

Securities and Exchange Commission

WASHINGTON DC 20549

FORM 10-QSB

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

For the Quarterly Period Ended
JUNE 30, 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 []

2,663,720 shares of common stock, \$.001 par value are outstanding on June 30, 1996

Atlantic Pharmaceuticals, Inc. and Subsidiaries

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

Assets	30-Jun-96	31-Dec-95
	(Unaudited)	
Current assets:		
Cash and cash equivalents	\$ 2,795,311	5,044,632
Prepaid expenses	36,000	48,000
Total current assets	2,831,311	5,092,632
Furniture and equipment, net of accumulated depreciation of \$48,271 and \$26,728 at June 30,1996 and December 31, 1995, respectively.	85,632	55,791
	\$ 2,916,943	5,148,423
Liabilities and Stockholders' Equity		
Current liabilities:		
Accrued expenses	\$ 377,195	800,383
Accrued interest	-	115,011
Demand notes payable	-	125,000
Note payable	-	75,000
Total current liabilities	377,195	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; 2,663,720 shares issued and outstanding at June 30, 1996 and December 31,1995, respectively	2,664	2,664
Common stock subscribed. 182 shares at June 30,1996 and December 31,1995.	-	-
Additional paid -in capital	9,043,875	9,043,875
Deficit accumulated during development stage	(6,388,649)	(4,880,968)
Deferred compensation	(117,600)	(132,000)
	2,540,290	4,033,571
Less common stock subscriptions receivable	(218)	(218)
Less treasury stock, at cost	(324)	(324)
Total stockholders' equity	2,539,748	4,033,029
	\$ 2,916,943	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 June 30, 1996 and 1995, the six months ended June 30, 1996
and 1995 and the period from July 13, 1993 (inception) to June 30, 1996.

	Three Months Ended		Six Months Ended		Cumulative from July 13, 1993 (inception) to June 30, 1996
	June 30, 1996	June 30, 1995	June 30, 1996	June 30, 1995	
Costs and expenses:					
Research and development	\$ 248,061	115,657	487,313	216,607	1,113,855
License fees	-	-	-	12,500	163,500
General and administrative	531,952	369,005	1,109,869	620,806	4,582,786
Total operating expenses	780,013	484,662	1,597,182	849,913	5,860,141
Other expense (income):					
Interest income	(37,300)	-	(89,501)	-	(97,067)
Interest expense	-	51,848	-	91,873	625,575
Total other expense (income)	(37,300)	51,848	(89,501)	91,873	528,508
Net loss	\$ (742,713)	(536,510)	(1,507,681)	(941,786)	(6,388,649)
Net loss per share	\$ (0.28)	(93.50)	(0.57)	(195.19)	(13.08)
Shares used in calculation of net loss per share	2,663,720	5,738	2,663,720	4,825	488,392

See accompanying notes to consolidated financial statements.

ATLANTIC PHARMACEUTICALS, INC. AND SUBSIDIARIES
(a development stage company)
Consolidated Statements of Cash Flows (Unaudited)
Six months ended June 30, 1996 and 1995 and the period from July 13, 1993
(inception) to June 30, 1996

	Six Months Ended		Cumulative from
	June 30, 1996	June 30, 1995	13-Jul-93 (inception) to June, 30 1996

Cash flows from operating activities:			
Net loss	\$ (1,507,681)	(941,786)	(6,388,649)
Adjustments to reconcile net loss to net cash used in operating activities:			
Compensation expense relating to stock options	14,400	--	91,182
Discount on notes payable bridge financing	--	--	300,000
Depreciation	21,543	3,841	48,271
Changes in assets and liabilities:			
Increase (decrease) in prepaid expenses	12,000	(29,750)	(36,000)
Increase (decrease) in accrued expenses	(423,188)	(75,401)	255,496
Increase (decrease) in accrued interest	(115,011)	91,873	294,004

Net cash used in operating activities	(1,997,937)	(951,223)	(5,435,696)

Net cash used in investing activities - acquisition of furniture and equipment	(51,384)	--	(133,904)

Cash flows from financing activities:			
Proceeds from issuance of demand notes payable	--	885,000	2,395,000
Repayment of demand notes payable	(125,000)	--	(125,000)
Proceeds from the issuance of notes payable - bridge financing	--	--	1,200,000
Proceeds of issuance of warrants	--	--	300,000
Repayment of notes payable - bridge financing	(75,000)	--	(1,500,000)
Repurchase of common stock	--	(99)	(324)
Proceeds from the issuance of common stock	--	3,923	6,095,235

Net cash provided by (used in) financing activities	(200,000)	888,824	8,364,911

Net increase (decrease) in cash and cash equivalents	(2,249,321)	(62,399)	2,795,311
Cash and cash equivalents at beginning of period	5,044,632	110,884	--

Cash and cash equivalents at end of period	\$ 2,795,311	48,485	2,795,311

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.

June 30, 1996 and 1995
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(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 which provides 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. No options have been exercised or are exercisable as of June 30, 1996.

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 June 30, 1996

For the second quarter ended June 30, 1996 research and development expense increased by 114% over the similar period in 1995, primarily due to increased research and development activities.

For the second quarter of 1996 general and administrative expense increased by 44% over the second quarter of 1995 as a result of additional public relations expense and other general and administrative expenses.

For the second quarter of 1996 there was no interest expense compared with \$51,848 in the second quarter of 1995, as all interest bearing debt was

fully paid at the beginning of 1996 with proceeds from the initial public offering (IPO). For the second quarter of 1996 interest income was \$37,300 compared to no interest income in the second quarter of 1995, as cash was available during the second quarter of 1996 due to proceeds received from the Company's IPO.

Result of Operatins for the six month period ended June 30, 1996

For the period ended June 30, 1996 research and development expense increased by 125% over the similar period in 1995, primarily due to increased research and development activities.

For the period ended June 30, 1996 general and administrative expense increased by 79% over the similar period of 1995 as a result of additional public relations expense and other general and administrative expenses.

For the period ended June 30, 1996 there was no interest expense compared with \$91,873 in the similar period of 1995, as all interest bearing debt was fully paid at the beginning of 1996 with proceeds from the initial public offering (IPO). For the period ended June 30, 1996 interest income was \$89,501 compared to no interest income in the similar period of 1995, as cash was available during the six months ended June 30, 1996 due to proceeds received

from the Company's IPO.

Liquidity and Capital Resources

The Company has incurred an accumulated deficit of approximately \$6,388,648 since inception and expects to continue to incur additional losses through the year ending December 31, 1996.

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 nine 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 provided that additional capital will be obtained through these sources. If the Company is not able to obtain continued financing, the Company may cease operation and in all likelihood all the Company's security holders will lose their entire investment.

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

Part Two - Other Information

Item 5. Other information

Optex Ophthalmologics Inc., a subsidiary of Atlantic Pharmaceuticals Inc. received a grant from the National Eye Institute in the amount of \$100,000. The grant became effective April 15, 1996 and will be paid over six months period starting July 1, 1996.

Item 6. Exhibits and reports on form 8-K

a. No new exhibits for the second quarter

b. Form 8-K Reports

No form 8-K reports were filed during the second quarter.

SIGNATURES

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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.

June 30, 1996

/s/ Jon D. Lindjord

Jon D. Lindjord
Chief Executive Officer and President

/s/ Shimshon Mizrachi

Shimshon Mizrachi
Chief Financial Officer
Principal Accounting and Financial Officer