decrease the number of authorized shares of Preferred Stock of the Company from 50,000,000 to 10,000,000.

Votes of Holders of Common Stock

For	Against	Abstain	Broker Non-Votes
743,103	5,548	3,500	1,316,095

Votes of Holders of Preferred Stock

For	Against	Abstain
1,104,854	10,600	15,900

Accordingly, following the August 28, 1998 meeting the amendment of the Company's Restated Certificate of Incorporation, as amended, was approved.

3. To ratify the Board of Directors' selection of KPMG Peat Marwick LLP as the Company's independent auditors for the year ending December 31, 1998.

Votes of Holders of Common Stock

For	Against	Abstain
2,058,146	8,100	2,000

Votes of Holders of Series A Preferred

For	Against	Abstain
1,120,754	0	10,600

Accordingly, following the August 28, 1998 meeting the selection of KPMG Peat Marwick LLP as the Company's independent auditors was ratified.

4. To transact such other business as may properly come before the Annual Meeting and any adjournment or adjournments thereof.

Votes of Holders of Common Stock

For	Against	Abstain
2,019,646	44,000	4,600

Votes of Holders of Series A Preferred

For	Against	Abstain
1,049,204	18,550	63,600

Accordingly, the Company was authorized to transact other business; however, no such business came before the meeting.

There were additional items that were submitted only for the vote of the Series A Preferred shareholders:

(1) Approving the payment by the Company to each non-employee director of a $6,000 annual fee and a fee for attendance at meetings of the Board and committees of the Board.

(2) Approving a Consultancy Agreement and a Financial Services Agreement between the Company and Yuichi Iwaki, M.D., Ph.D., a director of the Company.

(3) Approving a Consultancy Agreement and a Financial Services Agreement between the Company and John Prendergast, Ph.D., a director of the Company.

At least 66.67% of the number of outstanding shares of Series A Preferred voting in favor of the immediately preceding three proposals was required in order to approve these items; however, there was not a quorum present to approve these items because only 50% of the Series A Preferred voted at the annual meeting. Therefore, none of the foregoing three items were approved.

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 September 30, 1998.

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.

November 4, 1998

/S/ Robert A. Fildes

Robert A. Fildes, Ph.D.
Chairman of the Board and
Interim Chief Executive Officer and President
(Principal Executive Officer)

/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 SEPTEMBER 30,1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS

9-MOS	
DEC-31-1998	
JAN-01-1998	
SEP-30-1998	
7,025,389	
0	
293,480	
0	
0	
7,371,234	
305,045	
273,764	
7,676,279	
576,648	
0	
0	
643	
4,467	
7,099,631	
7,099,631	
0	
2,500,000	
0	
0	
4,324,312	
0	
(361,588)	
(1,462,724)	
0	
(1,462,724)	
0	
0	
0	
(1,462,724)	
(0.91)	
(0.91)	