United States
Securities and Exchange Commission

Washington DC 20549

Form 10-QSB

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

For the Quarterly Period Ended September 30, 1996

Commission File No. 0-27282

Atlantic Pharmaceuticals, Inc.

142 Cypress Point Road
Half Moon Bay, California 94019
Telephone (415)726-1327

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 [ ]

Transitional Small Business Disclosure Format Yes [ ] No [x]

2,913,720 shares of common stock, $.001 par value, were outstanding on September 30, 1996

Atlantic Pharmaceuticals, Inc. and Subsidiaries

Part One

ATLANTIC PHARMACEUTICALS, INC. AND SUBSIDIARIES
(a development stage company)
Consolidated Balance Sheets
September 30, 1996 and December 31, 1995

Assets	September 30,1996	December 30,1996
	(unaudited)	
Current assets:		
Cash and cash equivalents	$ 3,245,129	5,044,632
Prepaid expenses	32,500	48,000
Total current assets	3,277,629	5,092,632
Furniture and equipment, net of accumulated depreciation of $61,973 and $26,728 at September 30,1996 and December 31, 1995, respectively	87,196	55,791
	$ 3,364,825	5,148,423
Liabilities and Stockholders' Equity		
Current liabilities:		
Accrued expenses	$ 290,292	800,383
Accrued interest	--	115,011
Demand notes payable	--	125,000
Note payable	--	75,000
Total current liabilities	290,292	1,115,394
Stockholders' equity		
Preferred stock, $.001 par value. Authorized 50,000,000 shares; none issued and outstanding	--	--
Common stock $.001 par value. Authorized 80,000,000 shares; 2,913,720 and 2,663,720 shares issued and outstanding at September 30, 1996 and December 31, 1995, respectively	2,914	2,664
Common stock subscribed. 182 shares at September 30,1996 and December 31,1995	--	--
Additional paid -in capital	10,634,938	9,043,875
Deficit accumulated during development stage	(7,452,377)	(4,880,968)
Deferred compensation	(110,400)	(132,000)
	3,075,075	4,033,571
Less common stock subscriptions receivable	(218)	(218)
Less treasury stock, at cost	(324)	(324)
Total stockholders' equity	3,074,533	4,033,029
	$ 3,364,825	5,148,423

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, 1996 and 1995 , the nine months ended September 30, 1996 and 1995 and the period from July 13, 1993 (inception) to September 30, 1996.

	Three Months Ended		Nine Months Ended		Cumulative from
	September 30, 1996	September 30, 1995	September 30, 1996	September 30, 1995	July 13, 1993 (inception) to September 30, 1996
Income:					
Grant income	52,531	--	52,531	--	52,531
Total Income	52,531	--	52,531	--	52,531
Costs and expenses:					
Research and development	$ 251,811	111,983	739,124	328,590	1,365,666
License fees	10,000	50,000	10,000	62,500	173,500
General and administrative	892,382	890,659	2,002,251	1,511,466	5,475,168
Total operating expenses	1,154,193	1,052,642	2,751,375	1,902,555	7,014,334
Operating Loss	1,101,662	1,052,642	2,698,844	1,902,555	6,961,803
Other expense (income):					
Interest income	(37,933)	(25)	(127,434)	(25)	(135,000)
Interest expense	--	67,449	--	159,322	625,575
Total other expense (income)	(37,933)	67,424	(127,434)	159,297	490,575
Net loss	$ (1,063,729)	(1,120,066)	(2,571,410)	(2,061,852)	(7,452,377)
Net loss per share	$ (0.38)	(224.01)	(0.95)	(400.13)	(11.15)
Shares used in calculation of net loss per share	2,788,720	5,000	2,705,691	5,153	668,510

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, 1996 and 1995 and the period from July 13, 1993 (inception) to September 30, 1996

	Nine Months Ended September 30, 1996	Nine Months Ended September 30, 1995	Cumulative from July 13, 1996, (inception) to September 30, 1996
Cash flows from operating activities:			
Net loss	$ (2,571,410)	(2,061,851)	(7,452,377)
Adjustments to reconcile net loss to net cash used in operating activities:			
Expense relating to issuance of warrants	139,000	--	139,000
Compensation expense relating to stock options	21,600	69,582	98,382
Discount on notes payable bridge financing	--	--	300,000
Depreciation	35,245	9,071	61,973
Changes in assets and liabilities:			
Increase (decrease) in prepaid expenses	15,500	(2,613)	(32,500)
Increase (decrease) in accrued expenses	(510,091)	445,771	168,592
Increase (decrease) in accrued interest	(115,011)	--	294,004
Net cash used in operating activities	(2,985,167)	(1,540,040)	(6,422,926)
Net cash used in investing activities - acquisition of furniture and equipment	(66,649)	(27,265)	(149,168)
Cash flows from financing activities:			
Proceeds from issuance of demand notes payable	--	1,010,000	2,395,000
Repayment of demand notes payable	(125,000)	--	(125,000)
Proceeds from the issuance of notes payable - bridge financing	--	1,500,000	1,200,000
Proceeds of issuance of warrants	--	--	300,000
Repayment of notes payable -- bridge financing	(75,000)	--	(1,500,000)
Repurchase of common stock	--	(324)	(324)
Proceeds from the issuance of common stock	1,452,313	3,683	7,547,548
Net cash provided by (used in) financing activities	1,252,313	2,513,359	9,817,224
Net increase (decrease) in cash and cash equivalents	(1,799,503)	946,054	3,245,129
Cash and cash equivalents at beginning of period	5,044,632	110,884	--
Cash and cash equivalents at end of period	$ 3,245,129	1,056,938	3,245,129

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, 1996 and 1995

(1) Basis of Presentation

The accompanying financial statements have been prepared in accordance with Generally Accepted Accounting Principles for interim 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 ended December 31, 1996. These financial statements should be read in conjunction with the Company's 10 - KSB for the year ended December 31, 1995. Accordingly, they do not include all information and footnotes required by Generally Accepted Accounting Principles for complete financial statements.

(2) Stock Options

In July 1995 the Company established the 1995 Stock Option Plan (the "Plan") which provided for the granting of up to 650,000 options to purchase stock to officers, directors, employees, and consultants.

As of December 31, 1995, 403,402 options were available for future issuance under the Company's 1995 Stock Option Plan. On January 15, 1996 the Company granted options to purchase an aggregate of 315,000 shares of common stock exercisable for seven years at an exercise price of $5.81 per share. Such options shall vest and be exercisable ratably during the four year period commencing January 15, 1997. On August 14, 1996 the Company granted options to a new board member to purchase an aggregate of 10,000 shares of common stock exercisable for ten years at an exercise price of $7.25 per share. Such options are immediately exercisable. At the Company's annual meeting of stockholders held on July 24, 1996, the stockholders approved an amendment to the Plan to increase the total number of shares of common stock authorized for issuance thereunder by 300,000 shares to a total of 950,000 shares of common stock. (See Item 4 in Part 2). No options have been exercised as of September 30, 1996.

(3) Private Placement

Pursuant to a private placement, the Company received an aggregate of $1,528,750 in consideration of the issuance of 140,000 and 110,000 shares of its common stock, par value $.001 per share, to Dreyfus Growth and Value Funds, Inc., a Maryland corporation,- Dreyfus Aggressive Growth Fund and to Premier Strategic Growth Fund, a Massachusetts business trust, respectively. In connection with this private placement the Company paid Paramount Capital Inc. a finder's fee of $76,438 and issued to Paramount a warrant to purchase 12,500 shares of the Company's common stock at $6.73 per share, which warrant expires on August 16, 2001.

(4) Grant Income

Optex Ophthalmologics, Inc. (Optex), a majority-owned subsidiary, has been awarded $100,000 under Phase I of a Small Business Innovation Research (SBIR) Program grant from the National Eye Institute (NEI) division of the National Institutes of Health (NIH). This grant is for the reimbursements of salary and consulting expenses incurred by Optex and is being paid in monthly increments of approximately $15,000.

(5) Issuance of Warrants

The Company entered into an agreement with Paramount Capital, Incorporated ("Paramount") effective April 15, 1996 pursuant to which Paramount will on a non-exclusive basis render financial advisory services to the Company. Two warrants exercisable for shares of the Company's common stock were issued to Paramount in connection with this agreement. 1) a warrant to purchase 25,000 shares of the Company's common stock at $10 per share, which warrant expires on April 16, 2001. 2) a warrant to purchase 25,000 shares of the Company's common stock at $8.05 per share, which warrant expires on June 16, 2001. In connection with the issuance of these warrants the Company recognized an expense in the amount of $139,000. This expense is included in general and administrative expenses in the accompanying consolidated statements of operations.

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, 1995.

Results of Operations for the quarter ended September 30, 1996

For the third quarter ended September 30, 1996 grant income was $52,531 compared to no grant income in the third quarter of 1995.

For the third quarter ended September 30, 1996 research and development expense increased by 125% over the similar period in 1995, primarily due to the fact that the Company increased its research and development activity.

For the third quarter of 1996 general and administrative expense increased by .2% over the third quarter of 1995.

For the third quarter of 1996 there was no interest expense compared with $67,449 in the third quarter of 1995, as all interest bearing debt was fully paid at the beginning of 1996 with proceeds from the Company's initial public offering (the "IPO"). For the third quarter of 1996 interest income was $37,993 compared to no interest income in the third quarter of 1995, as cash was available during the third quarter of 1996 due to proceeds received from the Company's IPO and pursuant to a private placement. (See Item 5 d in Part 2)

Results of Operations for the nine month period ended September 30, 1996

For the nine months period ended September 30, 1996 grant income was $52,531 compared to no grant income in the similar period of 1995.

For the nine month period ended September 30, 1996 research and development expense increased by 125% over the similar period in 1995 due to increased spending on research and development activity.

For the nine month period ended September 30, 1996 general and administrative expense increased by 32% over the similar period of 1995 as a result of additional marketing, legal, consulting and other general and administrative expenses.

For the nine month period ended September 30, 1996 there was no interest expense compared with $159,322 in the similar period of 1995, as all interest bearing debt was fully paid at the beginning of 1996 with proceeds from the Company's IPO. For the nine month period ended September 30, 1996 interest income was $127,434 compared to $25 interest income in the similar period of 1995, as cash was available during the nine months ended September 30, 1996 due to proceeds received from the Company's IPO and the private placement.

Liquidity and Capital Resources

Pursuant to a private placement, the Company received an aggregate of $1,528,750 in consideration of the issuance of 140,000 and 110,000 shares of its common stock, par value $.001 per share, to Dreyfus Growth and Value Funds, Inc., a Maryland corporation,- Dreyfus

Aggressive Growth Fund and to Premier Strategic Growth Fund, a Massachusetts business trust, respectively. In connection with this private placement the Company paid Paramount Capital Inc. a finder's fee of $76,438 and issued to Paramount a warrant to purchase 12,500 shares of the Company's common stock at $6.73 per share, which warrant expires on August 16, 2001.

The Company has incurred an accumulated deficit of approximately $7,452,377 since inception and expects to continue to incur additional losses for 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 eleven months. In addition, the Company will attempt to generate additional capital through a combination of collaborative agreements, strategic alliances and equity and debt financings. However, no assurance can be given that additional capital can be obtained through these sources on attractive terms or at all. If the Company is not able to obtain additional financing, the Company may cease operation and in all likelihood all of the Company's security holders will lose their entire investment.

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

Research and Development Activities

The Company is continuing with preclinical studies with all four of its technologies. The feasibility of the Catarex device has been tested ex vivo in bovine, porcine and human cataract lens preparations. In these studies successful removal of the lens was demonstrated with several generations of the prototype of the device. The Company expects preclinical work on this product to be completed by early 1997 and, if successful, to begin human trials shortly thereafter. The Gemini Technologies ("Gemini") antisense technology is being evaluated in a number of in vitro systems including Chronic Myelogenous Leukemia, Respiratory Syncytial Virus and Androgenic Alopecia with plans to move into in vivo studies in early 1997. The United States Patent and Trademark Office has granted a "Notice of Allowance" for a patent application, for which Gemini is the exclusive licensee, which concerns a method of using antisense oligonucleotides to target specific mRNAs for destruction by RNase L. The Channel Therapeutics' CT-3 product candidate is being tested in several preclinical models of pain and inflammation with results continuing to show potent analgesic and antinflammatory effects. Channel Therapeutics' cyclodextrin technology has been tested in in vivo models of vascular injury and successfully demonstrated a decrease in intimal thickening following vascular injury.

Future Outlook

In addition to historical information, this report contains predictions, estimates and other forward-looking statements within the meaning of section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Actual results could differ materially from any future performance suggested in this report as a result of the risk factors set forth below and in the Company's Annual Report on Form 10-KSB filed with the Securities and Exchange Commission on March 30, 1996.

RISK FACTORS

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

Atlantic holds a majority interest in each of three development-stage companies: Gemini, Optex and Channel (collectively, the "Operating Companies"). The technologies and products under development by each of the Operating Companies are in the research and development stage and no revenues have been generated to date. The Company does not expect to generate any revenues in the near future. As a result, the Company must be evaluated in light of the problems, delays, uncertainties and complications encountered in connection with newly established businesses. The Company has incurred operating losses since its inception. As of September 30, 1996, the Company's working capital and accumulated deficit were $2,987,339 and $7,452,377, respectively. Operating losses have resulted principally from costs incurred in identifying and acquiring the technologies under development, research and development activities and from general and administrative costs. The Company expects to incur significant operating losses over the next several years, primarily due to continuation and expansion of its research and development programs, including preclinical studies and clinical trials for its pharmaceutical products under development. The Company's ability to achieve profitability depends upon its ability to develop pharmaceutical and medical device products, obtain regulatory approval for its proposed products, and enter into agreements for product development, manufacturing and commercialization. There can be no assurance that the Company will ever achieve significant revenues or profitable operations from the sale of its proposed products.

Qualification of Auditor's Opinion

The Company's independent accountants have included an explanatory paragraph in their report on the Company's financial statements at December 31, 1995, included in the Company's Annual Report on Form 10-KSB, which states that the Company has suffered recurring losses from operations and has limited capital resources, both of which raise substantial doubt about the Company's ability to continue as a going concern.

Need for Additional Financing; Issuance of Securities by the Operating Companies; Future Dilution

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

Although the Company and each Operating Company will seek to enter into collaborative ventures with corporate sponsors to fund some or all of such activities, as well as to manufacture

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

In the event that the Company obtains any additional funding, such financings may have a dilutive effect on the holders of the Company's securities. In addition, if one or more of the Operating Companies raises additional funds through the issuance and sale of its equity securities, the interest of the Company and its stockholders in such Operating Company or Companies, 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 the Operating Companies. In addition, the interest of the Company and its stockholders in each Operating Company will be diluted or subject to dilution to the extent any such Operating Company 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 the Operating Companies falls below 50%, the Company may not be able to exercise an adequate degree of control over the affairs and policies of such Operating Company as is currently being exercised. In addition, the Company has outstanding currently exercisable warrants to purchase 3,765,250 shares of its Common Stock at exercise prices ranging from $5.50 to $6.60 which is below the per share price of the Common Stock as currently quoted on the Nasdaq Small Cap market. The exercise of such warrants, if any, may dilute the value of the Common Stock.

No Developed or Approved Products

To achieve profitable operations, each of the Operating Companies, alone or with others, must successfully develop, obtain regulatory approval for, introduce and market its products under development. The great majority of the preclinical and clinical development work for the products under development of each Operating Company remains to be completed. None of the Operating Companies has generated, or are expected to generate in the near future, any operating revenues. In addition, none of the Operating Companies has manufacturing or marketing facilities nor any contracts with any commercial manufacturing or marketing entities. No assurance can be given that any of their 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 Operating Companies intend to develop are in 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 Operating Companies' proposed technologies and products will be found to be ineffective or unsafe, that such technologies and products once developed, although effective, are uneconomical to market, that third parties hold proprietary rights that preclude the Operating Companies from marketing such technologies and products or that third parties market superior or equivalent technologies and products.

The Operating Companies' agreements with their 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 through the Operating Companies will result in any commercially viable products or applications. Further, due to the extended testing required before marketing clearance can be obtained from the United States Food and Drug Administration (the "FDA") or other similar agencies, the Company is not able to predict with any certainty, when, if ever, the Operating Companies will be able to commercialize any of their proposed technologies or products.

Government Regulation; No Assurance of Product Approval

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

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

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

Dependence on License and Sponsored Research Agreements

Each Operating Company depends on its license agreements that form the basis of its proprietary technology and certain of the Operating Companies rely on their sponsored research agreements for their research and development efforts. The license agreements that have been entered into by each Operating Company typically require the use of due diligence in developing and bringing products to market and the payment of certain milestone amounts that in some instances may be substantial. Certain of the Operating Companies are also obligated to make

royalty payments on the sales, if any, of products resulting from such licensed technology and, in some instances, are responsible for the costs of filing and prosecuting patent applications and maintaining issued patents. As the Company and certain of the Operating Companies do not currently have laboratory facilities, certain research and development activities of each Operating 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 Operating Companies generally require periodic payments on an annual or quarterly basis.

If any Operating Company does not meet its financial, development or other obligations under either its license agreements or its sponsored research agreements in a timely manner, such Operating 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 any Operating 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 and the applicable Operating Company.

Uncertainty Regarding Patents and Proprietary Rights

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

The Operating Companies have certain licenses from third parties and in the future may

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

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

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

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

The levels of revenues and profitability of pharmaceutical and/or biotechnology products and companies may be affected by the continuing efforts of governmental and third party payors to contain or reduce the costs of health care through various means and the initiatives of third party payors with respect to the availability of reimbursement. For example, in certain foreign markets, pricing or profitability of prescription pharmaceuticals is subject to government control. In the United States there have been, and the Company expects that there will continue to be, a number of federal and state proposals to implement similar governmental control. Although the Company cannot predict what legislative reforms may be proposed or adopted or what actions federal, state or private payors for health care goods and services may take 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 Operating Companies succeed in bringing one or more products to the market, there can be no assurance that these products will be considered cost effective and that reimbursement to the consumer will be available or will be

sufficient to allow the Operating Companies to sell their 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. The Company has only four full-time employees, each of whom is an officer of the Company, and the loss of any of these individuals would have a material adverse effect on the Company. Although the Company has entered into employment agreements with each of its employees, such employment agreements do not contain provisions which would prevent such employees from resigning their positions with the Company at any time. The Company does not maintain key-man life insurance policies on any of such key personnel. Each of the Company's non-employee directors, advisors and consultants devotes only a portion of his or her time to the Company's business. The loss of certain of these individuals, including Lindsay A. Rosenwald, M.D., a Director of the Company, would have a material adverse effect on the Company.

The Company and each of the Operating Companies 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 and each of the Operating Company's activities, could have a material adverse effect on the Company or such Operating Company. There can be no assurance that the Company or the Operating Companies will be able to retain their existing personnel or to attract additional qualified employees.

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

Competition

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

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

Neither the Company nor any of the Operating Companies currently has the resources to directly manufacture, market or sell any of the Operating Companies' proposed products and none of them currently intend to acquire such resources. The Company anticipates that it will in the future enter into collaborative agreements with pharmaceutical and/or biotechnology companies for the development of, clinical testing of, seeking of regulatory approval for, manufacturing of, marketing of, and commercialization of certain of its proposed products. The Company and the Operating Companies 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 and the Operating Companies' flexibility in considering alternatives for the commercialization of such products. Under such agreements, the Company and the Operating Companies may rely on their respective collaborative partners to conduct research efforts and clinical trials on, obtain regulatory approvals for, and manufacture, market and commercialize certain of the Operating Companies' 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 any of the Operating Companies to acquire such third party manufacturing, distribution, marketing and selling arrangements for such Operating Company's anticipated products will have a material adverse effect on the Company's and such Operating Company's business. There can be no assurance that the Company or any of the Operating Companies will be able to enter into any arrangements for the manufacturing, marketing and selling of its products, or that, if such arrangements are entered into, such future partners will be successful in commercializing products or that the Company or the relevant Operating Company will derive any revenues from such arrangements.

Risk of Product Liability; No Insurance

Should any of the Operating Companies develop and market any products, the marketing of such products, through third-party arrangements or otherwise, may expose the Company and such Operating Company to product liability claims. Neither the Company nor any of the Operating Companies presently carry product liability insurance. Upon clinical testing or commercialization of the Operating Companies' proposed products, certain of the licensors require that the applicable Operating Company obtain product liability insurance. There can be no assurance that the Operating Companies will be able to obtain such insurance or, if obtained, that such insurance can be acquired in sufficient amounts to protect the Company and such Operating Company against such liability or at a reasonable cost. Certain of the Operating Companies are required to indemnify such Operating Company's licensors against any product liability claims incurred by them as a result of the products developed by such Operating Company. Each Operating Company's licensors have not made, and are not expected to make, any representations as to the safety or efficacy of the inventions covered by the licenses or as to any products which may be made or used under rights granted therein or thereunder.

Control by Existing Stockholders

Two principal stockholders of the Company beneficially own approximately 32% of the outstanding shares of Common Stock. Accordingly, such holders, if acting together, may have the ability to exert significant influence over the election of the Company's Board of Directors and other matters submitted to the Company's stockholders for approval. The voting power of these holders may discourage or prevent any proposed takeover of the Company.

No Assurance of Identification of Additional Projects

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

Certain Interlocking Relationships; Potential Conflicts of Interest

Three of the five members of the Board of Directors and one of the officers of the Company are directors and/or full-time officers of Paramount Capital, Incorporated, a New York-based venture capital firm specializing in biotechnology companies ("Paramount"). In the regular course of its business, Paramount identifies, evaluates and pursues investment opportunities in biomedical and pharmaceutical products, technologies and companies. The Company has entered into several agreements with Paramount pursuant to which Paramount provides financial advisory services to the Company. Generally, Delaware corporate law requires that any transactions between the Company and any of its affiliates be on terms that, when taken as a whole, are substantially as favorable to the Company as those then reasonably obtainable from a person who is not an affiliate in an arms-length transaction. Nevertheless, Paramount is not 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 purchasers of the securities offered hereby should not expect, that any biomedical or pharmaceutical product or technology identified by Paramount 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.

No Dividends

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

Possible Delisting from Nasdaq and Market Illiquidity

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

timing of transactions and reduction in security analysts' and the media's coverage of the Company, which could result in lower prices for the Company's securities than might otherwise be attained and could also result in a larger spread between the bid and asked prices for the Company's securities.

In addition, if the Common Stock is delisted from trading on Nasdaq and the trading price of the Common Stock is less than $5.00 per share, trading in the Common Stock would also be subject to the requirements of Rule 15g-9 promulgated under the Securities Exchange Act of 1934, as amended (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 Securities and Exchange Commission, any equity security not traded on an exchange or quoted on Nasdaq that has a market price of less than $5.00 per share, subject to certain exceptions), including the delivery, prior to any penny stock transaction, of a disclosure schedule explaining the penny stock market and the risks associated therewith. Such requirements could severely limit the market liquidity of the Common Stock. There can be no assurance that the Common Stock will not be delisted or treated as penny stock.

Liquidity of Investment

The Common Stock is traded on the Nasdaq Small Cap market, and the Common Stock lacks the liquidity of securities traded on the principal trading markets. Accordingly, an investor may be unable to promptly liquidate an investment in the Common Stock.

Possible Volatility of Stock Price.

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

Environmental Regulation.

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

Possible Adverse Effect of Shares Eligible for Future Sale

788,951 of the shares of Common Stock of the Company currently outstanding are "restricted securities," and such shares are owned by "affiliates" (the "Selling Stockholders") of the Company, as those terms are defined in Rule 144 promulgated under the Securities Act. The Company's officers, directors and certain stockholders, including the Selling Securityholders, have agreed not to sell or otherwise dispose of any of their shares of Common Stock now owned

or issuable upon the exercise of warrants for a period of 18 months from the date of the Company's initial public offering on December 14, 1995 or such longer period as may be required by applicable state securities laws, without the prior written consent of Joseph Stevens & Company, L.P., the underwriter that managed the Company's initial public offering (the "Underwriter"). Absent registration under the Securities Act, the sale of such shares is subject to Rule 144 as promulgated under the Securities Act. The Selling Securityholders are subject to the 180-day lock-up described above, but may commence selling their securities at any time, provided prior consent is given by the Company. Finally, the Company has granted unlimited "piggy-back" and two S-3 registration rights per year to certain stockholders with respect to such shares of Common Stock and any shares of Common Stock purchased in the future by such investors, which shares will be subject to the 180-day lock-up described above. Finally, the Company has granted to holders of the Warrants issued to the Underwriter in connection with the initial public offering the right on two occasions (one at the expense of the Company) to file a registration statement under the Securities Act covering the securities underlying such Warrants and the additional right to include such securities in any registration filed by the Company under the Securities Act.

The Company has sold to the Underwriter, for nominal consideration, 165,000 Warrants, each to purchase one Unit (consisting of one share of Common Stock and a warrant to purchase one share of Common Stock at an exercise price of $6.05) at a purchase price per Unit equal to $6.60 per Unit, exercisable over a period of four years commencing December 14, 1996. As long as the Warrants remain unexercised, the terms under which the Company could obtain additional capital may be adversely affected.

No prediction can be made as to the effect, if any, that sales of Units, Warrants and/or Common Stock or the availability of such securities for sale will have on the market prices prevailing from time to time for the Units, the Warrants and/or the Common Stock. Nevertheless, the possibility that substantial amounts of such securities may be sold in the public market may adversely affect prevailing market prices for the Company's equity securities, and could impair the Company's ability to raise capital in the future through the sale of equity securities.

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

Atlantic's Certificate of Incorporation authorizes the issuance of up to 50,000,000 shares of "blank check" Preferred Stock. The Board of Directors has the authority to issue the Preferred Stock in one or more series and to fix the relative rights, preferences and privileges and restrictions thereof, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series or the designation of such series. The issuance of Preferred Stock may have the effect of delaying, deferring or preventing a change in control of the Company without further action by the stockholders of the Company. The issuance of Preferred Stock with voting and conversion rights may adversely affect the voting power of the holders of the Common Stock, including the loss of voting control to others.

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

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

Part Two - Other Information

Item 4. Submission of matters to a vote of security holders

The Company's annual meeting of stockholders was held on July 24, 1996 upon notice. Total shares voted were 1,892,353 out of 2,663,720 entitled to vote.

Matters voted on:

1. Election of directors:

	for	withheld
Jon D. Lindjord	1,892,353	0
John K.A. Predergast, Ph.D.	1,892,348	5
Steve H. Kanzer	1,892,348	5
Lindsay A. Rosenwald, M.D.	1,892,353	0

Accordingly following the July 24, 1996 meeting the Board of Directors was re-elected in its entirety.

2. To approve an amendment to the Company's 1995 Stock Option Plan (a) to increase the total number of shares authorized for issuance thereunder by 300,000 shares to a total of 950,000 shares. (b) to increase the number of shares subject to option that a non-employee board member is automatically granted thereunder on the initial date of election or appointment to the Board from 5,000 shares to 10,000 shares and (c) commencing with this year's annual meeting to increase the number of shares subject to an option that a continuing non-employee Board member is automatically granted thereunder on the date of each annual meeting from 1,000 shares to 2,000 shares.

For	Against	Abstain	Not voted
1,007,140	41,805	12,600	830,808

3. To ratify the Board of Director's selection of KPMG Peat Marwick LLP to serve as the Company's independent auditors for the year ending December 31, 1996.

For	Against	Abstain
1,892,112	240	1

Item 5. Other information

a. Effective August 14, 1996 Yuichi Iwaki, M.D., Ph.D., was appointed to a new seat on the Company Board of Directors.This appointment brings the total membership on Atlantic's Board of Directors to five. In addition Dr. Iwaki was retained as a consultant and will assume the position of the Chairman of the Scientific Advisory Board of the Company. Dr. Iwaki will perform his services as an independent contractor and not as an employee of the Company. (See exhibit 10.17)

Dr. Iwaki, 46, is the Director, Transplantation Immunology and Immunogenetics Laboratory in the Department of Urology at the University of Southern California and is a Professor of Urology, Surgery and Pathology at the University of Southern California School of Medicine. Prior to joining Atlantic's Board of Directors, he held various academic appointments at the University of Southern California School of Medicine, the University of Pittsburgh, the University of California, Sapporo Medical School, Nihon University School of Medicine, and Tokai School of Medicine. Dr. Iwaki has also held various management positions at hospitals and laboratories, including the University of Southern California, Sharp Memorial Hospital, and University Presbyterian Hospital. He received his M.D. and Ph.D. from Sapporo Medical School in Japan.

b. The Company entered into an agreement with Paramount Capital, Incorporated ("Paramount") effective April 15, 1996 pursuant to which Paramount will on a non-exclusive basis render financial advisory services to the Company. Dr. Lindsay A. Rosenwald, M.D., a director of the Company, is the Chairman and Chief Executive Officer of Paramount. (See exhibit 10.15). Two warrants exercisable for shares of the Company's common stock were issued to Paramount in connection with this agreement. (See exhibits 10.19 and 10.20).

c. The Company entered into an agreement effective June 23, 1996 with UI USA, the U.S. subsidiary of the merchant bank of Credit Agricole, the second largest banking house in Europe, and Paramount to represent Atlantic's technologies to leading European pharmaceutical and biomedical companies.

Credit Agricole has over $350 billion in assets and recently acquired control of Indosuez, another large French bank. UI USA, Inc. is the New York based, US arm of Credit Agricole's merchant bank, Union d'Etudes et d'Investissements (UI), based in Paris. UI invests in private companies in Europe, and also advises European companies on mergers, acquisitions, private placements and strategic alliances. UI USA, similarly, advises US companies which hope to acquire or merge with a European company, or set up a joint or strategic alliance in Europe. (See exhibit 10.16).

d. On August 15, 1996 two mutual funds managed by the Dreyfus Corporation purchased an aggregate of 250,000 shares of Atlantic's common stock at a 15 percent discount to market. As a result of these purchases, these funds now own approximately 8 percent of Atlantic's Common Stock. (See item 6 b). A warrant exercisable for shares of the Company's common stock was issued to Paramount in connection with the private placements. (See exhibit 10.21).

Item 6. Exhibits and reports on form 8-K

a. Exhibits

10. Material Contracts

(a) Financial advisory services between the Company and Paramount Capital, Incorporated. (Dated April 15,1996).

(b) Financial services agreement between the Company and UI USA, Inc. and Paramount Capital,Inc.

(c) Consulting agreement between the Company and Yuichi Iwaki, M.D., Ph.D.

(d) 1995 Stock Option Plan as amended.

(e) Warrant to Paramount to purchase 25,000 common stock.

(f) Warrant to Paramount to purchase 25,000 common stock.

(g) Warrant to Paramount to purchase 12,500 common stock.

27. Financial Data Schedule

b. Form 8-K Reports

On August 30, 1996 the Company filed a report on Form 8-K stating that the Company had, pursuant to a private placement, issued 140,000 and 110,000 shares of its common stock to Dreyfus Growth and Value Funds, Inc. and Premier Strategic Growth Fund in consideration of $ 856,100 and $ 672,650, respectively.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf.

Atlantic Pharmaceuticals, Inc.

September 30, 1996

Jon D. Lindjord

Jon D. Lindjord
Chief Executive Officer and President

Shimshon Mizrachi

Shimshon Mizrachi
Controller
Principal Accounting and Financial Officer

EXHIBIT INDEX

Exhibit No.	Description
10.15	Financial agreement between the Company and Paramount dated September 4,1996 (effective Date of April 15,1996)
10.16	Financial agreement between the Company, Paramount and UI USA dated june 23,1996
10.17	Consultancy agreement between the Company and Yuichi Iwaki dated July 31,1996
10.18	1995 Stock Option Plan, as amended.
10.19	Warrant to purchase to Paramount for 25,000 shares
10.20	Warrant to purchase to Paramount for 25,000 shares
10.21	Warrant to purchase to Paramount for 12,500 shares
27.1	Financial Data Schedule

Atlantic Pharmaceuticals, Inc.
142 Cypress Point Road
Half Moon Bay, CA 94019
Attn: J.D. Lindjord, President and CEO

Dear Sirs:

This letter (this "Agreement") will confirm the understanding and agreement between Paramount Capital, Incorporated ("Paramount") and Atlantic Pharmaceuticals, Inc. (the "Company") as follows:

1. The Company hereby engages Paramount, and Paramount hereby accepts such engagement effective as of April 15, 1996 (the "Effective Date"), on a non-exclusive basis to render financial advisory services to the Company. The term of Paramount's engagement hereunder shall extend from the Effective Date hereof through June 15, 1996 (the "Initial Term") and shall be renewed at the sole option of the Company on a monthly basis thereafter (the Initial Term and any renewals thereof being referred to as the "Term").

2. The Company shall make available to Paramount all publicly available information concerning the business, assets, operations, financial condition and prospects of the Company which it reasonably requests in connection with the performance of its obligations hereunder.

3. As compensation for the services rendered by Paramount hereunder during the Term, the Company shall pay Paramount as follows:

(a) The amount of Five Thousand Dollars ($5,000) per month, payable in advance.

(b) A retainer payable in warrants to Paramount or its designees to purchase 25,000 shares of the Company's common stock at an exercise price of $10.00. In the event that this Agreement is renewed beyond the Initial Term by the Company, the Company further agrees to issue to Paramount warrants to purchase an additional 25,000 shares of the Company's common stock at an exercise price equal to the price per share of the Company's common stock on the effective date of such renewal of this Agreement. The

parties agree that no additional warrants will be issued in the event of additional renewals, unless agreed to in advance by the parties.

(c) `If permitted by applicable regulations, upon the exercise of any warrants between the effective date of this Agreement and December 13, 1996, the Company shall pay Paramount 1% of any proceeds received.

4. In addition, upon the closing of any Investment (as defined below) during the Term or during the twelve-month period following the expiration or earlier termination of the Term, the Company shall pay to Paramount a fee in an amount equal to 7% of the aggregate value of such Investment (payable in the same form as received by the Company (e.g., cash or stock) within 30 days of the receipt of such Investment by the Company) and shall issue to Paramount warrants to purchase an amount of securities equal to 10% of the securities sold by the Company in connection with such Investment at an exercise price of 110% of the price of such securities, exercisable until five years from the date of issuance of such warrants; provided, however, with respect to Investments made by parties listed on Schedule I, the Company shall pay to Paramount a fee in an amount equal to 5% of the aggregate value of such Investment and shall issue to Paramount warrants to purchase an amount of securities equal to 5% of the securities sold as part of such Investment at an exercise price of 110% of the price of such securities, exercisable until five years from the date of issuance of such warrants. For the purposes of this Agreement, an Investment shall be any sale of securities by the Company or its affiliates during the Term or during the twelve-month period following the expiration of the Term to an investor first introduced to the Company by or through Paramount during or prior to the Term. In the event that it could be reasonably interpreted that Paramount is entitled to compensation under this Agreement as well as any other agreement between Paramount and the Company, then this Agreement shall control unless such other agreement specifically states that it controls.

5. The Company shall reimburse Paramount for its reasonable out-of-pocket expenses (including without limitation, reasonable professional fees and disbursements) incurred in connection with its engagement hereunder with respect to the services to be rendered by it; provided, however, that if any individual expense item shall exceed $500.00, Paramount agrees to obtain prior authorization for such item from the Company.

6. Except as contemplated by the terms hereof or as required by applicable law or pursuant to an order entered or subpoena issued by a court of competent jurisdiction, Paramount shall keep confidential all material non-public information provided to it by the Company, if any, and shall not disclose such information to any third party, other than such of its employees and advisors as Paramount determines to have a need to know for a period of 2 years following the date of such disclosure. This provision shall not apply to any information which: (a) was in Paramount's possession or control prior to the date of disclosure; (b) was in the public domain or enters into the public domain through no

improper act on Paramount's part or on the part of any of Paramount's employees; (c) is required to be disclosed by legal, administrative or judicial process; or (d) is rightfully given to Paramount from sources independent of the Company.

7. Except as required by applicable law, any advice to be provided by Paramount under this Agreement shall not be disclosed publicly or made available to third parties without the prior approval of Paramount, and accordingly such advice shall not be relied upon by any person or entity other than the Company.

8. The Company agrees that Paramount has the right following the closing of a transaction initiated or negotiated by Paramount to place advertisements in financial and other newspapers and journals at its own expense describing its services to the Company hereunder subject to applicable regulatory restrictions and, provided that Paramount will submit a copy of any such advertisements to the Company for its prior approval.

9. The Company shall indemnify each of Paramount, its successors and assigns, and the directors, officers, employees and agents thereof (the "Paramount Indemnities"), and hold each Paramount Indemnity harmless from and against, any and all liabilities, damages, losses, settlements, claims, actions, suits, penalties, fines, costs or expenses (including, without limitation, reasonable attorneys' fees) (any of the foregoing, a "Claim") incurred by or asserted against any Paramount Indemnity, arising from, in connection with or occurring as a result of this Agreement or any introduction made pursuant hereto; provided, however, that this indemnity shall not apply to the extent that it is finally judicially determined that such claims resulted from the gross negligence or willful misconduct of Paramount.

10. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provisions of this Agreement, which shall remain in full force and effect.

11. Subject to the provisions of paragraphs 3, 4, 5, 6, 7, 9 and 12 which shall survive any termination or expiration of this Agreement (including by operation of the preceding sentence), either party may terminate this Agreement at any time by giving the other party at least 10 days' prior written notice.

12. This Agreement may not be amended or modified except in writing signed by each of the parties and shall be governed by and construed and enforced in accordance with the laws of the State of New York. Neither the making of this Agreement nor the performance of any of the provisions hereof shall be construed to constitute Paramount an agent, employee or legal representative of the Company for any purpose nor shall Paramount hold itself out to third parties as the Company's agent, employee or legal representative or otherwise bind the Company. The Company and Paramount hereby irrevocably and unconditionally consent to submit to the exclusive jurisdiction of the courts of the State of New York and of the United States District Courts located in the City of

New York for any lawsuits, actions or other proceeding arising out of or relating to this Agreement and agree not to commence any such lawsuit, action or other proceeding except in such courts. The Company and Paramount hereby irrevocably and unconditionally waive any objection to the laying of venue of any lawsuit, action or other proceeding arising out of or relating to this Agreement in the courts of the State of New York or the United States District Courts located in the City of New York, and hereby further irrevocably and unconditionally waive and agree not to plead or claim in any such court that any such lawsuit, action or other proceeding brought in any such court has been brought in an inconvenient forum. Any right to trial by jury with respect to any lawsuit, claim or other proceeding arising out of or relating to this Agreement or the services to be rendered by Paramount hereunder is expressly and irrevocably waived.

If the foregoing correctly sets forth the understanding and agreement between Paramount and the Company, please do indicate in the space provided for that purpose below, whereupon this letter shall constitute a binding agreement as of the date hereof.

PARAMOUNT CAPITAL, INCORPORATED

By: _____

Title: _____

AGREED:

ATLANTIC PHARMACEUTICALS, INC.

By: _____
Name: J.D. Lindjord
Title: President and Chief Executive Officer

SCHEDULE I

Fiduciary Trust

The Dreyfus Fund

FINANCIAL SERVICES AGREEMENT

This Agreement shall confirm the understanding and agreement of the parties hereto that UI USA, Inc. (the "UI Group") and Paramount Capital, Inc. ("Paramount") (the UI Group and Paramount are sometimes collectively referred to herein as the "Financial Adviser") have been engaged to furnish financial advisory and investment banking services to Atlantic Pharmaceuticals, Inc. (the "Company") with respect to forming a research and development, collaboration, license agreement, joint venture or other business relationship in the areas of (a) Gemini Gene Therapies, Inc.'s 2-5A enhancing technology and/or lead products, (b) the analgesic/anti-inflammatory compound CT-3 and its analogs, (c) the anti-restenosis compounds CT-1 and CT-2 or (d) the cataract removal device marketed under the trademark Catarex(TM) with an entity approved by the Company (a "Partner") (the foregoing is collectively referred to as a "Transaction"). A Transaction does not include a business relationship consisting solely of an equity investment in the Company. Accordingly, the UI Group, Paramount and the Company agree as follows:

1. The Company hereby engages, on a non-exclusive basis, the UI Group and Paramount, acting together as the Company's financial advisor in connection with the establishment of a Transaction for the period commencing with the date of the execution and delivery of this Agreement by the Company and ending eighteen (18) months thereafter, unless this Agreement is extended by mutual consent of the Company and the Financial Advisor in writing. This Agreement may be terminated by any party hereto upon 30 days' prior written notice; provided, however, that all fees earned and costs incurred prior to termination shall be payable to the Financial Adviser and provided, further, however, that paragraph 8 hereof shall survive the termination of this Agreement. In the event that the Company chooses to use any additional advisor with regard to a Transaction, the Company will so notify the Financial Advisor, and the Company and the Financial Advisor will work together to ensure that the work of the Financial Advisor and the work of any additional advisor(s) is not in conflict.

2. Financial Adviser's services to the Company may include (a) contacting potential Partners; (b) coordinating meetings and follow-up due diligence visits with management, as well as responses to additional information requests; (c) assessing various business structures; (d) managing negotiations with prospective Partners; and (e) coordinating and managing the closing process. In addition, the Financial Adviser will be prepared to assist the Company in any presentations to the Company's Board of Directors concerning a Transaction.

3. The Company agrees to pay the Financial Advisor a retainer fee totaling $30,000 payable in advance in payments of $15,000 for each of the first two six

month periods or portions thereof that this Agreement is in effect. The first $15,000 will be payable within five days of the signing of this Agreement and the next payment of $15,000 will be due in six months from the date of this Agreement. The retainer will be payable by the Company regardless of whether any Transaction is consummated. If this Agreement is extended beyond eighteen months, or any extension thereafter, a $15,000 payment for each successive six month period will be due and payable in advance at the beginning of such period.

4. In the event that the Company enters into any Transaction with a Partner that was introduced to the Company by the Financial Adviser pursuant to this Agreement either (i) during the term of this Agreement (including any extensions thereof) or (ii) within two years after the termination of this Agreement, and pursuant to any such Transaction the Company receives one or more payments (including, in part, an equity investment) from such Partner in the form of cash or securities (each a "Payment(s)"), the Company shall pay the Financial Advisor a transaction fee equal to the sum of, (i) 5% of the first $12 million of Payment(s) received by the Company under such agreement, (ii) 4% of the next $8 million of Payment(s) received by the Company under any such agreement, and (iii) 3% of the next $5 million of Payment(s) received by the Company and (iv) 2% of any additional Payment(s) received by the Company under such agreement. The fee shall be payable in installments within 15 days of each such time or times as the Company receives a Payment from the Partner, each such installment to be (a) in an amount equal to the applicable percentage (as determined in the immediately preceding sentence) of the cumulative Payment(s) received by the Company and (b) in the same form (i.e. cash or securities) on a proportionate basis as such Payment is received by the Company. The transaction fee shall be applied separately for each Partner with which a Transaction is consummated, and for each product or technology area, and shall not be cumulative for different Partners, or on different projects. The term "Partner" as used in this paragraph shall include only the entities named on Appendix A hereto, as it may be amended from time to time with the written consent of all the parties hereto.

5. All success fees payable to the Financial Advisor pursuant to this Agreement shall be paid by the Company 50% to the UI Group and 50% to Paramount. The UI Group and Paramount shall coordinate with each other the billing for such fees. All retainer fees payable to the Financial Adviser pursuant to this Agreement shall be paid by the Company 66.66% to the UI Group and 33.33% to Paramount.

6. The Company also agrees to reimburse the Financial Advisor for its reasonable out-of-pocket costs and expenses incurred in connection with its activities hereunder, including the fees and disbursements of the Financial Advisor's legal counsel, upon submission of invoices from time to time, except that any individual expense (except legal fees) over $500 must be approved by the Company in writing in advance and except that the aggregate reimbursement of the Financial Advisor's expenses (including legal fees) shall not exceed $5,000 in any calendar quarter without the

Company's prior written approval. The UI Group and Paramount shall invoice the Company for such costs and expenses no less frequently than on a calendar quarterly basis. If requested by the Company, the UI Group and Paramount shall provide reasonable back-up (in the form of receipts, etc.) for such costs and expenses. The UI Group and Paramount shall coordinate with each other regarding the incurrence of, and billing for, such costs and expenses. An administrative charge of 10% of other expenses will be charged to cover telephone, faxes and other miscellaneous direct expenses which are not billed separately.

7. The Company agrees to furnish to the Financial Advisor all financial and other information and data which the Financial Advisor deems appropriate and necessary for the purposes of the engagement of the Financial Advisor hereunder and will provide the Financial Advisor with access to its officers, employees and agents (including, within reason, its accountants and attorneys) as the Financial Advisor shall deem appropriate. In connection with acquiring and maintaining the confidentiality of all such information and data, the Financial Advisor shall execute a customary and appropriate confidentiality agreement, if requested to do so, and all such information and data will be kept confidential by the Financial Advisor except such information and data as the Company agrees may be disclosed publicly or such information and data which become publicly available other than through a breach of such confidentiality agreement or which the Financial Advisor is required by law, regulation, subpoena or other similar legal or regulatory process to disclose.

8. The Company agrees to indemnify and hold harmless the Financial Advisor and any of its affiliates, and any person, officer, director, employee or agent of the Financial Advisor or its affiliates, and any person controlling the Financial Adviser or any of its affiliates (collectively, the "Indemnified Party") from and against any losses, claims, damages or liabilities (or actions in respect thereof) related to or arising out of the Indemnified Party's role in connection with this Agreement, and will reimburse the Indemnified Party for all costs and expenses (including, without limitation, reasonable attorneys' fees and expenses) as they are incurred by the Indemnified Party in connection with a pending or threatened action, suit or proceeding (including the cost of investigation) in which the Indemnified Party is a party or otherwise subject. The Company will not, however, be responsible for any claims, liabilities, losses, damages or expenses to the extent that it is determined by a court or an agreement between the Company and the Indemnified Party that they result from the Indemnified Party's willful misconduct or gross negligence. Promptly after receipt by the Indemnified Party of notice of any such pending or threatened litigation, the Indemnified Party will promptly notify the Company in writing of such matter; provided, however, that the failure to provide such prompt notice to the Company shall not relieve the Company of any obligations it has pursuant to this Section 8 which it may have to the Indemnified Party unless such failure has materially prejudiced the defense of such litigation and then only to the extent of such prejudice. In the event that any such action is brought against the Indemnified Party and the Indemnified Party notifies the Company, the Company shall

be entitled to participate therein and to assume the defense thereof, with counsel reasonably satisfactory to the Indemnified Party, unless, however, the Indemnified Party reasonably determines that defenses may be available to the Indemnified Party which are not available to the Company and/or may not be consistent with the best interest of the Company. In such event, the Indemnified Party shall have the right to assume its own defense, with counsel reasonably satisfactory to the Company, and shall so signify by promptly notifying the Company in writing of this decision, though such right shall not limit the Company's right to continue its own defense. Such decision shall not relieve the Company of any liability which it may have to the Indemnified Party including the reimbursement of any reasonable legal or other expenses incurred in connection with the Indemnified Party's defense. Notwithstanding the foregoing, the Indemnified Party shall not be entitled to settle any claims hereunder without the Company's prior written consent, which consent shall not be unreasonably withheld or delayed. In addition, the Company shall not be entitled to settle, for non-monetary relief, any claims made against an Indemnified Party without the Indemnified Party's prior written consent, which consent shall not unreasonably be withheld or delayed.

9. This Agreement may not be amended or modified except by an instrument in writing signed by the Company, the UI Group and Paramount. This Agreement shall be governed by and construed in accordance with the law of the State of New York applicable to agreements made and to be performed in New York and shall be construed without regard to any presumption or other rule requiring construction against the party causing the Agreement to be drafted.

10. In the event it could reasonably be interpreted that Paramount is entitled to compensation pursuant to both this Agreement and the letter agreement, dated July 19, 1996, between the Company and Paramount, Paramount shall be entitled to compensation only pursuant to this Agreement.

11. This Agreement sets forth the entire understanding and agreement between parties with respect to the subject matter hereof and supersedes all prior to other understandings and agreements among them with respect to such subject matter, all of which are merged herein. There are no representations or warranties regarding such subject matter, other than those expressly set forth herein.

12. This Agreement may be signed in counterpart and all such counterparts together shall constitute one agreement.

This Agreement is entered into as of the ___ day of June, 1996.

UI USA, INC.

By:_____

Name: Allison Gushee Molkenthin
Title: President & COO

ATLANTIC PHARMACEUTICALS, INC.

By:_____

Name: Mr. J.D. Lindjord
Title: President & CEO

PARAMOUNT CAPITAL, INC.

By:_____

Name: Lindsay A. Rosenwald, M.D.
Title: Chairman

APPENDIX A

"Partners"

6.

CONSULTANCY AGREEMENT

CONSULTANCY AGREEMENT (the "Agreement") dated as of July 31, 1996 (the "Effective Date") by and between Atlantic Pharmaceuticals, Inc., a Delaware corporation (the "Company"), and Dr. Yuichi Iwaki, M.D., Ph.D. ("Consultant").

WHEREAS the Company desires that it be able to call upon the experience and knowledge of Consultant for consultation services and advice;

WHEREAS Consultant is willing to render such services to the Company on the terms and conditions hereinafter set forth in this Agreement;

NOW, THEREFORE, in consideration of the promises and mutual covenants contained herein and for other good and valuable consideration, the parties agree as follows:

1. Term of Agreement. Commencing on the Effective Date (as defined above), Consultant shall be retained by the Company for a period of three years, which shall be renewable upon agreement of the parties for additional one year periods. The initial period and any extensions or renewals thereof shall constitute the "Consulting Term."

2. Position and Responsibilities. Consultant hereby agrees to serve as a consultant to the Company and to render such advice and services to the Company as may be reasonably required by the Company including, without limitation, advising the Company with respect to the direction of the Company's research and product development and business development activities. During the Consulting Term, Consultant shall report directly to the President and/or Chief Executive Officer of the Company.

3. Compensation. The Company shall pay Consultant at a rate of $2,500 per month payable on the last day of each calendar month.

4. Expenses. Consultant shall be reimbursed in accordance with the policies of the Company for necessary and reasonable business expenses incurred by Consultant in connection with performance of his duties hereunder.

5. Termination. This Agreement and Consultant's retention hereunder may be terminated prior to the end of the Consulting Term for any reason upon thirty days' written notice by either party.

6. Confidentiality. Consultant recognizes and acknowledges that in the course of his duties Consultant may receive confidential or proprietary information owned by the Company, or other third parties with whom the Company has an obligation of confidentiality. Therefore, during and after the Consulting Term, Consultant agrees to

keep confidential and not disclose or use (except in connection with the fulfillment of his consulting duties to the Company under this Agreement) all confidential or proprietary information owned by, or received by or on behalf of the Company. "Confidential Information" shall include, but shall not be limited to, confidential or proprietary scientific or technical information or data, business plans, trade secrets, or other confidential information relating to customers, development programs, costs, marketing, trading, investment, sales activities, promotion, credit and financial data, manufacturing processes, financing methods, plans or the business and affairs of the Company generally, or of any subsidiary or affiliate of the Company. "Confidential Information" shall not include, however, information in the public domain, information disclosed to Consultant by a third party entitled to disclose it without any obligation of confidentiality, or information already known to Consultant prior to its receipt.

7. Non-Solicitation. During the term of this Agreement and for a period of one year thereafter, Consultant shall not directly or indirectly employ, solicit for employment, or advise or recommend to any other person that they employ or solicit for employment, any person whom he knows to be an employee of the Company or any parent, subsidiary or affiliate of the Company.

8. Ownership of Inventions. In consideration for the compensation paid to the Consultant by the Company in paragraph 3 of this Agreement, Consultant hereby assigns to the Company all his right, title and interest in all inventions and intellectual property that arise from his consulting activities for the Company hereunder, and agrees to cooperate fully in the prosecution of any patent application resulting from any such invention, at the expense of the Company, which cooperation shall include executing any necessary documents in connection therewith.

9. Specific Performance. Consultant acknowledges and agrees that the Company's remedies at law for a breach or threatened breach of any of the provisions of paragraphs 6 through 8 would be inadequate and, in recognition of this fact, Consultant agrees that, in the event of such a breach or threatened breach, in addition to any remedies at law, the Company, without posting any bond, shall be entitled to obtain equitable relief in the form of specific performance, temporary restraining order, temporary or permanent injunction or any other equitable remedy which may then be available.

10. Representation of Consultant; Use of Name. Consultant hereby represents that his current principal place of employment has received disclosure as to Consultant's acting as a Chairman of the Scientific Advisory Board of the Company and of the duties required of Consultant under this Agreement, and that such employer consents fully to Consultant's execution of this Agreement and the position that he will hold. Consultant further represents that there are no binding agreements to which he is a party or by which he is

bound forbidding or restricting his activities herein. In addition, Consultant and his current employer consent to the use of their names in various reports, brochures or other documents produced by or on behalf of the Company, including any and all documents filed with the Securities and Exchange Commission.

11. Consultant Not an Employee. The Company and Consultant hereby acknowledge and agree that Consultant shall perform the services hereunder as an independent contractor and not as an employee of the Company. Consultant agrees that he will file his own tax returns on the basis of his status as an independent contractor for the reporting of all income, social security, employment and other taxes due and owing on the consideration received by him under this Agreement and that he is responsible for the payment of such taxes. Similarly, Consultant shall not be entitled to benefits specifically associated with employment status, such as medical, dental and life insurance, stock or stock options of the Company and shall not be entitled to participate in any other employer benefit programs. As an independent contractor, Consultant acknowledges, understands and agrees that he is not, and shall not represent himself to third parties as being, the agent or representative of the Company nor does he have, and shall not represent himself to third parties as having, power or authority to do or take any action for or on behalf of the Company, as its agent, representative or otherwise, except as specifically herein set forth. Consultant agrees to defend, indemnify and hold Company harmless from any and all claims made by any entity on account of an alleged failure by Consultant to satisfy any tax or withholding obligations.

12. Miscellaneous.

(a) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California, without regard to principles of conflicts of laws.

(b) Entire Agreement; Amendment. This Agreement contains the entire understanding of the parties with respect to the retention of Consultant by the Company. There are no restrictions, agreements, promises, warranties, covenants or undertakings between the parties with respect to the subject matter herein other than those expressly set forth herein. This Agreement may not be altered, modified, or amended except by written instrument signed by the parties hereto.

(c) No Waiver. The failure of a party to insist upon strict adherence to any term of this Agreement on any occasion shall not be considered a waiver of such party's rights or deprive such party of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement.

(d) Severability. In the event that any one or more of the provisions of this Agreement shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions of this Agreement shall not be affected thereby.

(e) Successors; Binding Agreement. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, representatives, successors and assigns.

(f) Counterparts; Effectiveness. This Agreement may be signed

in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Agreement shall become effective when each party hereto shall have received a counterpart hereof signed by the other party hereto.

13. Entire Agreement. This Agreement constitutes the entire understanding between the parties.

IN WITNESS THEREOF, the undersigned have duly executed this Agreement as of the date first written below:

ATLANTIC PHARMACEUTICALS, INC.

July __, 1996

_____
J.D. Lindjord
President and Chief Executive Officer

"CONSULTANT"

July __, 1996

_____
Yuichi Iwaki, M.D., Ph.D.

ATLANTIC PHARMACEUTICALS, INC.
1995 STOCK OPTION PLAN
as amended and restated June 9, 1996

ARTICLE ONE

GENERAL PROVISIONS

I. PURPOSE OF THE PLAN

This 1995 Stock Option Plan is intended to promote the interests of Atlantic Pharmaceuticals, Inc., a Delaware corporation, by providing eligible persons with the opportunity to acquire a proprietary interest, or otherwise increase their proprietary interest, in the Corporation as an incentive for them to remain in the service of the Corporation.

Capitalized terms shall have the meanings assigned to such terms in the attached Appendix.

II. STRUCTURE OF THE PLAN

A. The Plan shall be divided into two separate equity programs:

(i) the Discretionary Option Grant Program under which eligible persons may, at the discretion of the Plan Administrator, be granted options to purchase shares of Common Stock, and

(ii) the Automatic Option Grant Program under which Eligible Directors shall automatically receive option grants at periodic intervals to purchase shares of Common Stock.

B. The provisions of Articles One and Four shall apply to all equity programs under the Plan and shall accordingly govern the interests of all persons under the Plan.

III. ADMINISTRATION OF THE PLAN

A. The Primary Committee shall have sole and exclusive authority to administer the Discretionary Option Grant Program with respect to Section 16 Insiders. No non-employee Board member shall be eligible to serve on the Primary Committee if such individual has, during the twelve (12)-month period immediately preceding the date of his or her appointment to the Committee or (if shorter) the period commencing with the

Section 12(g) Registration Date and ending with the date of his or her appointment to the Primary Committee, received an option grant or direct stock issuance under the Plan or any other stock option, stock appreciation, stock bonus or other stock plan of the Corporation (or any Parent or Subsidiary), other than pursuant to the Automatic Option Grant Program.

B. Administration of the Discretionary Option Grant Program with respect to all other persons eligible to participate in that program may, at the Board's discretion, be vested in the Primary Committee or a Secondary Committee, or the Board may retain the power to administer those programs with respect to all such persons. The members of the Secondary Committee may be Board members who are Employees eligible to receive discretionary option grants or direct stock issuances under the Plan or any other stock option, stock appreciation, stock bonus or other stock plan of the Corporation (or any Parent or Subsidiary).

C. Members of the Primary Committee or any Secondary Committee shall serve for such period of time as the Board may determine and may be removed by the Board at any time. The Board may also at any time terminate the functions of any Secondary Committee and reassume all powers and authority previously delegated to such committee.

D. Each Plan Administrator shall, within the scope of its administrative functions under the Plan, have full power and authority to establish such rules and regulations as it may deem appropriate for proper administration of the Discretionary Option Grant Program and to make such determinations under, and issue such interpretations of, the provisions of such program and any outstanding options thereunder as it may deem necessary or advisable. Decisions of the Plan Administrator within the scope of its administrative functions under the Plan shall be final and binding on all parties who have an interest in the Discretionary Option Grant Program under its jurisdiction or any option thereunder.

E. Service on the Primary Committee or the Secondary Committee shall constitute service as a Board member, and members of each such committee shall accordingly be entitled to full indemnification and reimbursement as Board members for their service on such committee. No member of the Primary Committee or the Secondary Committee shall be liable for any act or omission made in good faith with respect to the Plan or any option grants under the Plan.

F. Administration of the Automatic Option Grant Program shall be self- executing in accordance with the terms of that program, and no Plan Administrator shall exercise any discretionary functions with respect to option grants made thereunder.

IV. ELIGIBILITY

A. The persons eligible to participate in the Discretionary Option Grant Program are as follows:

(i) Employees,

(ii) non-employee members of the Board (other than those serving as members of the Primary Committee) or the board of directors of any Parent or Subsidiary, and

(iii) consultants and other independent advisors who provide services to the Corporation (or any Parent or Subsidiary).

B. Each Plan Administrator shall, within the scope of its administrative jurisdiction under the Plan, have full authority (subject to the provisions of the Plan) to determine, with respect to the option grants under the Discretionary Option Grant Program, which eligible persons are to receive option grants, the time or times when such option grants are to be made, the number of shares to be covered by each such grant, the status of the granted option as either an Incentive Option or a Non-Statutory Option, the time or times at which each option is to become exercisable and the vesting schedule (if any) applicable to the option shares and the maximum term for which the option is to remain outstanding.

C. The individuals eligible to participate in the Automatic Option Grant Program shall be (i) those individuals who first become non-employee Board members after the Automatic Option Grant Program Effective Date, whether through appointment by the Board or election by the Corporation's stockholders, and (ii) those individuals who continue to serve as non-employee Board members after one or more Annual Stockholders Meetings held after the Automatic Option Grant Program Effective Date, including those individuals serving as non-employee Board members on the Automatic Option Grant Program Effective Date. A non-employee Board member who has previously been in the employ of the Corporation (or any Parent or Subsidiary) shall not be eligible to receive an initial option grant under the Automatic Option Grant Program at the time he or she first becomes a non-employee Board member, but such individual shall be eligible to receive periodic option grants under the Automatic Option Grant Program upon his or her continued service as a non-employee Board member following one or more Annual Stockholders Meetings. However, in no event shall a non-employee Board member be eligible to receive option grants under the Automatic Option Grant Program if such individual is a 5% Stockholder or is a representative of, or affiliated with, a 5% Stockholder.

V. STOCK SUBJECT TO THE PLAN

A. The stock issuable under the Plan shall be shares of authorized but unissued or reacquired Common Stock, including shares repurchased by the Corporation on the open market. The maximum number of shares of Common Stock which may be issued over the term of the Plan shall initially not exceed 950,000 shares.

B. The number of shares of Common Stock available for issuance under the Plan shall automatically increase on the first trading day of each calendar year during the term of the Plan, beginning with the 1997 calendar year, by an amount equal to one percent (1%) of the shares of Common Stock outstanding on December 31 of the immediately preceding calendar year. No Incentive Options may be granted on the basis of the additional shares of Common Stock resulting from such annual increases.

C. No one person participating in the Plan may receive options and separately exercisable stock appreciation rights for more than 100,000 shares of Common Stock in the aggregate per calendar year, beginning with the 1995 calendar year; provided, however, that for the calendar year in which such person first commences Service, the limit shall be increased to 200,000 shares.

D. Shares of Common Stock subject to outstanding options shall be available for subsequent issuance under the Plan to the extent (i) the options expire or terminate for any reason prior to exercise in full or (ii) the options are cancelled in accordance with the cancellation-regrant provisions of Article Two. All shares issued under the Plan, whether or not those shares are subsequently repurchased by the Corporation pursuant to its repurchase rights under the Plan, shall reduce on a share-for-share basis the number of shares of Common Stock available for subsequent issuance under the Plan. In addition, should the exercise price of an option under the Plan be paid with shares of Common Stock or should shares of Common Stock otherwise issuable under the Plan be withheld by the Corporation in satisfaction of the withholding taxes incurred in connection with the exercise of an option under the Plan, then the number of shares of Common Stock available for issuance under the Plan shall be reduced by the gross number of shares for which the option is exercised, and not by the net number of shares of Common Stock issued to the holder of such option.

E. Should any change be made to the Common Stock by reason of any stock split, stock dividend, recapitalization, combination of shares, exchange of shares or other change affecting the outstanding Common Stock as a class without the Corporation's receipt of consideration, appropriate adjustments shall be made to (i) the maximum number and/or class of securities issuable under the Plan, (ii) the maximum number and/or class of securities for which the share reserve is to increase automatically each year, (iii) the number and/or class of securities for which any one person may be granted options and separately exercisable stock appreciation rights per calendar year, (iv) the number and/or class of securities for which automatic option grants are to be made subsequently per

Eligible Director under the Automatic Option Grant Program and (v) the number and/or class of securities and the exercise price per share in effect under each outstanding option in order to prevent the dilution or enlargement of benefits thereunder. The adjustments determined by the Plan Administrator shall be final, binding and conclusive, absent manifest error.

ARTICLE TWO

DISCRETIONARY OPTION GRANT PROGRAM

I. OPTION TERMS

Each option shall be evidenced by one or more documents in the form approved by the Plan Administrator; provided, however, that each such document shall comply with the terms specified below. Each document evidencing an Incentive Option shall, in addition, be subject to the provisions of the Plan applicable to such options.

A. Exercise Price.

1. The exercise price per share shall be fixed by the Plan Administrator and may be less than, equal to or greater than the Fair Market Value per share of Common Stock on the option grant date.

2. The exercise price shall become immediately due upon exercise of the option and shall, subject to the provisions of Section I of Article Four and the documents evidencing the option, be payable in cash or check made payable to the Corporation. After the Section 12(g) Registration Date, the exercise price may also be paid as follows:

(i) in shares of Common Stock held for the requisite period necessary to avoid a charge to the Corporation's earnings for financial reporting purposes and valued at Fair Market Value on the Exercise Date, or

(ii) to the extent the option is exercised for vested shares, through a special sale and remittance procedure pursuant to which the Optionee shall concurrently provide irrevocable written instructions to (a) a Corporation-designated brokerage firm to effect the immediate sale of the purchased shares and remit to the Corporation, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate exercise price payable for the purchased shares plus all applicable Federal, state and local income and employment taxes required to be withheld by the Corporation by reason of such exercise and (b) the Corporation to deliver the certificates for the purchased shares directly to such brokerage firm in order to complete the sale.

Except to the extent such sale and remittance procedure is utilized, payment of the exercise price for the purchased shares must be made on the Exercise Date.

B. Exercise and Term of Options. Each option shall be exercisable at such time or times, during such period and for such number of shares as shall be determined by the Plan Administrator and set forth in the documents evidencing the option. However, no option shall have a term in excess of ten (10) years measured from the option grant date.

C. Effect of Termination of Service.

1. The following provisions shall govern the exercise of any options held by the Optionee at the time of cessation of Service or death:

(i) Any option outstanding at the time of the Optionee's cessation of Service for any reason shall remain exercisable for such period of time thereafter as shall be determined by the Plan Administrator and set forth in the documents evidencing the option, but no such option shall be exercisable after the expiration of the option term.

(ii) Any option exercisable in whole or in part by the Optionee at the time of death may be exercised subsequently by the personal representative of the Optionee's estate or by the person or persons to whom the option is transferred pursuant to the Optionee's will or in accordance with the laws of descent and distribution.

(iii) During the applicable post-Service exercise period, the option may not be exercised in the aggregate for more than the number of vested shares for which the option is exercisable on the date of the Optionee's cessation of Service. Upon the expiration of the applicable exercise period or (if earlier) upon the expiration of the option term, the option shall terminate and cease to be outstanding for any vested shares for which the option has not been exercised. However, the option shall, immediately upon the Optionee's cessation of Service, terminate and cease to be outstanding to the extent the option is not otherwise at that time exercisable for vested shares.

(iv) Should the Optionee's Service be terminated for Misconduct, then all outstanding options held by the Optionee shall terminate immediately and cease to be outstanding.

(v) In the event of an Involuntary Termination following a Corporate Transaction,the provisions of Section III of this Article Two shall govern the period for which the outstanding options are to remain exercisable following the Optionee's cessation of Service and shall supersede any provisions to the contrary in this section.

2. The Plan Administrator shall have the discretion, exercisable either at the time an option is granted or at any time while the option remains outstanding, to:

(i) extend the period of time for which the option is to remain exercisable following the Optionee's cessation of Service from the period otherwise in effect for that option to such greater period of time as the Plan Administrator shall deem appropriate, but in no event beyond the expiration of the option term, and/or

(ii) permit the option to be exercised, during the applicable post-Service exercise period, not only with respect to the number of vested shares of Common Stock for which such option is exercisable at the time of the Optionee's cessation of Service but also with respect to one or more additional installments in which the Optionee would have vested under the option had the Optionee continued in Service.

D. Stockholder Rights. The holder of an option shall have no stockholder rights with respect to the shares subject to the option until such person shall have exercised the option, paid the exercise price and become a holder of record of the purchased shares.

E. Repurchase Rights. The Plan Administrator shall have the discretion to grant options which are exercisable for unvested shares of Common Stock. Should the Optionee cease Service while holding such unvested shares, the Corporation shall have the right to repurchase, at the exercise price paid per share, any or all of those unvested shares. The terms upon which such repurchase right shall be exercisable (including the period and procedure for exercise and the appropriate vesting schedule for the purchased shares) shall be established by the Plan Administrator and set forth in the document evidencing such repurchase right.

F. First Refusal Rights. Until the Section 12(g) Registration Date, the Corporation shall have the right of first refusal with respect to any proposed sale or other disposition by the Optionee (or any successor in interest by reason of purchase, gift or other transfer) of any shares of Common Stock issued under the Plan. Such right of first refusal shall be exercisable in accordance with the terms and conditions established by the Plan Administrator and set forth in the agreement evidencing such right.

G. Limited Transferability of Options. During the lifetime of the Optionee, the option shall be exercisable only by the Optionee and shall not be assignable or transferable other than by will or by the laws of descent and distribution following the Optionee's death. However, a Non-Statutory Option may be assigned in whole or in part during the Optionee's lifetime in accordance with the terms of a Qualified Domestic Relations Order. The assigned portion may only be exercised by the person or persons who acquire a proprietary interest in the option pursuant to such Qualified Domestic Relations

Order. The terms applicable to the assigned portion shall be the same as those in effect for the option immediately prior to such assignment and shall be set forth in such documents issued to the assignee as the Plan Administrator may deem appropriate.

II. INCENTIVE OPTIONS

The terms specified below shall be applicable to all Incentive Options. Except as modified by the provisions of this Section II, all the provisions of Articles One, Two and Five shall be applicable to Incentive Options. Options which are specifically designated as Non-Statutory Options when issued under the Plan shall not be subject to the terms of this Section II.

A. Eligibility. Incentive Options may only be granted to Employees.

B. Exercise Price. The exercise price per share shall not be less than one hundred percent (100%) of the Fair Market Value per share of Common Stock on the option grant date.

C. Dollar Limitation. The aggregate Fair Market Value of the shares of Common Stock (determined as of the respective date or dates of grant) for which one or more options granted to any Employee under the Plan (or any other option plan of the Corporation or any Parent or Subsidiary) may for the first time become exercisable as Incentive Options during any one (1) calendar year shall not exceed the sum of One Hundred Thousand Dollars ($100,000). To the extent the Employee holds two (2) or more such options which become exercisable for the first time in the same calendar year, the foregoing limitation on the exercisability of such options as Incentive Options shall be applied on the basis of the order in which such options are granted.

D. 10% Stockholder. If any Employee to whom an Incentive Option is granted is a 10% Stockholder, then the exercise price per share shall not be less than one hundred ten percent (110%) of the Fair Market Value per share of Common Stock on the option grant date, and the option term shall not exceed five (5) years measured from the option grant date.

III. CORPORATE TRANSACTION/CHANGE IN CONTROL

A. In the event of any Corporate Transaction, each outstanding option shall automatically accelerate so that each such option shall, immediately prior to the effective date of the Corporate Transaction, become fully exercisable for all of the shares of Common Stock at the time subject to such option and may be exercised for any or all of those shares as fully-vested shares of Common Stock. However, an outstanding option shall not so accelerate if and to the extent: (i) such option is, in connection with the Corporate Transaction, either to be assumed by the successor corporation (or parent thereof) or to be replaced with a comparable option to purchase shares of the capital stock of the successor

corporation (or parent thereof), (ii) such option is to be replaced with a cash incentive program of the successor corporation which preserves the spread existing on the unvested option shares at the time of the Corporate Transaction and provides for subsequent payout in accordance with the same vesting schedule applicable to such option or (iii) the acceleration of such option is subject to other limitations imposed by the Plan Administrator at the time of the option grant. The determination of option comparability under clause (i) above shall be made by the Plan Administrator, and its determination shall be final, binding and conclusive, absent manifest error.

B. All outstanding repurchase rights shall also terminate automatically, and the shares of Common Stock subject to those terminated rights shall immediately vest in full, in the event of any Corporate Transaction, except to the extent: (i) those repurchase rights are to be assigned to the successor corporation (or parent thereof) in connection with such Corporate Transaction or (ii) such accelerated vesting is precluded by other limitations imposed by the Plan Administrator at the time the repurchase right is issued.

C. Immediately following the consummation of the Corporate Transaction, all outstanding options shall terminate and cease to be outstanding, except to the extent assumed by the successor corporation (or parent thereof).

D. Each option which is assumed in connection with a Corporate Transaction shall be appropriately adjusted, immediately after such Corporate Transaction, to apply to the number and class of securities which would have been issuable to the Optionee in consummation of such Corporate Transaction had the option been exercised immediately prior to such Corporate Transaction. Appropriate adjustments shall also be made to (i) the number and class of securities available for issuance under the Plan following the consummation of such Corporate Transaction, (ii) the exercise price payable per share under each outstanding option, provided the aggregate exercise price payable for such securities shall remain the same and (iii) the maximum number of securities and/or class of securities for which any one person may be granted options and separately exercisable stock appreciation rights under the Plan per calendar year.

E. Any options which are assumed or replaced in the Corporate Transaction and do not otherwise accelerate at that time, shall automatically accelerate (and any of the Corporation's outstanding repurchase rights which do not otherwise terminate at the time of the Corporate Transaction shall automatically terminate and the shares of Common Stock subject to those terminated rights shall immediately vest in full) in the event the Optionee's Service should subsequently terminate by reason of an Involuntary Termination within eighteen (18) months following the effective date of such Corporate Transaction. Any options so accelerated shall remain exercisable for fully-vested shares until the earlier of (i) the expiration of the option term or (ii) the expiration of the one (1)- year period measured from the effective date of the Involuntary Termination.

F. The Plan Administrator shall have the discretion to grant options with terms different from those described in this Section III in connection with a Corporate Transaction.

G. The Plan Administrator shall have the discretion, exercisable either at the time the option is granted or at any time while the option remains outstanding, to (i) provide for the automatic acceleration of one or more outstanding options (and the automatic termination of one or more outstanding repurchase rights with the immediate vesting of the shares of Common Stock subject to those rights) upon the occurrence of a Change in Control or (ii) condition any such option acceleration (and the termination of any outstanding repurchase rights) upon the subsequent Involuntary Termination of the Optionee's Service within a specified period following the effective date of such Change in Control. Any options accelerated in connection with a Change in Control shall remain fully exercisable until the expiration or sooner termination of the option term.

H. The portion of any Incentive Option accelerated in connection with a Corporate Transaction or Change in Control shall remain exercisable as an Incentive Option only to the extent the applicable One Hundred Thousand Dollar ($100,000) limitation is not exceeded. To the extent such dollar limitation is exceeded, the accelerated portion of such option shall be exercisable as a Non-Statutory Option under the Federal tax laws.

I. The grant of options under the Discretionary Option Grant Program shall in no way affect the right of the Corporation to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

IV. CANCELLATION AND REGRANT OF OPTIONS

The Plan Administrator shall have the authority to effect, at any time and from time to time, with the consent of the affected option holders, the cancellation of any or all outstanding options under the Discretionary Option Grant Program and to grant in substitution new options covering the same or different number of shares of Common Stock but with an exercise price per share based on the Fair Market Value per share of Common Stock on the new option grant date.

V. STOCK APPRECIATION RIGHTS

A. The Plan Administrator shall have full power and authority to grant to selected Optionees tandem stock appreciation rights and/or limited stock appreciation rights.

B. The following terms shall govern the grant and exercise of tandem stock appreciation rights:

(i) One or more Optionees may be granted the right, exercisable upon such terms as the Plan Administrator may establish, to elect between the exercise of the underlying option for shares of Common Stock and the surrender of that option in exchange for a distribution from the Corporation in an amount equal to the excess of (a) the Fair Market Value (on the option surrender date) of the number of shares in which the Optionee is at the time vested under the surrendered option (or surrendered portion thereof) over (b) the aggregate exercise price payable for such shares.

(ii) No such option surrender shall be effective unless it is approved by the Plan Administrator. If the surrender is so approved, then the distribution to which the Optionee shall be entitled may be made in shares of Common Stock valued at Fair Market Value on the option surrender date, in cash, or partly in shares and partly in cash, as the Plan Administrator shall in its sole discretion deem appropriate.

(iii) If the surrender of an option is rejected by the Plan Administrator, then the Optionee shall retain whatever rights the Optionee had under the surrendered option (or surrendered portion thereof) on the option surrender date and may exercise such rights at any time prior to the later of (a) five (5) business days after the receipt of the rejection notice or (b) the last day on which the option is otherwise exercisable in accordance with the terms of the documents evidencing such option, but in no event may such rights be exercised more than ten (10) years after the option grant date.

C. The following terms shall govern the grant and exercise of limited stock appreciation rights:

(i) One or more Section 16 Insiders may be granted limited stock appreciation rights with respect to their outstanding options.

(ii) Upon the occurrence of a Hostile Take-Over, each such individual holding one or more options with such a limited stock appreciation right in effect for at least six (6) months shall have the unconditional right (exercisable for a thirty (30)-day period following such Hostile Take-Over) to surrender each such option to the Corporation, to the extent the option is at the time exercisable for vested shares of Common Stock. In return for the surrendered option, the Optionee shall receive a cash distribution from the Corporation in an amount equal to the excess of (a) the Take-Over Price of the shares of Common Stock which are at the time vested under each surrendered option (or surrendered portion thereof) over (b) the aggregate exercise price payable for such shares. Such cash distribution shall be paid within five (5) days following the option surrender date.

(iii) Neither the approval of the Plan Administrator nor the consent of the Board shall be required in connection with such option surrender and cash distribution.

(iv) The balance of the option (if any) shall continue in full force and effect in accordance with the documents evidencing such option.

ARTICLE THREE

AUTOMATIC OPTION GRANT PROGRAM

I. OPTION TERMS

A. Grant Dates. Option grants shall be made on the dates specified below:

1. Each Eligible Director who is first elected or appointed as a non-employee Board member after the Automatic Option Grant Program Effective Date shall automatically be granted, on the date of such initial election or appointment (as the case may be), a Non-Statutory Option to purchase 10,000 shares of Common Stock.

2. On the date of each Annual Stockholders Meeting held after the Automatic Option Grant Program Effective Date, each individual who is to continue to serve as an Eligible Director after such meeting, shall automatically be granted, whether or not such individual is standing for re-election as a Board member at that Annual Meeting, a Non-Statutory Option to purchase an additional 2,000 shares of Common Stock, provided such individual has served as a non-employee Board member for at least six (6) months. There shall be no limit on the number of such 2,000-share option grants any one Eligible Director may receive over his or her period of Board service.

B. Exercise Price.

1. The exercise price per share shall be equal to one hundred percent (100%) of the Fair Market Value per share of Common Stock on the option grant date.

2. The exercise price shall be payable in one or more of the alternative forms authorized under the Discretionary Option Grant Program. Except to the extent the sale and remittance procedure specified thereunder is utilized, payment of the exercise price for the purchased shares must be made on the Exercise Date.

C. Option Term. Each option shall have a term of ten (10) years measured from the option grant date.

D. Exercise and Vesting of Options. Each option shall be immediately exercisable for any or all of the option shares. However, any shares purchased under the option shall be subject to repurchase by the Corporation, at the exercise price paid per share, upon the Optionee's cessation of Board service prior to vesting in those shares. Each initial grant shall vest, and the Corporation's repurchase right shall lapse, in a series of three

(3) successive and equal annual installments over the Optionee's period of continued service as a Board member, with the first such installment to vest upon the Optionee's completion of one (1) year of Board service measured from the option grant date. Each annual grant shall vest, and the Corporation's repurchase right shall lapse, upon the Optionee's completion of one (1) year of Board service measured from the option grant date.

E. Effect of Termination of Board Service. The following provisions shall govern the exercise of any options held by the Optionee at the time the Optionee ceases to serve as a Board member:

(i) The Optionee (or, in the event of Optionee's death, the personal representative of the Optionee's estate or the person or persons to whom the option is transferred pursuant to the Optionee's will or in accordance with the laws of descent and distribution) shall have a twelve (12)- month period following the date of such cessation of Board service in which to exercise each such option.

(ii) During the twelve (12)-month exercise period, the option may not be exercised in the aggregate for more than the number of vested shares of Common Stock for which the option is exercisable at the time of the Optionee's cessation of Board service.

(iii) Should the Optionee cease to serve as a Board member by reason of death or Permanent Disability, then all shares at the time subject to the option shall immediately vest so that such option may, during the twelve (12)-month exercise period following such cessation of Board service, be exercised for all or any portion of those shares as fully-vested shares of Common Stock.

(iv) In no event shall the option remain exercisable after the expiration of the option term. Upon the expiration of the twelve (12)-month exercise period or (if earlier) upon the expiration of the option term, the option shall terminate and cease to be outstanding for any vested shares for which the option has not been exercised. However, the option shall, immediately upon the Optionee's cessation of Board service for any reason other than death or Permanent Disability, terminate and cease to be outstanding to the extent the option is not otherwise at that time exercisable for vested shares.

II. CORPORATE TRANSACTION/CHANGE IN CONTROL/HOSTILE TAKE- OVER

A. In the event of any Corporate Transaction, the shares of Common Stock at the time subject to each outstanding option but not otherwise vested shall automatically vest in full so that each such option shall, immediately prior to the effective date of the Corporate Transaction, become fully exercisable for all of the shares of Common Stock at the time subject to such option and may be exercised for all or any portion of those shares as fully-vested shares of Common Stock. Immediately following the consummation of the Corporate Transaction, each automatic option grant shall terminate and cease to be outstanding, except to the extent assumed by the successor corporation (or parent thereof).

B. In connection with any Change in Control, the shares of Common Stock at the time subject to each outstanding option but not otherwise vested shall automatically vest in full so that each such option shall, immediately prior to the effective date of the Change in Control, become fully exercisable for all of the shares of Common Stock at the time subject to such option and may be exercised for all or any portion of such shares as fully-vested shares of Common Stock. Each such option shall remain exercisable for such fully-vested option shares until the expiration or sooner termination of the option term or the surrender of the option in connection with a Hostile Take-Over.

C. Upon the occurrence of a Hostile Take-Over, the Optionee shall have a thirty (30)-day period in which to surrender to the Corporation each automatic option held by him or her for a period of at least six (6) months. The Optionee shall in return be entitled to a cash distribution from the Corporation in an amount equal to the excess of (i) the Take-Over Price of the shares of Common Stock at the time subject to the surrendered option (whether or not the Optionee is otherwise at the time vested in those shares) over (ii) the aggregate exercise price payable for such shares. Such cash distribution shall be paid within five (5) days following the surrender of the option to the Corporation. No approval or consent of the Board or any Plan Administrator shall be required in connection with such option surrender and cash distribution.

D. Each option which is assumed in connection with a Corporate Transaction shall be appropriately adjusted, immediately after such Corporate Transaction, to apply to the number and class of securities which would have been issuable to the Optionee in consummation of such Corporate Transaction had the option been exercised immediately prior to such Corporate Transaction. Appropriate adjustments shall also be made to the exercise price payable per share under each outstanding option, provided the aggregate exercise price payable for such securities shall remain the same.

E. The grant of options under the Automatic Option Grant Program shall in no way affect the right of the Corporation to adjust, reclassify, reorganize or otherwise change its capital or business structure or to merge, consolidate, dissolve, liquidate or sell or transfer all or any part of its business or assets.

III. AMENDMENT OF THE AUTOMATIC OPTION GRANT PROGRAM

The provisions of this Automatic Option Grant Program, together with the option grants outstanding thereunder, may not be amended at intervals more frequently than once every six (6) months, other than to the extent necessary to comply with applicable Federal income tax laws and regulations.

IV. REMAINING TERMS

The remaining terms of each option granted under the Automatic Option Grant Program shall be the same as the terms in effect for option grants made under the Discretionary Option Grant Program.

ARTICLE FOUR

MISCELLANEOUS

I. FINANCING

A. The Plan Administrator may permit any Optionee to pay the option exercise price under the Discretionary Option Grant Program by delivering a promissory note payable in one or more installments. The terms of any such promissory note (including the interest rate and the terms of repayment) shall be established by the Plan Administrator in its sole discretion. Promissory notes may be authorized with or without security or collateral. In all events, the maximum credit available to the Optionee may not exceed the sum of (i) the aggregate option exercise price payable for the purchased shares plus (ii) any Federal, state and local income and employment tax liability incurred by the Optionee in connection with the option exercise.

B. The Plan Administrator may, in its discretion, determine that one or more such promissory notes shall be subject to forgiveness by the Corporation in whole or in part upon such terms as the Plan Administrator may deem appropriate.

II. TAX WITHHOLDING

A. The Corporation's obligation to deliver shares of Common Stock upon the exercise of options or stock appreciation rights under the Plan shall be subject to the satisfaction of all applicable Federal, state and local income and employment tax withholding requirements.

B. The Plan Administrator may, in its discretion, provide any or all holders of Non-Statutory Options under the Plan (other than the options granted under the Automatic Option Grant Program) with the right to use shares of Common Stock in satisfaction of all or part of the Taxes incurred by such holders in connection with the exercise of their options. Such right may be provided to any such holder in either or both of the following formats:

(i) Stock Withholding: The election to have the Corporation withhold, from the shares of Common Stock otherwise issuable upon the exercise of such Non-Statutory Option, a portion of those shares with an aggregate Fair Market Value equal to the percentage of the Taxes (not to exceed one hundred percent (100%)) designated by the holder.

(ii) Stock Delivery: The election to deliver to the Corporation, at the time the Non-Statutory Option is exercised, one or more

shares of Common Stock previously acquired by such holder (other than in connection with the option exercise triggering the Taxes) with an aggregate Fair Market Value equal to the percentage of the Taxes (not to exceed one hundred percent (100%)) designated by the holder.

III. EFFECTIVE DATE AND TERM OF THE PLAN

A. The Discretionary Option Grant Program shall became effective on the Plan Effective Date and options may be granted under the Discretionary Option Grant Program at any time after the Plan Effective Date. The Automatic Option Grant Program became effective on the Automatic Option Grant Program Effective Date and option grants under the Automatic Option Grant Program may be made to the Eligible Directors after such date. However, no options granted under the Plan may be exercised until the Plan is approved by the Corporation's stockholders. If such stockholder approval is not obtained within twelve (12) months after the Plan Effective Date, then all options previously granted under this Plan shall terminate and cease to be outstanding, and no further options shall be granted and no shares shall be issued under the Plan.

B. The Plan was amended on June 9, 1995 to (i) increase the total number of shares of Common Stock available for issuance from 650,000 shares to 950,000 shares and (ii) to increase the number of shares of Common Stock subject to the options granted under the Automatic Option Grant Program upon the initial election or appointment of an Eligible Director from 5,000 shares to 10,000 and to increase the number of shares of Common Stock subject to the annual option grants thereunder to be made on the date of each Annual Stockholders Meeting to continuing non-employee Board members from 1,000 to 2,000 shares.

C. The Plan shall terminate upon the earliest of (i) June 30, 2005, (ii) the date on which all shares available for issuance under the Plan shall have been issued pursuant to the exercise of the options under the Plan or (iii) the termination of all outstanding options in connection with a Corporate Transaction. Upon such Plan termination, all outstanding options shall continue to have force and effect in accordance with the provisions of the documents evidencing such options.

IV. AMENDMENT OF THE PLAN

A. The Board shall have complete and exclusive power and authority to amend or modify the Plan in any or all respects. However, (i) no such amendment or modification shall adversely affect any rights and obligations with respect to options or stock appreciation rights at the time outstanding under the Plan unless the Optionee consents to such amendment or modification, and (ii) any amendment made to the Automatic Option Grant Program (or any options outstanding thereunder) shall be in compliance with the limitations of that program. In addition, the Board shall not, without the approval of the Corporation's stockholders, (i) materially increase the maximum number of shares issuable

under the Plan, the number of shares for which options may be granted under the Automatic Option Grant Program or the maximum number of shares for which any one person may be granted options or separately exercisable stock appreciation rights in the aggregate per calendar year, except for permissible adjustments in the event of certain changes in the Corporation's capitalization, (ii) materially modify the eligibility requirements for Plan participation or (iii) materially increase the benefits accruing to Plan participants.

B. Options to purchase shares of Common Stock may be granted under the Discretionary Option Grant Program that are in excess of the number of shares then available for issuance under the Plan, provided any excess shares actually issued under those programs are held in escrow until there is obtained stockholder approval of an amendment sufficiently increasing the number of shares of Common Stock available for issuance under the Plan. If such stockholder approval is not obtained within twelve (12) months after the date the first such excess grants are made, then (i) any unexercised options granted on the basis of such excess shares shall terminate and cease to be outstanding and (ii) the Corporation shall promptly refund to the Optionees the exercise price paid for any excess shares issued under the Plan and held in escrow, together with interest (at the applicable Short Term Federal Rate) for the period the shares were held in escrow, and such shares shall thereupon be automatically cancelled and cease to be outstanding.

V. USE OF PROCEEDS

Any cash proceeds received by the Corporation from the sale of shares of Common Stock under the Plan shall be used for general corporate purposes.

VI. REGULATORY APPROVALS

A. The implementation of the Plan, the granting of any option or stock appreciation right under the Plan and the issuance of any shares of Common Stock upon the exercise of any option or stock appreciation right shall be subject to the Corporation's procurement of all approvals and permits required by regulatory authorities having jurisdiction over the Plan, the options and stock appreciation rights granted under it and the shares of Common Stock issued pursuant to it.

B. No shares of Common Stock or other assets shall be issued or delivered under the Plan unless and until there shall have been compliance with all applicable requirements of Federal and state securities laws and all applicable listing requirements of any stock exchange (or the Nasdaq National Market, if applicable) on which Common Stock is then listed for trading.

VII. NO EMPLOYMENT/SERVICE RIGHTS

Nothing in the Plan shall confer upon the Optionee any right to continue in Service for any period of specific duration or interfere with or otherwise restrict in any way

the rights of the Corporation (or any Parent or Subsidiary employing or retaining such person) or of the Optionee, which rights are hereby expressly reserved by each, to terminate such person's Service at any time for any reason, with or without cause.

APPENDIX

The following definitions shall be in effect under the Plan:

A. Automatic Option Grant Program shall mean the automatic option grant program in effect under the Plan.

B. Automatic Option Grant Program Effective Date shall mean the date on which the Underwriting Agreement is executed and the initial public offering price of the Common Stock is established.

C. Board shall mean the Corporation's Board of Directors.

D. Change in Control shall mean a change in ownership or control of the Corporation effected through either of the following transactions:

(i) the acquisition, directly or indirectly, by any person or related group of persons (other than the Corporation or a person that directly or indirectly controls, is controlled by, or is under common control with, the Corporation), of beneficial ownership (within the meaning of Rule 13d-3 of the 1934 Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Corporation's outstanding securities pursuant to a tender or exchange offer made directly to the Corporation's stockholders which the Board does not recommend such stockholders to accept, or

(ii) a change in the composition of the Board over a period of thirty-six (36) consecutive months or less such that a majority of the Board members ceases, by reason of one or more contested elections for Board membership, to be comprised of individuals who either (A) have been Board members continuously since the beginning of such period or (B) have been elected or nominated for election as Board members during such period by at least a majority of the Board members described in clause (A) who were still in office at the time the Board approved such election or nomination.

E. Code shall mean the Internal Revenue Code of 1986, as amended.

F. Common Stock shall mean the Corporation's common stock.

G. Corporate Transaction shall mean either of the following stockholder-approved transactions to which the Corporation is a party:

(i) a merger or consolidation in which securities possessing more than fifty percent (50%) of the total combined voting power of the Corporation's outstanding securities are transferred to a person or persons different from the persons holding those securities immediately prior to such transaction; or

(ii) the sale, transfer or other disposition of all or substantially all of the Corporation's assets in complete liquidation or dissolution of the Corporation.

H. Corporation shall mean Atlantic Pharmaceuticals, Inc., a Delaware corporation, and any corporate successor to all or substantially all of the assets or voting stock of Atlantic Pharmaceuticals, Inc. which shall by appropriate action adopt the Plan.

I. Discretionary Option Grant Program shall mean the discretionary option grant program in effect under the Plan.

J. Domestic Relations Order shall mean any judgment, decree or order (including approval of a property settlement agreement) which provides or otherwise conveys, pursuant to applicable State domestic relations laws (including community property laws), marital property rights to any spouse or former spouse of the Optionee.

K. Eligible Director shall mean a non-employee Board member eligible to participate in the Automatic Option Grant Program in accordance with the eligibility provisions of Article One.

L. Employee shall mean an individual who is in the employ of the Corporation (or any Parent or Subsidiary), subject to the control and direction of the employer entity as to both the work to be performed and the manner and method of performance.

M. Exercise Date shall mean the date on which the Corporation shall have received written notice of the option exercise.

N. Fair Market Value per share of Common Stock on any relevant date shall be determined in accordance with the following provisions:

(i) If the Common Stock is at the time traded on the Nasdaq National Market, then the Fair Market Value shall be the closing selling price per share of Common Stock on the date in question, as such price is reported by the National Association of Securities Dealers on the Nasdaq National Market or any successor system. If there is no closing selling price for the Common Stock on the date in question, then the Fair Market Value shall be the closing selling price on the last preceding date for which such quotation exists.

(ii) If the Common Stock is at the time traded on the Nasdaq SmallCap Market or the over-the-counter market, then the Fair Market Value shall be the average of the highest bid and lowest asked prices per share of Common Stock on the date in question on the Nasdaq SmallCap Market or the over-the-counter market, as such prices are reported by the National Association of Securities Dealers through its Nasdaq system or any successor system. If there are no reported bid and asked prices for the Common Stock on the date in question, then the Fair Market Value shall be the average of the highest bid and lowest asked prices on the last preceding date for which such quotations exist.

(iii) If the Common Stock is at the time listed on any Stock Exchange, then the Fair Market Value shall be the closing selling price per share of Common Stock on the date in question on the Stock Exchange determined by the Plan Administrator to be the primary market for the Common Stock, as such price is officially quoted in the composite tape of transactions on such exchange. If there is no closing selling price for the Common Stock on the date in question, then the Fair Market Value shall be the closing selling price on the last preceding date for which such quotation exists.

(iv) For purposes of any option grants made on the date the Underwriting Agreement is executed and the initial public offering price of the Common Stock is established, the Fair Market Value shall be deemed to be equal to the established initial offering price per share. For purposes of option grants made prior to such date, the Fair Market Value shall be determined by the Plan Administrator after taking into account such factors as the Plan Administrator shall deem appropriate.

O. 5% Stockholder shall mean the owner of stock (as determined under Code Section 424(d)) possessing more than five percent (5%) of the total combined voting power of all classes of stock of the Corporation (or any Parent or Subsidiary).

P. Hostile Take-Over shall mean a change in ownership of the Corporation effected through the following transaction:

(i) the acquisition, directly or indirectly, by any person or related group of persons (other than the Corporation or a person that directly or indirectly controls, is controlled by, or is under common control with, the Corporation) of beneficial ownership (within the meaning of Rule 13d-3 of the 1934 Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Corporation's outstanding securities pursuant to a tender or exchange offer made directly to the Corporation's

stockholders which the Board does not recommend such stockholders to accept, and

(ii) more than fifty percent (50%) of the securities so acquired are accepted from persons other than Section 16 Insiders.

Q. Incentive Option shall mean an option which satisfies the requirements of Code Section 422.

R. Involuntary Termination shall mean the termination of the Service of any individual which occurs by reason of:

(i) such individual's involuntary dismissal or discharge by the Corporation for reasons other than Misconduct, or

(ii) such individual's voluntary resignation following (A) a change in his or her position with the Corporation which materially reduces his or her level of responsibility, (B) a reduction in his or her level of compensation (including base salary, fringe benefits and participation in corporate-performance based bonus or incentive programs) by more than fifteen percent (15%) or (C) a relocation of such individual's place of employment by more than fifty (50) miles, provided and only if such change, reduction or relocation is effected by the Corporation without the individual's consent.

S. Misconduct shall mean the commission of any act of fraud, embezzlement or dishonesty by the Optionee, any unauthorized use or disclosure by such person of confidential information or trade secrets of the Corporation (or any Parent or Subsidiary), or any other intentional misconduct by such person adversely affecting the business or affairs of the Corporation (or any Parent or Subsidiary) in a material manner. The foregoing definition shall not be deemed to be inclusive of all the acts or omissions which the Corporation (or any Parent or Subsidiary) may consider as grounds for the dismissal or discharge of any Optionee or other person in the Service of the Corporation (or any Parent or Subsidiary).

T. 1934 Act shall mean the Securities Exchange Act of 1934, as amended.

U. Non-Statutory Option shall mean an option not intended to satisfy the requirements of Code Section 422.

V. Optionee shall mean any person to whom an option is granted under the Discretionary Option Grant or Automatic Option Grant Program.

W. Parent shall mean any corporation (other than the Corporation) in an unbroken chain of corporations ending with the Corporation, provided each corporation in the unbroken chain (other than the Corporation) owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. For purposes of the grant of Non-Statutory Options and stock appreciation rights under the Discretionary Option Grant Program, the term Parent shall also include any corporation, partnership, joint venture or other business entity which, directly or indirectly, controls the management and policies of the Corporation, whether through the ownership of voting securities, by contract or otherwise.

X. Permanent Disability or Permanently Disabled shall mean the inability of the Optionee to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment expected to result in death or to be of continuous duration of twelve (12) months or more. However, solely for the purposes of the Automatic Option Grant Program, Permanent Disability or Permanently Disabled shall mean the inability of the non-employee Board member to perform his or her usual duties as a Board member by reason of any medically determinable physical or mental impairment expected to result in death or to be of continuous duration of twelve (12) months or more.

Y. Plan shall mean the Corporation's 1995 Stock Option Plan, as set forth in this document.

Z. Plan Administrator shall mean the particular entity, whether the Board, the Primary Committee or the Secondary Committee, which is authorized to administer the Discretionary Option Grant Program with respect to one or more classes of eligible persons, to the extent such entity is carrying out its administrative functions under those programs with respect to the persons under its jurisdiction.

AA. Plan Effective Date shall mean the date on which the Plan is adopted by the Board.

AB. Primary Committee shall mean the committee of two (2) or more non-employee Board members appointed by the Board to administer the Discretionary Option Grant Program with respect to Section 16 Insiders.

AC. Qualified Domestic Relations Order shall mean a Domestic Relations Order which substantially complies with the requirements of Code Section 414(p). The Plan Administrator shall have the sole discretion to determine whether a Domestic Relations Order is a Qualified Domestic Relations Order.

AD. Secondary Committee shall mean a committee of two (2) or more Board members appointed by the Board to administer the Discretionary Option Grant Program with respect to eligible persons other than Section 16 Insiders.

AE. Section 16 Insider shall mean an officer or director of the Corporation subject to the short-swing profit liabilities of Section 16 of the 1934 Act.

AF. Section 12(g) Registration Date shall mean the first date on which the Common Stock is registered under Section 12(g) of the 1934 Act.

AG. Service shall mean the provision of services to the Corporation (or any Parent or Subsidiary) by a person in the capacity of an Employee, a non-employee member of the board of directors or a consultant or independent advisor, except to the extent otherwise specifically provided in the documents evidencing the option grant.

AH. Stock Exchange shall mean either the American Stock Exchange or the New York Stock Exchange.

AI. Subsidiary shall mean any corporation (other than the Corporation) in an unbroken chain of corporations beginning with the Corporation, provided each corporation (other than the last corporation) in the unbroken chain owns, at the time of the determination, stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain. For purposes of the grant of Non-Statutory Options and stock appreciation rights under the Discretionary Option Grant Program, the term Subsidiary shall also include any corporation, partnership, joint venture or other business entity in which the Corporation, directly or indirectly, controls the management and policies, whether through the ownership of voting securities, by contract or otherwise.

AJ. Take-Over Price shall mean the greater of (i) the Fair Market Value per share of Common Stock on the date the option is surrendered to the Corporation in connection with a Hostile Take-Over or (ii) the highest reported price per share of Common Stock paid by the tender offeror in effecting such Hostile Take-Over. However, if the surrendered option is an Incentive Option, the Take-Over Price shall not exceed the clause (i) price per share.

AK. Taxes shall mean the Federal, state and local income and employment tax liabilities incurred by the holder of Non-Statutory Options or unvested shares of Common Stock in connection with the exercise of those options or the vesting of those shares.

AL. 10% Stockholder shall mean the owner of stock (as determined under Code Section 424(d)) possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Corporation (or any Parent or Subsidiary).

AM. Underwriting Agreement shall mean the agreement between the Corporation and the underwriter or underwriters managing the initial public offering of the Common Stock.

WARRANT TO PURCHASE
SHARES OF COMMON STOCK

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

ATLANTIC PHARMACEUTICALS, INC.

INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE

Void after April 15, 2001

THIS CERTIFIES THAT, for value received, Paramount Capital, Incorporated ("Holder") is entitled to purchase, on the terms hereof, Twenty Five Thousand (25,000) shares of Common Stock (as adjusted pursuant to Section 4 hereof, the "Shares") of Atlantic Pharmaceuticals, Inc., a Delaware corporation (the "Company"), subject to the provisions and upon the terms and conditions hereinafter set forth. As used herein, the term "Common Stock" shall mean the Company's presently authorized Common Stock, par value $.001 per share, and any stock into or for which such Common Stock may hereafter be converted or exchanged. The term "Warrant" as used herein shall include this Warrant, and any warrants delivered in substitution or exchange therefor as provided herein.

The following terms shall apply to this Warrant:

1. Term of Warrant. Subject to the terms and conditions set forth herein, the term of this Warrant shall commence and this Warrant shall be exercisable for the Shares, commencing on the date hereof and expiring at 5:00 p.m. Pacific Standard Time on April 15, 2001.

2. Exercise Price; Number of Shares. The exercise price ("Exercise Price") at which this Warrant may be exercised shall be Ten Dollars ($10.00), as adjusted from time to time pursuant to Section 4 hereof. The number of shares of Common Stock for which this Warrant is initially exercisable is Twenty Five Thousand (25,000) shares of Common Stock, which number is subject to adjustment pursuant to Section 4 of this Warrant.

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

4. Certain Adjustments.

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

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

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

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

(a) Such adjustments and readjustments;

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

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

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

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

7. Restrictions on Transfer.

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

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

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

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

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

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

9. Net Issuance.

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

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

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

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

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

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

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

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

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

13. Letter Agreement. This Warrant is issued pursuant to the letter agreement, dated as of April 15, 1996, between the Company and Holder.

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

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

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

Dated: _____ ATLANTIC PHARMACEUTICALS, INC.

By:_____
Jon D. Lindjord
President and Chief Executive Officer

Dated: _____ PARAMOUNT CAPITAL, INCORPORATED

By:_____
Lindsay Rosenwald, M.D.
Chairman

EXHIBIT A

NOTICE OF EXERCISE

To: Atlantic Pharmaceuticals, Inc.

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

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

(Name)

(Address)

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

HOLDER

By: _____

Its:_____

Dated: _____

WARRANT TO PURCHASE
SHARES OF COMMON STOCK

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

ATLANTIC PHARMACEUTICALS, INC.

INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE

Void after June 16, 2001

THIS CERTIFIES THAT, for value received, Paramount Capital, Incorporated ("Holder") is entitled to purchase, on the terms hereof, Twenty Five Thousand (25,000) shares of Common Stock (as adjusted pursuant to Section 4 hereof, the "Shares") of Atlantic Pharmaceuticals, Inc., a Delaware corporation (the "Company"), subject to the provisions and upon the terms and conditions hereinafter set forth. As used herein, the term "Common Stock" shall mean the Company's presently authorized Common Stock, par value $.001 per share, and any stock into or for which such Common Stock may hereafter be converted or exchanged. The term "Warrant" as used herein shall include this Warrant, and any warrants delivered in substitution or exchange therefor as provided herein.

The following terms shall apply to this Warrant:

1. Term of Warrant. Subject to the terms and conditions set forth herein, the term of this Warrant shall commence and this Warrant shall be exercisable for the Shares, commencing on the date hereof and expiring at 5:00 p.m. Pacific Standard Time on June 16, 2001.

2. Exercise Price; Number of Shares. The exercise price ("Exercise Price") at which this Warrant may be exercised shall be Eight Dollars and Five Cents ($8.05), as adjusted from time to time pursuant to Section 4 hereof. The number of shares of Common Stock for which this Warrant is initially exercisable is Twenty Five Thousand (25,000) shares of Common Stock, which number is subject to adjustment pursuant to Section 4 of this Warrant.

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

4. Certain Adjustments.

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

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

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

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

(a) Such adjustments and readjustments;

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

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

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

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

7. Restrictions on Transfer.

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

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

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

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

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

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

9. Net Issuance.

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

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

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

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

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

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

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

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

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

13. Letter Agreement. This Warrant is issued pursuant to the letter agreement, dated as of April 15, 1996, between the Company and Holder.

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

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

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

Dated: _____ ATLANTIC PHARMACEUTICALS, INC.

By:_____
Jon D. Lindjord
President and Chief Executive Officer

Dated: _____ PARAMOUNT CAPITAL, INCORPORATED

By:_____
Lindsay Rosenwald, M.D.
Chairman

EXHIBIT A

NOTICE OF EXERCISE

To: Atlantic Pharmaceuticals, Inc.

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

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

(Name)

(Address)

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

HOLDER

By: _____

Its:_____

Dated: _____

WARRANT TO PURCHASE
SHARES OF COMMON STOCK

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

ATLANTIC PHARMACEUTICALS, INC.

INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE

Void after August 16, 2001

THIS CERTIFIES THAT, for value received, Paramount Capital, Incorporated ("Holder") is entitled to purchase, on the terms hereof, Twelve Thousand Five Hundred (12,500) shares of Common Stock (as adjusted pursuant to Section 4 hereof, the "Shares") of Atlantic Pharmaceuticals, Inc., a Delaware corporation (the "Company"), subject to the provisions and upon the terms and conditions hereinafter set forth. As used herein, the term "Common Stock" shall mean the Company's presently authorized Common Stock, par value $.001 per share, and any stock into or for which such Common Stock may hereafter be converted or exchanged. The term "Warrant" as used herein shall include this Warrant, and any warrants delivered in substitution or exchange therefor as provided herein.

The following terms shall apply to this Warrant:

1. Term of Warrant. Subject to the terms and conditions set forth herein, the term of this Warrant shall commence and this Warrant shall be exercisable for the Shares, commencing on the date hereof and expiring at 5:00 p.m. Pacific Standard Time on August 16, 2001.

2. Exercise Price; Number of Shares. The exercise price ("Exercise Price") at which this Warrant may be exercised shall be Six Dollars and Seventy Three Cents ($6.73), as adjusted from time to time pursuant to Section 4 hereof. The number of shares of Common Stock for which this Warrant is initially exercisable is Twelve Thousand Five Hundred (12,500) shares of Common Stock, which number is subject to adjustment pursuant to Section 4 of this Warrant.

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

4. Certain Adjustments.

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

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

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

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

(a) Such adjustments and readjustments;

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

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

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

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

7. Restrictions on Transfer.

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

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

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

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

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

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

9. Net Issuance.

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

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

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

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

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

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

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

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

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

13. Letter Agreement. This Warrant is issued pursuant to the letter agreement, dated as of April 15, 1996, between the Company and Holder.

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

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

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

Dated: _____ ATLANTIC PHARMACEUTICALS, INC.

By:_____
Jon D. Lindjord
President and Chief Executive Officer

Dated: _____ PARAMOUNT CAPITAL, INCORPORATED

By:_____
Lindsay Rosenwald, M.D.
Chairman

EXHIBIT A

NOTICE OF EXERCISE

To: Atlantic Pharmaceuticals, Inc.

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

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

(Name)

(Address)

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

HOLDER

By: _____

Its:_____

Dated: _____

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS

Amounts inapplicable or not disclosed as a separate line on the Statement of Financial or Results of Operations are reported as 0 herein.

9-MOS
DEC-31-1996
SEP-30-1996
3,245,129
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(2,571,410)
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