UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark one)

X Annual Report Pursuant to Section 1 or 15(d) of the Securities Exchange Act of 1934 for the Fiscal Year Ended December 31, 1999

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number 0-21180

CELLEGY PHARMACEUTICALS, INC.
(Exact name of registrant as specified in its charter)

California	82-0429727
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
349 Oyster Point Boulevard, Suite 200, South San Francisco, California	94080
(Address of Principal Executive Offices)	(zip code)

Registrant's telephone number, including area code: (650) 616-2200

Securities registered pursuant to Section 12(b) of the Act:

None	None
(Title of each class)	(Name of each exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, no par value
Common Stock Purchase Warrants
(Title of class)

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 past 90 days.

YES X NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Registrant's revenues for the year ended December 31, 1999 were $1,045,138.

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of March 1, 2000 was $94,665,000 (based on the closing price for the common stock on The Nasdaq Stock Market on such date). This calculation does not include a determination that persons are affiliates or non-affiliates for any other purpose.

The number of shares of common stock outstanding as of March 1, 2000 was 12,021,014.

Documents Incorporated By Reference

The information called for by Part III is incorporated by reference to the definitive Proxy Statement for the Annual Meeting of Shareholders of the Company to be held May 31, 2000, which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 1999.

CELLEGY PHARMACEUTICALS, INC. 10-K ANNUAL REPORT
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1999

TABLE OF CONTENTS

PART I

ITEM 1: BUSINESS

Overview

Cellegy Pharmaceuticals, Inc. ("Cellegy" or the "Company"), incorporated in California in 1989, is a specialty biopharmaceutical company engaged in the development of prescription drugs and high performance skin care products. Our current products are all designed for topical application addressing systemic (blood born) medical conditions and localized skin diseases and conditions.

Cellegy's most advanced prescription product candidates include Anogesic(R), (nitroglycerin ointment) for the treatment of anal fissures and hemorrhoids, and a transdermal testosterone gel product, Tostrex(TM), for the treatment of male hypogonadism, a condition that frequently results in lethargy and reduced libido in men above the age of 40. Anogesic is undergoing a multi-center Phase III clinical trial and Tostrex will enter a Phase III trial in the near term. Cellegy's other prescription products include a testosterone gel, Tostrelle(TM), for the treatment of declining sexual energy in menopausal women and Glylorin(TM) (monolaurin), a topical treatment for ichthyosis vulgaris and other severe dry skin conditions.

In addition to our prescription product candidates, we have developed a line of non-prescription cosmeceutical products which we believe will help reverse the signs of photodamaged and aging, wrinkled skin. Our cosmeceutical products are expected to be endorsed by professionals including dermatologists and cosmetic surgeons. We plan to commercialize our products through partners or a separate subsidiary company targeting selected channels of distribution, including e-commerce. In a program related to our cosmeceutical products, we have been selling our C79 Intensive Moisturizer formulation, since its introduction in 1998, for inclusion in a finished product marketed by a major specialty retailer. There is, of course, no certainty that C79 sales will continue or that Cellegy's other skin care and prescription products will be commercialized.

Cellegy also conducts research on the anti-inflammatory properties of CELLEDIRM (Cellegy's dermal inflammatory response modulators), a group of compounds identified by our scientists and found in preclinical evaluations to reduce or eliminate inflammation and irritation caused by many substances that come into contact with the skin. We believe that our CELLEDIRM technology and substances can be used to develop improved prescription and non-prescription products for the treatment of a wide range of inflammatory disorders, and can improve the performance of skin care products. CELLEDIRM technology is also currently being developed as an adjunct to our PERMEATE technology, a patented topical drug delivery system which demonstrated in preclinical evaluations transdermal delivery of larger molecular weight or insoluble drugs through the skin and into the blood stream.

This Annual Report includes forward-looking statements. Words such as "believes," "anticipates," "expects," "intends" and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements. These statements concern matters that involve risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. For further information regarding factors that may affect our future operating results, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors That May Affect Future Operating Results."

Marketing and Commercialization Strategy

Cellegy intends to become a leader in the development and marketing of selected specialty pharmaceutical products. Key elements of our business and commercialization strategy include the following:

Lower Risk Strategy for Selecting Product Candidates. We do not intend to focus near-term product development efforts on new chemical entities. Instead, we will apply our proprietary technologies and expertise in the development and commercialization of new or improved formulations containing Food and Drug Administration ("FDA") approved or monographed pharmaceutical compounds. Cellegy will attempt to achieve marketing exclusivity or patent protection for such products.

Self - Marketing to Specialty Physician Markets in United States. Cellegy plans to market Anogesic, Tostrelle and related products to a targeted audience of key physician specialists, principally Gastroenterologists ("GI's") and Obstetrician-Gynecologists ("OB-GYN's"), through the establishment of our own sales force. We plan to seek larger pharmaceutical partners to assist in the promotion of these products to broader physician audiences. We plan to partner Tostrex and our dermatology and skin care products while retaining co-promotion rights in the United States to these and other products we develop.

Outlicensing of Overseas Rights. We intend to outlicense the overseas rights for products we develop in exchange for upfront and milestone payments as well as royalties on sales.

Acquisition of Complementary Products. Although we are focusing primarily on the development of our own products and technologies, we may strategically acquire products, technologies or companies with products and distribution capabilities consistent with our commercial objectives.

Marketed Skin Care Products

Cellegy has completed development of certain consumer skin care and cosmeceutical products, including skin barrier repairing/fortifying moisturizers, skin protectants and anti-aging lotions and creams. We are continuing to develop formulations in other related skin care consumer product categories. These products utilize certain of our proprietary technologies and formulations.

We are currently marketing our C79 Intensive Moisturizer formulation to a major specialty retailer, which incorporates C79 into their hand cream products. Our revenues from sales of these products totaled $898,000 in 1999, and about $1.4 million since product introduction late in 1998.

Cellegy intends to expand the sale of skin care formulations to this and to other traditional specialty retailers which will market them under their own brand names. We plan to commercialize our products through partners or a separate subsidiary company targeting selected channels of distribution, including e-commerce.

Products Under Development

Prescription Products

Anogesic (nitroglycerin ointment)

Cellegy's leading product candidate is Anogesic, a topical, nitroglycerin-based prescription product for the treatment of anal fissures and hemorrhoids. Prior to Cellegy's recently completed clinical trial, several previously published clinical trial results in over 400 patients showed that nitroglycerin healed anal fissures and demonstrated dramatic pain reduction in most patients. In a clinical study published in The Lancet, nitroglycerin promoted healing in over two-thirds of patients who would have required rectal surgery.

We completed our own Phase III clinical trial using Anogesic for treatment of anal fissures and announced the results in November 1999. This trial did not demonstrate a statistically significant heal rate in comparison to placebo, but did show rapid and significant pain reduction. Based on this outcome, we have initiated a second Phase III trial to confirm the drug's ability to reduce fissure pain, the primary trial endpoint. In addition, as a secondary endpoint, we will also examine the product's ability to heal chronic anal fissures. If we are successful in achieving the primary endpoint, we plan to file a New Drug Application ("NDA") for the pain reduction indication in the United States and to pursue regulatory submissions for this indication in Europe and other major foreign markets.

The second confirmatory Phase III clinical trial will include about 165 patients in several study centers in the United States and overseas. Patients will receive either of two strengths of Anogesic or placebo. The product will be administered on a daily basis over an eight-week treatment period. The patient's pain scores will be tabulated and the patient will be examined to determine whether the fissure has healed.

Anal fissures are painful tears in the tissue of the anal mucosa and are common conditions affecting men and women of all age groups. Of the approximately 600,000 new cases of anal fissures each year in the United States, Europe and Japan, about half require painful and expensive surgery, a procedure that sometimes leaves patients

incontinent. Hemorrhoids are dilated, swollen veins and tissue located either in the anal canal or at the margin of the anus. In the United States alone, there are approximately nine million people who suffer from hemorrhoids each year. Both conditions are characterized by an increase in intra anal pressure, which has been shown to be effectively reduced by the application of Anogesic.

Current drug therapies include anesthetics and anti-inflammatory agents that only partially relieve the symptoms of these conditions. Even though current treatments are only partially effective, prescription product sales currently used to treat anal fissures and hemorrhoids have been estimated to be approximately $500 million annually in the United States, Europe and Japan. Surgical procedures and hospitalization stays related to these conditions represent a substantial additional cost to the healthcare systems.

Anogesic is a proprietary formulation that includes nitroglycerin, a drug that has been used for many years in the treatment of angina pectoris and certain other heart diseases. Once administered to the anal canal, nitroglycerin causes relaxation of the sphincter muscle, relieving pain and promoting healing of the anal fissure or hemorrhoid. In addition to the above mentioned trial, Cellegy has two clinical trials underway for various complications of hemorrhoids. Anogesic is protected by two broad domestic patents, both of which have been issued, the most recent in December 1997. In addition, numerous patent applications have been filed in all major overseas markets.

Tostrex(TM)(testosterone gel for male hormone replacement therapy)

Cellegy is currently developing a transdermal testosterone gel to address male hypogonadism, a condition which results from a decline in the body's production of the sex hormone, testosterone. Low levels of testosterone can result in lethargy, depression and a decline in libido. In severely deficient cases, loss of muscle mass and bone density can occur. Approximately 5 million men in the United States, primarily in the aging (over 40) male population group, have lower than normal levels of testosterone. Hypogonadism is the first indication for which we will seek regulatory approval in the United States, assuming successful trial results. Subsequently, we plan to demonstrate efficacy for "male andropause," a potentially greater market.

There are a number of companies currently marketing testosterone in several different product forms in domestic and certain international markets. Cellegy believes that a major market opportunity exists for an improved product, as the side effects and patient inconveniences associated with the currently marketed products have limited their use to less than 5% of potential patients. Current product forms include orals, injectables and transdermal patches. The leading patch products are sold at prices which average about $800 per year per patient

Cellegy's proprietary patchless testosterone gel product is expected to permit a once-a-day application of a metered dose to a small area of the skin without causing the irritation associated with current patch products. The gel is transparent, rapid drying and non-staining. Based on Phase II dose ranging clinical studies to date, we believe our proprietary transdermal gel formulation is capable of delivering therapeutic levels of testosterone with reduced side effects and in a more convenient dosage form compared with other currently marketed products. These human studies demonstrated Tostrex's ability to deliver testosterone into the bloodstream at levels that were consistently higher than a leading patch product.

Based on the outcome of these studies, we will begin, in the near term, a pivotal Phase III clinical trial enrolling about 65 patients in the United States. Cellegy believes that due to well-documented toxicology and efficacy data regarding the use of testosterone, regulatory approval of our transdermal testosterone gel may be achieved more quickly than would normally be the case with other new chemical entities.

Tostrelle(TM)(testosterone gel for female hormone replacement therapy)

Normal blood concentrations of testosterone in women range from 10 to 20 times less than that of men. Nevertheless, in both sexes, testosterone plays a key role in building muscle tissue or bone, and in the maintenance of sexual drive. In women, the ovaries and adrenal glands continue to synthesize testosterone after menopause, although the rate of production may diminish by as much as 50%.

Based on the results of pharmacokinetic studies in men receiving Tostrex, Cellegy's scientists have been able to estimate the proper dosage of testosterone that would be required to achieve normal premenopausal hormone levels in postmenopausal women. The result is Cellegy's Tostrelle, a product designed to restore normal testosterone

levels in hormone deficient women. A Phase I/II dose ranging clinical study for this indication commenced in January 2000.

Approximately 15 million women in the United States suffer from symptoms of testosterone deficiency. At the present time there are no approved products for the treatment of this condition, and besides Tostrelle, we are not aware of any other testosterone gel product in domestic clinical trials for the restoration of sexual energy to menopausal women.

Estrogen-Testosterone Gel (female hormone replacement therapy)

Cellegy's third planned product in the area of hormone replacement therapy is a combination estrogen-testosterone gel which utilizes our proprietary drug delivery technologies to restore the natural levels of both hormones in elderly or menopausal women. We believe that this product may offer significant advantages over the patches in terms of reduced side effects and patient convenience. The combination formulation is in the research stage with clinical trials planned following development of the mono-therapy testosterone products.

Glylorin (glyceryl monolaurate)

Glylorin is a dermatology product developed for skin conditions which range from mild to severe ichthyosis vulgaris and other severe dry skin conditions. In November 1996, Cellegy licensed Glylorin to Glaxo. In October 1999, after Glaxo completed significant clinical development, Cellegy and Glaxo terminated the license agreement, with the return of Glylorin product rights to us.

During the license period, Glaxo completed a Phase II clinical trial for the treatment of Ichthyosis Vulgaris, a severe dry skin which afflicts approximately one million people in the United States and a similar number in Europe. The disease is characterized by severe dry skin and scaling over large areas of the body. The only currently approved prescription product for the treatment of Ichthyosis Vulgaris is Lac-Hydrin, which has certain side effects, including irritation and stinging on thinner skin areas such as the face. In addition, the product is not indicated for pediatric use. Results of the Cellegy/Glaxo Phase II study showed that Glylorin was able to completely clear 56% of the lesions treated, whereas only 33% of the lesions treated with the placebo were cleared. Based on these results, Cellegy and Glaxo prepared a Phase III clinical trial protocol which was reviewed with the FDA. Cellegy is currently seeking another partner to complete clinical development and regulatory approval of Glylorin in return for milestones and royalties payments.

Cosmeceutical Products

Cosmeceuticals (a hybrid of the words cosmetics and pharmaceuticals) are products that contain active ingredients which, when applied to the skin, will enhance appearance. Cosmeceuticals that satisfy the legal definition of a cosmetic under the Food Drug & Cosmetic Act, and are not considered drugs under that statute, are not subject to the same FDA regulations as drug products. Cosmeceuticals may be marketed to consumers without prior approval by the FDA and without requiring a prescription from a physician.

Cellegy's core cosmeceutical program includes anti-wrinkling products* which, based on human studies to date, appear to mitigate the visible effects of photoaging and skin wrinkling. We believe our anti-wrinkling products have a different mechanism of action, producing greater improvement to the skin's appearance and causing less irritation than current market leading products.

Signs of aging and photoaging usually become visible when people reach their early thirties, with fine lines and roughness, loss of suppleness and elasticity of the skin becoming apparent. In subsequent decades, there may be further deterioration marked by coarse wrinkles, spotty irregular pigmentation, leathery texture or thinning of the skin. Many of these skin changes associated with aging are due to ultraviolet light exposure, referred to as "photoaging." At the retail level, the non-prescription market for products which are used to mitigate the effects of aging and photodamage upon the skin is estimated to be in excess of $1 billion in annual sales in the United States and growing rapidly. The current high performance cosmeceutical anti-wrinkling market in the United States consists of a few broad categories of products, generally utilizing the following active ingredients: alpha and beta hydroxy acids, retinols and anti-oxidants.

Many of these currently marketed department and specialty retail store cosmeceutical products contain low concentrations of one or more of the above mentioned active ingredients. Low concentrations of the active ingredients are frequently employed in order to avoid side effects which can include stinging, redness and skin irritation. However, the low concentrations of the active ingredient generally limit the efficacy of the products. Most of the cosmeceutical lines marketed to physicians contain higher concentrations of actives, but are known to cause significant irritation.

Cellegy's high performance anti-wrinkling products incorporate CELLEDIRM and a multi-action ingredient exhibiting many of the attributes of the active cosmeceutical ingredients listed above. Certain human studies were successfully completed and others have been designed to provide stronger data regarding the effectiveness of Cellegy's cosmeceuticals. If business development discussions with potential partners are successful, the product line may be available for launch in 2000.

* References in this Report to "anti-wrinkling," "anti-wrinkling products" or the "anti-wrinkling market" are intended to refer to a product category that Cellegy believes is generally understood in the marketplace or to products in that category, and are not intended to describe any claims that our cosmeceutical products act in any way other than as cosmetics as defined under applicable laws. The term "cosmeceuticals" refers to products that, if they satisfy the definition of a cosmetic under applicable federal laws and if they are not also drugs under those laws, are not subject to the same requirements as drug products. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors That May Affect Future Operating Results" and "Government Regulation."

Technology

Background in Skin Biology

Many of Cellegy's technologies and products were developed using our research in skin biology and knowledge of the physical functions of the skin, particularly the epidermis. The epidermis is comprised mainly of cells known as keratinocytes that are continually regenerated and move toward the skin surface where they flatten, lose their nucleus, and become the outermost layer of the epidermis, the stratum corneum. The stratum corneum acts as a protective barrier against physical injuries and disease, and regulates the loss of moisture from the body. It consists of an array of flattened cells suspended in highly organized lipid structures, similar conceptually to a brick and mortar arrangement. Most importantly, these lipids regulate the permeability properties of the skin and, therefore, the movement of topically applied drugs into the body.

Cellegy's focus on the biological functioning of the skin has permitted development of two novel technologies:

- CELLEDIRM: which appears to be capable of mitigating the irritation and inflammation caused when drugs, solvents and other substances come into contact with the skin, and

- PERMEATE: capable of enhancing the delivery of drugs applied to the skin for systemic delivery or for the treatment of local skin conditions.

CELLEDIRM Technology

CELLEDIRM (Cellegy's Dermal Inflammatory Response Modulators) is a group of compounds identified by Cellegy's scientists that have demonstrated in pre-clinical test a reduction of the inflammation associated with the topical application of drugs, solvents or other physiologically active substances. These compounds consist of specially processed or purified excipients that have been shown in preclinical studies to significantly reduce skin inflammation following challenge with a number of irritating or allergenic substances.

Cellegy has conducted a number of research studies investigating the utility of CELLEDIRM in mitigating the symptoms of skin inflammation. These compounds have been shown to reduce inflammation by up to 40% in animal models challenged with either a potent irritant or an allergen. These effects are comparable to those achieved with topical corticosteroids.

We expect our proprietary CELLEDIRM technology to complement our PERMEATE drug delivery system and to provide a unique platform for the development of novel topical products which could benefit from the anti-inflammatory or anti-allergic activities of CELLEDIRM. Since the active ingredients within CELLEDIRM are either GRAS (generally regarded as safe) or used as excipients in various pharmaceutical or cosmetic products, we believe the use of these compounds will not lengthen United States FDA review time of therapeutic drug products formulated with CELLEDIRM. Accordingly, we plan to utilize these compounds in the development of our testosterone products and certain other prescription and cosmeceutical products.

PERMEATE Technology

PERMEATE is a patented technology which employs bioactive permeation enhancers to permit the passage of larger molecule drugs into or through the skin. This technology consists of a variety of methods to manipulate the three primary lipids which characterize the properties of the stratum corneum: cholesterol, ceramides and free fatty acids. Normal barrier function requires a specific critical ratio of these three lipids. We have shown that our newly identified enhancers can alter these lipid ratios to increase the permeability of the skin by inhibiting specific enzymes responsible for the synthesis of these lipids, or by inducing defects in the rigid lipid structures of the stratum corneum.

Cellegy's PERMEATE system has the potential of being able to open the stratum corneum barrier wider than previously believed possible, and to keep it open longer than conventional solvent approaches. In preclinical studies, PERMEATE facilitated the permeation of larger or more insoluble drugs into the skin or into the bloodstream. Our studies to date have also shown that these enhancers can exert their effect when formulated as topical creams or gels or in conventional transdermal patches.

Cellegy's research and development expenses were $7,965,000 in 1999, $6,668,000 in 1998, and $3,786,000 in 1997. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Patents and Trade Secrets

Our success depends, in part, on our ability to obtain patent protection for our products and methods, both in the United States and in other countries. The patent position of companies engaged in businesses such as our business generally is uncertain and involves complex legal and factual questions. There is a substantial backlog of patent applications at the U.S. Patent and Trademark Office ("USPTO"). Patents in the United States are issued to the party that is first to invent the claimed invention. Since patent applications in the United States are maintained in secrecy until patents issue, we cannot be certain that it was the first inventor of the invention covered by our pending patent applications or patents or that it was the first to file patent applications for such inventions. Further, issued patents can later be held invalid by the patent office issuing the patent or by a court. There can be no assurance that any patent applications relating to our products or methods will issue as patents, or, if issued, that the patents will not be challenged, invalidated, or circumvented or that the rights granted thereunder will provide a competitive advantage to us.

In addition, many other entities are engaged in research and product development efforts in fields that may overlap with our currently anticipated and future products. A substantial number of patents have been issued to such companies, and such companies may have filed applications for, or may have been issued patents or may obtain additional patents and proprietary rights relating to, products or processes competitive with those of Cellegy. Such entities may currently have, or may obtain in the future, legally blocking proprietary rights, including patent rights, in one or more products or methods under development or consideration by us. These rights may prevent us from commercializing technology, or may require us to obtain a license from the entity to practice the technology. There can be no assurance that we will be able to obtain any such licenses that may be required on commercially reasonable terms, if at all, or that the patents underlying any such licenses will be valid or enforceable.

Moreover, the laws of certain foreign countries do not protect intellectual property rights relating to United States patents as extensively as those rights are protected in the United States. The issuance of a patent in one country does not assure the issuance of a patent with similar claims in another country, and claim interpretation and infringement laws vary among countries, so the extent of any patent protection is uncertain and may vary in different countries. As with other companies in the pharmaceutical industry, we are subject to the risk that persons

located in such countries will engage in development, marketing or sales activities of products that would infringe our patent rights if such activities were in the United States.

Several of Cellegy's products are based on existing compounds with a history of use in humans but which are being developed by us for new therapeutic use in skin diseases unrelated to the systemic diseases for which the compounds were previously approved. We cannot obtain composition patent claims on the compound itself, and will instead need to rely on patent claims, if any, directed to use of the compound to treat certain conditions or to specific formulations. Cellegy will not be able to prevent a competitor from using that formulation or compound for a different purpose. No assurance can be given that any additional patents will be issued to us, that the protection of any patents that may be issued in the future will be significant, or that current or future patents will be held valid if subsequently challenged.

Certain agreements with the University of California pursuant to which Cellegy has exclusive license rights to certain drug delivery and other technologies contain certain development and performance milestones which we must satisfy in order to retain such rights. While we currently believe it will be able to satisfy the revised milestone dates, a loss of rights to these technologies may have an adverse effect.

Cellegy has 17 issued United States patents, more than 35 issued foreign patents, and over 55 pending patent applications. The majority of these patents are for the use of certain compounds to treat common or severe inflammatory dermatologic diseases including dermatitis, psoriasis, rosacea and acne, as well as disorders such as various ichthyoses, signs and symptoms of skin aging and premalignant actinic keratoses. Three issued United States patents and more than 20 issued foreign patents relate to our Glylorin product for the treatment of ichthyosis and certain other skin diseases and conditions. Two issued United States patents and more than 10 pending patent applications relate to Cellegy's Anogesic product for the treatment of anal fissures. Five issued United States patents and more than 10 pending patent applications relate to Cellegy's PERMEATE drug delivery technology. Additional patent applications are being prepared for filing that will cover methods or products currently under development. Corresponding patent applications for most of Cellegy's issued United States patents have been filed in countries of importance to us located in major world markets, including certain countries in Europe, Australia, South Korea, Japan, Mexico and Canada.

Federal patent law provides that for any inventions that have been developed with government funding that are the subject of a license, the government has the right to require the assignor or the licensee to grant a license to third parties upon the occurrence of certain events, such as if the government determines that no effective steps have been taken to achieve practical application of the invention, or if health or safety needs or requirements for public use are not reasonably satisfied.

Our policy is to protect our technology by, among other things, filing patent applications for technology that it considers important to the development of our business. We intend to file additional patent applications, when appropriate, relating to our technology, improvements to our technology and to specific products that it develops. It is impossible to anticipate the breadth or degree of protection that any such patents will afford, or whether we can meaningfully protect our rights to our unpatented trade secrets. Cellegy also relies upon unpatented trade secrets and know-how, and no assurance can be given that others will not independently develop substantially equivalent proprietary information and techniques, or otherwise gain access to our trade secrets or disclose such technology, or that we can meaningfully protect our rights to our unpatented trade secrets. It is our policy to require our employees to execute an invention assignment and confidentiality agreement upon employment. Our consultants are required to execute a confidentiality agreement upon the commencement of their consultancy to us. Each agreement provides that all confidential information developed or made known to the employee or consultant during the course of employment or consultancy will be kept confidential and not disclosed to third parties except in specific circumstances. The invention assignment generally provides that all inventions conceived by the employee shall be the exclusive property of Cellegy. In addition, it is our policy to require the collaborators and potential collaborators to enter into confidentiality agreements. There can be no assurance, however, that these agreements will provide meaningful protection for our trade secrets.

Product Acquisitions

In December 1997, Cellegy acquired patent and related intellectual property rights relating to Anogesic (the "Agreement"), a topical product candidate for the treatment of anal fissures and hemorrhoids, from Neptune

Pharmaceutical Corporation ("Neptune"). Pursuant to a letter of intent and a subsequent Agreement between the parties, we issued 462,809 shares of common stock to Neptune in 1997. The Agreement calls for a series of additional payments, payable in shares of common stock, upon successful completion of various milestones tied to clinical trial results and commercialization of the product in domestic and foreign markets. If achieved, milestones would occur over the next several years. No milestone payments have been made since 1997. Future potential milestones, payable in Cellegy common stock, could result in the issuance of an additional 1,338,000 shares of Cellegy common stock. The Agreement does not provide for the payment by Cellegy of any future product royalties in connection with sales of Anogesic.

Principal License Agreements

Glaxo. In November 1996, Cellegy entered into an agreement with Glaxo for licensing rights to Glylorin, Cellegy's lipid compound for the treatment of ichthyosis. Under the terms of the agreement, Cellegy provided Glaxo with an exclusive license of patent rights and know-how covering Glylorin in most of the world's major markets. In October 1999, Cellegy and Glaxo terminated the license agreement with the return to Cellegy of Glylorin product rights.

University of California. In October 1993, Cellegy entered into a license agreement with the University of California (the "Licensor") providing for an exclusive, worldwide, royalty bearing license, subject to customary government rights, for patent rights relating to barrier repair formulations jointly held by the Licensor and Cellegy, in consideration of the issuance to the Licensor of certain shares of preferred stock (which subsequently converted into shares of common stock) and the payment by Cellegy of a licensing fee. In March 1994, we entered into a second exclusive, worldwide, royalty bearing license agreement with the Licensor for patent rights, jointly held by the Licensor and Cellegy, relating to drug delivery technologies, in consideration of the payment by Cellegy of a licensing fee, and an annual maintenance fee payable each year until Cellegy is commercially selling a licensed product. Both agreements require us to pay the Licensor royalties based on net sales of consumer and prescription products (with minimum annual royalty payment). Cellegy has the right to grant sublicenses to third parties under both agreements. In May and October 1997, the Licensor and Cellegy amended these agreements. The amendments, among other things, modified and extended certain development and commercialization milestones contained in the original agreements. The revised milestones are tied to the achievement of certain clinical, regulatory or product commercialization goals over the next several years. Although there can be no assurance that such goals will be achieved, we believe the development programs in place will result in the satisfaction of such milestones.

Government Regulation

FDA Requirements for Human Drugs. The research, testing, manufacturing, labeling, distribution, and marketing of drug products are extensively regulated by numerous governmental authorities in the United States and other countries. In the United States, drugs are subject to rigorous FDA regulation. The Food, Drug and Cosmetic Act (the "FD&C Act") and the regulations promulgated thereunder, and other federal and state regulations govern, among other things, the research, development, testing, manufacture, distribution, storage, record keeping, labeling, advertising, promotion and marketing of pharmaceutical products. The process of developing and obtaining approval for a new pharmaceutical product within this regulatory framework requires a number of years and the expenditure of substantial resources. There can be no assurance that necessary approvals will be obtained on a timely basis, if at all. Moreover, additional government regulations may be established that could prevent or delay regulatory approval of our products. Delays in obtaining regulatory approvals could have a material adverse effect on us. If we fail to comply with applicable regulatory requirements for marketing drugs, or if our cosmeceutical products are deemed to be drugs by the FDA, the Company could be subject to administrative or judicially imposed sanctions such as warning letters, fines, products recalls or seizures, injunctions against production, distribution, sales, or marketing, delays in obtaining marketing authorizations or the refusal of the government to grant such approvals, suspensions and withdrawals of previously granted approvals, civil penalties and criminal prosecution of Cellegy, our officers or our employees.

The steps ordinarily required before a new pharmaceutical product may be marketed in the United States include: (i) preclinical laboratory tests, animal studies and formulation studies; (ii) the submission to the FDA of an Investigational New Drug Application ("IND"), which must become effective before clinical testing may commence; (iii) adequate and well-controlled clinical trials to establish the safety and efficacy of the product for its proposed indication; (iv) the submission of a New Drug Application ("NDA") to the FDA; and (v) FDA review and

approval of the NDA prior to any commercial sale or shipment of the drug. Compounds must be produced according to the FDA's current Good Manufacturing Practice ("GMP") requirements, and preclinical tests must be conducted in compliance with the FDA's Good Laboratory Practice regulations. The results of preclinical testing are submitted to the FDA as part of an IND. The FDA may, at any time, impose a clinical hold on ongoing clinical trials. If the FDA imposes a clinical hold, clinical trials may not commence or recommence without FDA authorization and then only under terms authorized by the FDA. In some instances, the IND application process can result in substantial delay and expense.

Clinical trials involve the administration of the investigational product to healthy volunteers or patients under the supervision of a qualified investigator. Clinical trials to support NDAs are typically conducted in three sequential phases, which may overlap. In Phase I, the initial introduction of the drug into healthy human subjects or patients, the drug generally is tested to assess metabolism, pharmacokinetics, pharmacological action and safety, including side effects associated with increasing doses, and if possible, to gain early evidence on effectiveness. Phase II usually involves studies in a limited patient population to (i) determine the efficacy of the drug for a specific indication, (ii) determine dosage tolerance and optimal dosage and (iii) identify possible short-term adverse effects and safety risks. If a compound is found to be effective and to have an acceptable safety profile in Phase II evaluations, Phase III trials are undertaken to further evaluate clinical efficacy and to further test for safety within an expanded patient population at geographically dispersed clinical study sites. A clinical trial may combine the elements of more than one phase, and typically two or more Phase III studies are required. There can be no assurance that Phase I, Phase II or Phase III testing will be completed within any specific time period, if at all.

New and Abbreviated New Drug Applications. After completion of the required clinical testing, generally an NDA is submitted. FDA approval of the NDA (or, in the alternative, an Abbreviated New Drug Application ("ANDA"), as described below) is required before marketing may begin in the United States. The NDA must include the results of extensive clinical and other testing and the compilation of data relating to the product's chemistry, pharmacology and manufacture, the cost of all of which is substantial. The FDA reviews all NDAs submitted before it accepts them for filing and may request additional information rather than filing an NDA. The review process is often extended significantly by FDA requests for additional information or clarification. The FDA may refer the application to the appropriate advisory committee, typically a panel of clinicians, for review, evaluation and a recommendation as to whether the application should be approved. The FDA is not bound by the recommendation of an advisory committee. During the review process, the FDA generally will conduct an inspection of the relevant drug manufacturing facilities and clinical sites to ensure that the facilities are in compliance with applicable Good Manufacturing Practices ("GMP") requirements. If FDA evaluations of the NDA application, manufacturing facilities, and clinical sites are favorable, the FDA may issue either an approval letter or an approvable letter, which contains a number of conditions that must be met in order to secure approval of the NDA. When and if those conditions have been met to the FDA's satisfaction, the FDA will issue an approval letter, authorizing commercial marketing of the drug for certain specific indications. If the FDA's evaluation of the NDA submission or manufacturing facilities is not favorable, the FDA may refuse to approve the NDA or issue a not approvable letter, outlining the deficiencies in the submission and often requiring additional testing or information. Notwithstanding the submission of any requested additional data or information in response to an approvable or not approvable letter, the FDA ultimately may decide that the application does not satisfy the regulatory criteria for approval. Even if FDA approval is obtained, a marketed drug product and its manufacturer are subject to continual review and inspection, and later discovery of previously unknown problems with the product or manufacturer may result in restrictions or sanctions on such product or manufacturer, including withdrawal of the product from the market.

Possible Regulation of Cosmeceutical Products as Drugs. "Cosmeceuticals" are not defined in the FD&C Act. The FDA has not defined the term by regulation and may consider use of the term to imply drug- like qualities. The FDA will regulate a particular cosmeceutical product as a drug or a cosmetic (or both a drug and a cosmetic) depending primarily upon the manufacturer's intended use for such product. Such intent may be determined from labeling, advertising, promotional and marketing materials, and any other source attributable to the manufacturer or its employees, representatives or agents. Under the FD&C Act, drugs are articles intended for use in the diagnosis, cure, mitigation, treatment or prevention of disease or to affect the structure or function of the body. By comparison, cosmetic products are defined as articles intended to be rubbed, poured, sprinkled or sprayed on, introduced into or otherwise applied to the body for cleansing, beautifying, promoting attractiveness or altering its appearance. Some products, however, may satisfy the definition of a drug and a cosmetic, and the FDA has generally regulated as drugs products that are intended to have a physiological effect on the body, for example, to alter the skin in more

than a temporary way. Unlike drugs, products that constitute cosmetics (but not drugs as well) under the FD&C Act do not require premarket review or approval of the FDA, but cosmetics must be safe under normal conditions of use, and comply with FDA labeling and manufacturing requirements. Furthermore, the Federal Trade Commission ("FTC"), as well as state and local authorities, oversees the advertising of cosmetic products and prohibits false, misleading, deceptive or unsubstantiated advertising. The FTC has the authority to seek a number of remedies against a company that it believes fails to comply with its requirements, including, but not limited to, preliminary injunctive relief.

We plan to label, market, promote, advertise and distribute our cosmeceutical products with claims intended to be within the statutory definition of cosmetic. There can be no assurance, however, that the FDA will not determine that some or all of our cosmeceutical products are drugs, and are therefore subject to more stringent regulatory oversight, including premarket approval, based on their intended use or ingredients.

The FDA has at times in the past contended, and may in the future contend, that one or more cosmeceutical products, including Cellegy's or competitors' anti-wrinkling or skin rejuvenating products that are currently marketed or may in the future be marketed, are not cosmetics but instead are subject to regulation as drugs. Even if the FDA were not ultimately to prevail with regard to such a contention, such a claim by the FDA could have a material adverse effect on our ability to market our proposed cosmeceutical products and could significantly delay or prohibit marketing of such products.

OTC Monograph. Most over the counter ("OTC") drug products marketed in the United States are not subjected to the FD&C Act's pre-market approval requirements. In 1972, the FDA instituted the ongoing OTC Drug Review to evaluate the safety and effectiveness of OTC drugs then on the market. Through this process, the FDA issues monographs that set forth the specific active ingredients, dosages, indications and labeling statements for OTC drugs that the FDA will consider generally recognized as safe and effective and therefore not subject to pre-market approval. For certain categories of OTC drugs not yet subject to a final monograph, the FDA usually will not take regulatory action against such a product unless failure to do so poses a potential health hazard to consumers. OTC drugs not covered by pending or final OTC monographs, however, are subject to pre-market review and approval by the FDA through the NDA/ANDA mechanism. Even if Cellegy seeks FDA approval of a product for OTC consumer sales, the FDA could instead require that the product be distributed by prescription only. Such a requirement could delay for several years, or indefinitely, distribution of our products directly to consumers.

Manufacturing. Each domestic drug manufacturing facility must be registered with the FDA. Domestic drug and, to a lesser extent, cosmetic manufacturing establishments are subject to routine inspection by the FDA and other regulatory authorities and must comply with GMP requirements (albeit less extensive ones for cosmetics than for drugs), and any applicable state or local regulatory requirements. We intend to use contract manufacturers that operate in conformance with these requirements to produce our compounds and finished products in commercial quantities. There can be no assurance that manufacturing or quality control problems will not arise at the manufacturing plants of our contract manufacturers or that such manufacturers will be able to maintain the compliance with the FDA's GMP requirements necessary to continue manufacturing our products.

Foreign Regulation of Drugs. Whether or not FDA approval has been obtained, approval of a product by comparable regulatory authorities may be necessary in foreign countries before the commencement of marketing of the product in such countries. The approval procedures vary among countries, can involve additional testing, and the time required may differ from that required for FDA approval. Although there are some procedures for unified filings for certain European countries, in general each country has its own procedures and requirements, many of which are time consuming and expensive. Thus, there can be substantial delays in obtaining required approvals from both the FDA and foreign regulatory authorities after the relevant applications are filed. We expect to rely principally on corporate partners, licensees and contract research organizations, along with our expertise, to obtain foreign governmental approval in foreign countries of drug formulations utilizing its compounds.

Other Government Regulation. In addition to regulations enforced by the FDA, Cellegy is also subject to regulation under the Occupational Safety and Health Act, the Environmental Protection Act, the Toxic Substances Control Act, the Resource Conservation and Recovery Act and other similar federal and state laws regarding, among other things, occupational safety, the use and handling of radioisotopes, environmental protection and hazardous substance control. Although we believe that we have complied with these laws and regulations in all material respects and have not been required to take any action to correct any noncompliance, there can be no

assurance that Cellegy will not be required to incur significant costs to comply with environmental and health and safety regulations in the future. Our research and development involves the controlled use of hazardous materials, chemicals, and various radioactive compounds. Although we believe that our safety procedures for handling and disposing of such materials comply with the standards prescribed by state and federal regulations, the risk of accidental contamination or injury from these materials cannot be completely eliminated. In the event of such an accident, Cellegy could be held liable for any damages that result and any such liability could exceed our resources.

Health Care Reform. In the United States, there have been, and Cellegy expects there will continue to be, a number of federal and state proposals to implement cost controls and other health care regulatory measures. Future legislation could result in a substantial restructuring of the health care delivery system. While we cannot predict whether any legislative or regulatory proposals will be adopted or the effect such proposals may have on our business, the uncertainty of such proposals could have an adverse effect on our ability to raise capital and to identify and reach agreements with potential partners, and the adoption of such proposals could have an adverse effect on Cellegy. In both domestic and foreign markets, sales of our therapeutic products, if any, will depend in part on the availability of reimbursement from third-party payors. Third-party payors and others increasingly are challenging the prices charged for medical products and services. There can be no assurance that our products will be considered cost effective, that reimbursement will be available. We cannot predict the outcome of any government or industry reform initiatives or the impact thereof on our financial position or results of operations.

Restrictions on Physician Marketing. The American Medical Association ("AMA") is questioning the ethics of physicians selling cosmeceutical products for a significant profit. Hearings on this subject by state medical organizations are occurring and will continue to occur over the next years. Any action by the AMA reducing profits to physicians from such sales may reduce the number of physicians selling such products.

Competition

The pharmaceutical and cosmeceutical industries are subject to rapid and significant technological change. In the development and marketing of topical prescription drugs, cosmeceutical and skin care products, and drug delivery systems, Cellegy faces intense competition. Competitors of Cellegy in the United States and abroad are numerous and include, among others, major pharmaceutical, cosmetic, chemical, consumer product, and biotechnology companies, specialized firms, universities and other research institutions. There can be no assurance that our competitors will not succeed in developing technologies and products that are more effective than any which are being developed by us or that would render our technology and potential products obsolete and noncompetitive. Many of these competitors have substantially greater financial and technical resources, production and marketing capabilities and regulatory experience than us. In addition, many of our competitors have significantly greater experience in pre-clinical testing and human clinical trials of pharmaceutical products and in obtaining FDA and other regulatory approvals of products for use in health care. In addition, these companies and academic and research institutions compete with us in recruiting and retaining highly qualified scientific and management personnel.

Employees

As of March 1, 2000, we had twenty-seven full-time and two part-time employees. Twenty-one of these employees, of whom two are M.D.'s and another eight are Ph.D.'s, are engaged in research and development. In addition, we utilize the services of several professional consultants, as well as contract manufacturing and research organizations to supplement our internal staff's activities. None of our employees is represented by a labor union. We have experienced no work stoppages and we believe that our employee relations are good.

ITEM 2: PROPERTIES

Cellegy currently leases 65,340 square feet of space located in South San Francisco. Approximately, 30,914 square feet of this space, is in turn, subleased to another company under three sub-lease agreements. The primary subleases expire on December 17, 2001, but may be extended under certain circumstances described in the agreements. Total rent payments to Cellegy by the sublessee are $65,737 per month, a slight premium above Cellegy's cost. We believe our current facilities will be adequate for at least the next five years.

We also sublease our previous administrative offices in Foster City, California to another company. The rent is currently $11,798 per month. Our lease and the sublease term expires on July 31, 2001.

ITEM 3: LEGAL PROCEEDINGS

Cellegy is not a party to any material legal proceedings.

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of our shareholders during the fourth quarter of the year ended December 31, 1999.

ITEM 4A: EXECUTIVE OFFICERS OF THE REGISTRANT

MANAGEMENT

The directors and executive officers of Cellegy are as follows:

Name	Age	Position
K. Michael Forrest	56	President, Chief Executive Officer and Director
Carl R. Thornfeldt, M.D.	48	Medical Director and Chairman of the Board
Daniel L. Azarnoff, M.D.	73	Sr. Vice President, Clinical and Regulatory Affairs
John J. Chandler	59	Vice President, Business Development
John W. Dietrich, Ph.D.	53	Vice President, Research and Development
A. Richard Juelis	51	Vice President, Finance and Chief Financial Officer
Jack L. Bowman (1)	67	Director
Tobi B. Klar, M.D.	45	Director
Ronald J. Saldarini, Ph.D.(2)	60	Director
Alan A. Steigrod (1)	62	Director
Larry J. Wells (2)	57	Director

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(1) Member of the Compensation Committee.
(2) Member of the Audit Committee.

K. Michael Forrest. Mr. Forrest became President, CEO, and a director in December 1996. From January 1996 to November 1996, he served as a biotechnology consultant. From November 1994 to December 1995, he served as President and CEO of Mercator Genetics, a public biotechnology company. From March 1991 to June 1994, he served as President and CEO of Transkaryotic Therapies, Inc., a public biotechnology company. From 1968 to 1991, Mr. Forrest held a series of positions with Pfizer, Inc. and senior management positions with American Cyanamid, including Vice President of Lederle U.S. and Lederle International. He is a director of AlphaGene Inc., a private functional genomics company, and INEX Pharmaceuticals, a public company developing anti-cancer products.

Carl R. Thornfeldt, M.D. Dr. Thornfeldt is the Chairman of the Board of Directors and a co-founder of the Cellegy, as well as a physician, board certified in dermatology. He has been Cellegy's Medical Director since our inception. Dr. Thornfeldt served as acting CEO from July 1996 to December 1996. In addition, Dr. Thornfeldt

served as Vice President, Research and Development from October 1994 until May 1996. Since 1983, Dr. Thornfeldt has maintained a private dermatology practice and is an Assistant Clinical Professor in Dermatology at the University of Oregon Health Sciences Center. Dr. Thornfeldt received his M.D. from the University of Oregon Health Sciences Center. He completed his dermatology residency at the University of California, San Diego.

Daniel L. Azarnoff, M.D. Dr. Azarnoff joined Cellegy as Vice President, Clinical and Regulatory Affairs in October 1997. He became Senior Vice President in July 1999. Since January 1986, Dr. Azarnoff has been President of D.L. Azarnoff Associates and will continue consulting to the industry on a part-time basis. From August 1978 to December 1985, he served as President of Research and Development at G.D. Searle and Co. From July 1967 to August 1978, he was KUMC Distinguished Professor of Medicine and Pharmacology, as well as the Director of the Clinical Pharmacology-Toxicology Center at the University of Kansas Medical Center. Dr. Azarnoff has also served as a member of advisory and expert committees within the Food and Drug Administration, World Health Organization, American Medical Association, National Academy of Sciences and National Institutes of Health. He received his M.D. from the University of Kansas Medical School. Dr. Azarnoff was a director of Cibus Pharmaceutical through 1998, and is currently director of Western Center Clinical Trials, and Entropin, Inc.

John J. Chandler. Mr. Chandler became Vice President, Corporate Development in May 1998. From January 1995 to March 1998, he served as Vice President, Europe for American Home Products. During 1994, he was Area Director, Europe/Latin America for American Home Products. From 1968 to 1993 he held a series of management and senior management positions with American Cyanamid Company. Mr. Chandler holds a M.B.A. in Marketing from Seton Hall University and a B.S. in Biology from the Queens College of the City University of New York.

John W. Dietrich, Ph.D. Dr. Dietrich became Vice President, Research and Development in June 1999. From 1991 to June 1999, he was Vice President, Research and Development at Allelix Biopharmaceuticals, Inc. His responsibilities included supervision of research in medicinal chemistry, biology, pharmacology, gene-based drug discovery and drug development. He was Vice President, Research at Chemex Pharaceuticals, Inc. from 1987 to 1990. Dr. Dietrich received a Ph.D. in Pharmacology from the University of North Carolina at Chapel Hill. Following a NIH Postdoctoral Fellowship at the University of Connecticut Health Center, he was Assistant Professor of Pharmacology at the University of Illinois School of Medicine.

A. Richard Juelis. Mr. Juelis became Vice President, Finance and Chief Financial Officer in November 1994. From January 1993 to September 1994 he served as Vice President, Finance and Chief Financial Officer for VIVUS, Inc., a publicly traded drug delivery company. From October 1990 to December 1992, he served as Vice President, Finance and Chief Financial Officer at XOMA Corporation, a public biotechnology company. Mr. Juelis has also held domestic and international financial and general management positions with Hoffmann-LaRoche from 1976 to 1982, and Schering-Plough from 1983 to 1990.

Jack L. Bowman. Mr. Bowman became a director in December 1996. He is currently a consultant to various pharmaceutical and biotechnology industry groups. From August 1987 to January 1994, he was Company Group Chairman at Johnson & Johnson, where he managed much of its global diagnostic and pharmaceutical businesses. Before then, Mr. Bowman held executive positions with CIBA-Geigy and American Cyanamid, where he had responsibility for worldwide pharmaceutical, medical device, and consumer product divisions. He is currently a director of NeoRx Corp., CytRx Corp., Cell Therapeutics, Inc., Targeted Genetics, Inc. and Osiris Therapeutics.

Tobi B. Klar, M.D. Dr. Klar became a director of the Company in June 1995. She is a physician, board certified in dermatology. Since 1986, Dr. Klar has maintained a private dermatology practice and has served as Co-Chairperson of the Department of Dermatology at New Rochelle Hospital Medical Center, New Rochelle, New York, and Associate Clinical Professor in dermatology at Albert Einstein Medical Center in New York City. Dr. Klar holds a M.D. from the State University of New York.

Ronald J. Saldarini, Ph.D. Dr. Saldarini became a director in July 1999, after retiring from American Home Products. From 1994 until July 1999, he was President of Wyeth Lederle Vaccines. He was also President of the Lederle-Praxis Biologics Division from 1989 to 1994, and Vice President, Lederle Laboratories; both part of American Cyanamid Company, prior to its acquisition by American Home Products in 1994. Dr. Saldarini has been a member of the National Vaccine

Advisory Committee, the National Advisory Commission on Childhood Vaccines, and was a National Institutes of Health postdoctoral fellow at UCLA's Brain Research Institute. He received his Ph.D. in Physiology and Biochemistry from the University of Kansas, and a B.A. in Biochemistry and Zoology from Drew University.

Alan A. Steigrod. Mr. Steigrod became a director in July 1996. Since January 1996 he has been Managing Director of Newport HealthCare Ventures, which invests in and advises biopharmaceutical companies. From March 1993 to November 1995, he served as President and CEO of Cortex Pharmaceuticals, Inc. From February 1991 to February 1993, he worked as a biotechnology consultant. From March 1981 through February 1991, Mr. Steigrod held a series of executive positions with Glaxo, Inc., serving as Chairman of Glaxo's operating committee, as well as on its board of directors. Prior to Glaxo, Mr. Steigrod held a number of senior management positions with Boehringer Ingelheim, Ltd. and Eli Lilly & Co. He is a director of Sepracor Inc. and NeoRx Corporation.

Larry J. Wells. Mr. Wells became a director of the Company in 1989. For the past seventeen years, he has been a venture capitalist. He is the President of Wells Investment Group, the General Partner of Daystar Partners, and the founder of Sundance Venture Partners, L.P., a venture capital fund. Mr. Wells is a director of Identix, Isonics Corp., Wings America and Legacy Brands.

Directors hold office until the next annual meeting of shareholders and until their respective successors have been elected and qualified. Executive officers are chosen by and serve at the discretion of the Board of Directors, subject to any written employment agreements with the Company.

Standing committees of the Board include an Audit Committee and a Compensation Committee. Mr. Wells and Dr. Saldarini are current members of the Audit Committee. The Audit Committee reviews the Company's accounting practices, internal control systems and meets with the Company's outside auditors concerning the scope and terms of their engagement and the results of their audits. Messrs. Bowman and Steigrod are the current members of the Compensation Committee. The Compensation Committee recommends compensation for officers and employees of the Company, and grants options and stock awards under the Company's employee benefit plans.

PART II

ITEM 5: MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Price Range of Common Stock

Cellegy's common stock currently trades on The Nasdaq Stock Market under the symbol "CLGY." The following table sets forth the range of high and low sales prices for the common stock as reported on The Nasdaq Stock Market for the periods indicated below.

1999	High	Low
First Quarter	$ 4.63	$ 3.50
Second Quarter	5.44	3.31
Third Quarter	8.88	5.00
Fourth Quarter	10.88	3.16
1998		
First Quarter	$ 9.13	$ 7.00
Second Quarter	7.38	5.13
Third Quarter	5.75	2.75
Fourth Quarter	4.94	3.13

Holders

As of March 1, 2000, there were approximately 106 shareholders of record excluding beneficial holders of stock held in street name.

Dividend Policy

We have never paid cash or declared dividends on our common stock. We do not anticipate that it will declare or pay cash dividends on our common stock in the foreseeable future.

ITEM 6: SELECTED FINANCIAL DATA

The following balance sheet data as of December 31, 1998 and 1999 and the statement of operations data for each of the three years ended December 31, 1999 and for the period from June 26, 1989 (inception) through December 31, 1999 are derived from the Company's audited financial statements that are included elsewhere in this report. The balance sheet data set forth below as of December 31, 1995, 1996 and 1997, and the statement of operations data for the years ended December 31, 1995, 1996 and 1997, are derived from our audited financial statements which are not included herein. The data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Financial Statements.

($000's)	Years Ended December 31,					Period From June 26, 1989 (Inception) Through December 31,
	1995	1996	1997	1998	1999	1999
Statement of Operations Data:						
Revenues	$ 1,000	$ 648	$ 828	$ 832	$ 1,045	$ 4,482
Costs and expenses	2,535	4,346	9,238	9,266	10,847	44,656
Loss from operations	(1,535)	(3,698)	(8,410)	(8,434)	(9,802)	(40,174)
Interest income (expense) and other, net	(617)	330	556	1,068	501	2,130

Net loss	(2,152)	(3,368)	(7,854)	(7,366)	(9,301)	(38,044)
Non-cash preferred dividends	--	1,414	35	--	--	1,449
Net loss applicable to common shareholders	$ (2,152)	$ (4,782)	$ (7,889)	$ (7,366)	$ (9,301)	$(39,493)
Basic and diluted net loss per common shareholder	$ (0.67)	$ (1.11)	$ (1.18)	$ (0.73)	$ (0.85)	
Weighted average common shares outstanding	3,206	4,307	6,670	10,160	10,914	

	As of December 31,				
	1995	1996	1997	1998	1999
Balance Sheet Data:					
Cash, cash equivalents and investments	$ 3,820	$ 7,315	$ 21,726	$ 15,220	$ 16,737
Total assets	4,028	7,696	22,751	19,484	20,913
Deficit accumulated during the development stage	(10,155)	(14,937)	(22,826)	(30,192)	(39,494)
Total shareholders' equity	3,648	7,387	21,354	14,218	15,839

ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Annual Report on Form 10-K includes forward-looking statements. Words such as "believes," "anticipates," "expects," "intends" and similar expressions are intended to identify forward-looking statements, but are not the exclusive means of identifying such statements. These statements concern matters that involve risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Further, we undertake no obligation to revise any statements in order to reflect events or circumstances that may arise after the date of this report. Actual events or results may differ materially from those discussed in this Report. See "Factors That May Affect Future Operating Results."

Cellegy Pharmaceuticals, Inc., a specialty biopharmaceutical company incorporated in California in 1989, is engaged in the development of prescription drugs and high performance skin care products. We are developing several prescription drugs, including Anogesic, a nitroglycerin-based product for the treatment of anal fissures and hemorrhoids and two transdermal testosterone gel products, Tostrex, for the treatment of male hypogonadism, a condition that affects men, generally above forty, and Tostrelle, for the treatment of diminished sexual energy in menopausal women. We are testing and developing a line of anti-wrinkling cosmeceutical products which we believe will address the skin care needs of an affluent and aging population.

General

In December 1997, we completed an asset purchase agreement with Neptune Pharmaceutical Corporation ("Neptune") to acquire patent and other intellectual property rights relating to Anogesic. Our expenses relating to Anogesic product development and clinical trials are expected to increase during the remainder of 2000 as a result of the second confirmatory Phase III clinical trials initiated in the first quarter 2000.

In September 1998, we began initial shipments and product sales of C79 Intensive Moisturizing formulation to Gryphon Development Inc., the product development arm of a major specialty retailer. C79 is a key ingredient in a line of healing hand creams sold at most of the specialty retailer's stores in the United States.

In July 1999, we completed a self-managed, $10.1 million private placement of 1.6 million shares of common stock. Participants in the offering included three institutional investors and our President and Chief Executive Officer.

In October 1999, Cellegy and Glaxo terminated the Glylorin license agreement with the return to us of Glylorin product rights. In 1999, we received $117,300 in remaining development funding due from Glaxo through the date

of termination. We repaid Glaxo approximately $200,000 in funds previously advanced by Glaxo. We do not currently intend to develop Glylorin itself, but will seek an appropriate partner to develop the product in exchange for certain milestone payments and royalties on future sales.

Results of Operations

Years Ended December 31, 1999, 1998 and 1997

Revenues. Cellegy had revenues of $1,045,000, $832,000, and $828,000 in 1999, 1998 and 1997, respectively. The increase of $213,000 in 1999 compared with 1998 is due primarily to an increase in product sales to Gryphon Development of $440,000 offset somewhat by a decrease in development funding from Glaxo of $154,000. The minor increase in 1998 compared with 1997 was primarily due to first time Gryphon sales of $458,000 in 1998 offset by grant funding revenues which were lower in 1998 by $454,000.

Sales to Gryphon during the first quarter of 2000 will exceed $400,000. There can be no assurance that sales will continue at that level.

Research and Development Expenses. Research and development expenses were $7,965,000 in 1999, compared with $6,668,000 in 1998 and $3,786,000 in 1997. The increase of $1,297,000 in 1999 was primarily due to clinical trial expenses related to Anogesic, including costs incurred to complete a Phase III clinical trial. Additionally, we incurred higher rent and related utility expenses associated with our new laboratory facilities in South San Francisco, California. The increase of $2,882,000 in 1998 compared with 1997 was due to clinical expenses related to the start up of Anogesic clinical trials including costs of manufacturing clinical supplies and costs associated with product stability studies.

We expect our research spending in 2000 to be, at least, equal to or higher than 1999 levels, primarily in support of our second confirmatory Phase III Anogesic clinical trial, as well as two hemorrhoid trials using Anogesic. In addition, there will be, at least, two on-going testosterone clinical trials.

General and Administrative Expenses. General and administrative expenses were $2,613,000 in 1999, compared with $2,485,000 in 1998 and $1,608,000 in 1997. The increase of $127,000 in 1999 was due to travel, consulting, and other expenses associated with our business development programs. The increase of $877,000 in 1998 compared with 1997 was due to increased professional fees in connection with construction and design of our new facility, as well as personnel related expenses in connection with our business development and marketing programs.

Our general and administrative expenses are expected to continue to increase in the future in support of our research and product commercialization efforts.

Acquired In-Process Technology. No acquired in-process technology expenses were incurred during 1999 and 1998, while $3,843,000 was incurred in 1997. This non-cash charge to operations resulted from common stock issued pursuant to the Anogesic purchase agreement we signed with Neptune in 1997. We expect to have additional non-cash charges in future years, including 2000, if certain milestones are achieved. Although the dollar amount of future milestone payments is fixed by the agreement, the amount of the non-cash accounting charge will vary as a function of the share price of Cellegy's common stock at the time the milestone is achieved.

Interest Income and Other, net and interest expenses. Cellegy recognized $864,000 in interest income for 1999, compared with $1,091,000 for 1998 and $556,000 for 1997. Fluctuations in interest income earned were tied primarily to changes in average investment balances during each period. Changing investment balances were associated with the timing and amounts raised in two financings completed by Cellegy. Interest expense in 1999 was $363,000 compared with $22,000 in interest expense during 1998 reflecting interest payments on a higher bank loan balance. No interest expense was recorded in 1997.

Net Loss. The net loss applicable to common shareholders was $9,301,000 or $0.85 per share in 1999 based on 10,914,000 weighted average shares outstanding, compared with a net loss of $7,366,000 or $0.73 per share in 1998 based on 10,160,000 weighted average shares outstanding, and $7,889,000 or $1.18 per share in 1997 based on 6,670,000 weighted average shares outstanding.

Liquidity and Capital Resources

We had experienced net losses and negative cash flow from operations each year since our inception. Through December 31, 1999, we had incurred an accumulated deficit of $39.5 million and had consumed cash from operations of $32.5 million. The public financings included $6.4 million in net proceeds from its initial public offering in August 1995, $6.8 million in net proceeds from a preferred stock financing in April 1996, $3.8 million in net proceeds from a private placement of common stock in July 1997, $13.8 million in net proceeds from a follow-on public offering in November 1997 and $10.0 million in net proceeds from a private placement in July 1999. In June 1998, we secured a loan with a commercial bank to provide up to $4.5 million with an initial interest rate at the bank's prime lending rate plus one percentage point (9.5% at December 31, 1999). In December 1999, the loan was amended to include a revolving credit line allowing us to pay down principal balances at any time or increase borrowings up to a maximum of $5.0 million. As of December 31, 1999, $4.0 million was outstanding under this arrangement and $1.0 million is available.

Our cash and investments were $16.7 million at December 31, 1999, compared with $15.2 million at December 31, 1998. The increase in cash and investments of $1.5 million was principally due to net proceeds from the financing completion in July 1999 offset somewhat by net cash used in operating activities. Our operations have and will continue to use substantial amounts of cash. Future expenditures and capital requirements depend on numerous factors including, without limitation, the progress and focus of its research and development programs, the progress and results of preclinical and clinical testing, the time and costs involved in obtaining regulatory approvals, the costs of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights, our ability to establish new collaborative arrangements, the initiation of commercialization activities, the purchase of capital equipment, and the availability of other financing.

In order to complete the research and development and other activities necessary to commercialize its products, additional financing will be required. As a result, we will seek private or public equity investments and future collaborative arrangements with third parties to meet such needs. There is no assurance that such financing will be available for us to fund our operations on acceptable terms, if at all. Insufficient funding may require us to delay, reduce or eliminate some or all of its research and development activities, planned clinical trials and administrative programs. We believe that available cash resources and the interest thereon will be adequate to satisfy its capital needs through at least December 31, 2000.

Factors That May Affect Future Operating Results

Our year 2000 issues were minimal.

To address the potential impact of year 2000, we established a Y2K cross-functional project team in August 1998, chaired by our Vice President, Finance and Chief Financial Officer. The Y2K project team reports to the Information Systems ("IS") committee which consists of our Chief Executive Officer and all its other officers. The Y2K project team developed a phased approach to identify and resolve any Year 2000 issues.

All three phases of our compliance program were completed by the third quarter 1999. The total cost of the program was less than $35,000. No problems have been encountered associated with Y2K through March 1, 2000. We have a contingency plan in place in the unlikely event that a business interruption caused by Year 2000 problems should occur in the future.

We have a history of losses, and we expect losses to continue for at least several years.

Our accumulated deficit as of December 31, 1999 was approximately $39.5 million. We have never operated profitably and, given our planned level of operating expenses, we expect to continue to incur losses for at least the next several years. We plan to increase our operating expenses as we continue to devote significant resources to preclinical studies, clinical trials, administrative, marketing and patent activities. We have not generated any significant revenues from royalties or licensing of our technologies, and we expect that it will take several years for any of the prescription products to be approved for marketing. Accordingly, without substantial revenues from new corporate collaborations, royalties on product sales or other revenue sources, we expect to incur substantial and increased operating losses in the foreseeable future as our earlier stage potential products move into clinical development, and as we invest in research or acquire additional technologies, product candidates or businesses. Our

losses may increase in the future, and even if we achieve our revenue targets, we may not be able to sustain or increase profitability on a quarterly or annual basis. The amount of future net losses, and the time required to reach profitability, are both highly uncertain. To achieve sustained profitable operations, we must, among other things, successfully discover, develop, obtain regulatory approvals for and market pharmaceutical or cosmeceutical products. We cannot assure you that we will ever be able to achieve or sustain profitability.

Our clinical trial results are very difficult to predict in advance, and failure of one or more clinical trials could adversely affect our business and our stock price.

Before we obtain regulatory approval for the commercial sale of most potential drug products, we must demonstrate through preclinical studies and clinical trials that the product is safe and efficacious for use in the clinical indication for which approval is sought. We cannot assure you that we will be permitted by the U.S. Food and Drug Administration or other international regulatory authorities to undertake or continue clinical trials for any of our potential products or, if such trials are permitted, that such products will demonstrate safety and efficacy. Moreover, results of preclinical studies and early clinical trials may not be good predictors of results that will be obtained in later-stage clinical trials. We cannot assure you that our present or future clinical trials, including for example, the current II and III clinical trials using our Anogesic product, or the planned Phase III clinical study for testosterone gel, will demonstrate the results required for approval to market these potential products or even to continue with additional clinical development. Because of the independent and blind nature of certain human clinical testing, there will be extended periods during the testing process when we will have only limited, or no, access to information about the status or results of the tests. Other pharmaceutical companies have believed that their products performed satisfactorily in early tests, only to find their performance in later tests, including Phase III clinical trials, to be inadequate or unsatisfactory, or that FDA Advisory Committees have declined to recommend approval of the drugs,or that the FDA itself refused the result that such companies' stock prices have fallen precipitously fails to successfully complete its current Phase III trial or other clinical testing, including toxicology studies, our business and stock price would be materially and adversely affected.

Our potential products are in early stages of product development, and we have not sought regulatory approval to distribute any products.

To date, we have not sought regulatory approval to distribute any products. The time and resource commitment required to achieve market success for any individual product is extensive and uncertain. We cannot assure you that our product development efforts will be successful, that required regulatory approvals can be obtained, that potential products can be manufactured at an acceptable cost and with appropriate quality or that any approved products can be successfully marketed.

With the exception of certain skin care cosmeceutical products, we have not yet completed the development of other products or sought regulatory approval for the marketing of our drug products and have not begun to market or generate revenues from our prescription products. Development of our potential products will require significant additional research and development. Many of our product development efforts are based upon technologies and therapeutic approaches that have not been widely tested or used. Moreover, our beliefs regarding the therapeutic and commercial potential for our products are based on studies conducted to date, and later studies may not support our current beliefs. In addition, results of our studies have not been published in medical journals or reviewed by independent third parties, and as a result have not been subjected to the same degree of scrutiny as results that have been published or subjected to review by independent parties.

Our potential products are subject to the risks of failure inherent in the development of all products based on new technologies. These possible risks include:

- Cellegy's therapeutic approaches will not be successful;
- the results from future clinical trials may not correlate with any safety or efficacy results from prior clinical studies conducted by Cellegy or others;
- Cellegy's potential products will not be successfully developed;

- products will not be found to be safe and effective by the FDA, or other international regulatory agencies;

- our future clinical and research and development activities will not result in any commercially viable products.

Possible FDA regulation of our cosmeceutical products as drugs would adversely impact our planned marketing program.

Cellegy intends to introduce products that will compete in the cosmeceutical market, including a product line that will compete in what is generally referred to as the "anti-wrinkling" market. "Cosmeceuticals" are not defined in the Food, Drug and Cosmetics Act (the "FD&C Act"). The FDA has not defined the term "cosmeceuticals" and may consider use of this term to imply drug-like qualities. Cosmeceuticals (a hybrid of the words "cosmetics" and "pharmaceuticals") are products that contain active ingredients which, when applied to the skin, will enhance appearance. Cosmeceuticals which satisfy the definition of a cosmetic under the FD&C Act and which are not also drugs under that statute are not subject to the same FDA requirements as drug products. The FDA may contend that one or more cosmeceutical products, including Cellegy's or competitors' anti-wrinkling products that are currently marketed or may in the future be marketed, are not cosmetics but instead are subject to regulation as drugs.

Competition and technological change is increasing. In the future, Cellegy may not have the resources required to develop innovative products.

The pharmaceutical and cosmeceutical industries are subject to rapid and significant technological change. In the development and marketing of topical prescription drugs, skin care and other cosmeceutical products and drug delivery systems, we face intense competition. Competitors in the United States and abroad are numerous and include, among others, major pharmaceutical, chemical, cosmetic, consumer product, and biotechnology companies, specialized firms, universities and other research institutions. Our competitors may succeed in developing technologies and products that are more effective than those we are developing and could render our technology and potential products obsolete and noncompetitive. Many of these competitors have substantially greater financial and technical resources, clinical production and marketing capabilities and regulatory experience. In addition, these companies and academic and research institutions compete with us in recruiting and retaining highly qualified scientific and management personnel. As a result, we cannot assure you that our products under development will be able to compete successfully with existing products or innovative products under development by other organizations.

The type and scope of patent coverage we have may limit the commercial success of our products.

Cellegy's success depends, in part, on our ability to obtain patent protection for our products and methods, both in the United States and in other countries. Several of our products are based on existing compounds with a history of use in humans but are being developed by us for new therapeutic use in skin diseases. We cannot obtain composition patent claims on the compound itself, and will instead need to rely on patent claims, if any, directed to use of the compound to treat certain conditions or to specific formulations we are attempting to develop. We may not be able to prevent a competitor from using our formulations or compounds for a different purpose. We cannot assure you that any additional patents will be issued to Cellegy, that the protection of any patents issued in the future will be commercially valuable or that current or future patents will be held valid if subsequently challenged.

The patent position of companies engaged in businesses such as Cellegy's business generally is uncertain and involves complex legal and factual questions. There is a substantial backlog of patent applications at the United States Patent and Trademark Office. Further, issued patents can later be held invalid by the patent office issuing the patent or by a court. There can be no assurance that any patent applications relating to our products or methods will issue as patents, or, if issued, that the patents will not be challenged, invalidated or circumvented or that the rights granted thereunder will provide us a competitive advantage. In addition, many other organizations are engaged in research and product development efforts in drug delivery, skincare products and cosmeceutical fields that may overlap with our products. Such organizations may currently have, or may obtain in the future, legally blocking proprietary rights, including patent rights, in one or more products or methods under development or consideration by us. These rights may prevent us from commercializing technology, or may require us to obtain a license from the organizations to use the technology. Cellegy may not be able to obtain any such licenses that may be required

on reasonable financial terms, if at all, or that the patents underlying any such licenses will be valid or enforceable. Moreover, the laws of certain foreign countries do not protect intellectual property rights relating to United States patents as extensively as those rights are protected in the United States. We are subject to the risk that individuals or organizations located in such countries will engage in development, marketing or sales activities of our products.

Our agreements with the University of California give us exclusive license rights to certain drug delivery and other technologies that contain certain development and performance milestones which we must satisfy in order to retain such rights. While we currently believe we will be able to satisfy the revised milestone dates, a loss of rights to these technologies could have a material adverse effect on our business and stock price.

Our product sales strategy involving corporate partners is highly uncertain.

Cellegy is actively seeking to enter into agreements with certain corporate partners granting rights to commercialize our lead products. We have an agreement with one academic institution, and we intend to enter into other collaborative agreements in the future. We may rely on its partners to:

- conduct clinical trials;
- to obtain regulatory approvals; and,
- if approved, to manufacture and market or co-promote these products.

Once agreements are completed, we may have little or no control over the development of these potential products and little or no opportunity to review clinical data before or after public announcement of results. Further, we may not be able to establish any such collaborative arrangements, and any arrangements that may be established may not be successful. Failure to enter into any such arrangements could have a material adverse effect on our ability to develop and market our products, particularly in certain international markets. If we are unable to find another corporate partner to develop and market Glylorin, it may never be commercialized.

We are subject to regulation by regulatory authorities including the FDA; obtaining approval to market drugs is a lengthy process, and regulatory authorities could delay or prevent marketing of our products.

The research, development, testing, manufacture, labeling, distribution, marketing and advertising of products such as Cellegy's products, and our ongoing research and development activities, are subject to extensive regulation by governmental regulatory authorities in the United States and other countries. The extensive preclinical and clinical testing requirements and regulatory approval process of the FDA in the United States and of certain foreign regulatory authorities require a number of years and the expenditure of substantial resources. We may not be able to obtain the necessary approvals for clinical testing or for the marketing of products on a timely basis or at all. Moreover, additional government regulations may be established that could prevent or delay regulatory approval of our products. Delays in obtaining regulatory approvals could have a material adverse effect on our business and stock price. Even if regulatory approval of a product is granted, such approval may include significant limitations on the indicated uses of the product or the manner in which or conditions under which the product may be marketed. Moreover, failure to comply with regulatory requirements for marketing drugs, or if our cosmeceutical products are deemed to be drugs by the FDA, could subject Cellegy to regulatory or judicial enforcement actions, including, but not limited to, product recalls or seizures, injunctions against production, distribution, sales and marketing, civil penalties, criminal prosecution of Cellegy, our officers or employees, refusals to approve new products and suspensions and withdrawals of existing approvals, as well as potentially increased product liability exposure. Sales of Cellegy's products outside the United States will be subject to regulatory requirements governing clinical trials and marketing approval. These requirements vary widely from country to country and could delay introduction of our products in those countries.

Our prospects for obtaining additional financing, if required, are uncertain and failure to obtain needed financing could affect our ability to develop or market products.

Throughout our history, we have consumed substantial amounts of cash. Our cash needs are expected to continue to increase significantly over at least the next several years in order to fund the additional expenses required to expand our current research and development programs. We have no current source of ongoing revenues or capital beyond existing cash and investments, and product sales to Gryphon, the development

subsidiary of major specialty retailer. In order to complete the research and development and other activities necessary to commercialize our products, additional financing will be required.

We will seek private or public equity financials and future collaborative arrangements with third parties to help fund future cash needs. Such funding may not be available on acceptable terms, if at all. Insufficient funding may require us to delay, reduce or eliminate some or all of our research and development activities or planned clinical trial programs.

We currently have no products we sell on our own and have limited sales and marketing experience.

We may market certain of our products, if successfully developed and approved, through a direct sales force in the United States and through sales and marketing partnership or distribution arrangements outside the United States. We have no history or experience in sales, marketing or distribution. To market our products directly, we intend to establish a marketing group and direct sales force or obtain the assistance of our marketing partner. If we enter into marketing or licensing arrangements with established pharmaceutical companies, our revenues will be subject to the terms and conditions of such arrangements and will be dependent on the efforts of our partner. We may not be able to successfully establish a direct sales force, or assure you that our collaborators will effectively market any of our potential products. Either circumstance could have a material adverse effect on our business and stock price.

We have not manufactured products before and are dependent on a limited number of critical suppliers.

Cellegy has no direct experience in manufacturing of products and currently does not have any capacity to manufacture on a large commercial scale. We currently rely on a limited number of contract manufacturers and suppliers to manufacture our formulations. Our major contract manufacturer is a Canadian company recently acquired by another foreign pharmaceutical company. Although we believe that there will be continuity of supply from current contractors and that there are adequate third party manufacturers, there can be no assurance that we will be able to enter into acceptable agreements with them. In the future, we may not be able to obtain contract manufacturing on commercially acceptable terms for compounds or product formulations in the quantities we need. Manufacturing or quality control problems could occur at the contract manufacturers such that they may not be able to maintain compliance with the FDA's current good manufacturing practice requirements necessary to continue manufacturing our products.

The health care industry is unpredictable, and changes in the health care industry could adversely affect our business.

The healthcare industry is subject to changing political, economic and regulatory influences that may significantly affect the purchasing practices and pricing of human therapeutics. Cost containment measures, whether instituted by health care providers or enacted as a result of government health administration regulators or new regulations, such as pricing limitations or formulating eligibility for dispensation by medical providers, could result in greater selectivity in the availability of treatments. Such selectivity could have an adverse effect on Cellegy's ability to sell prescription products, and adequate patient insurance coverage may not be available for Cellegy to maintain price levels. The trend towards managed health care in the United States, as well as legislative proposals to reform health care or reduce government insurance programs, may result in lower prices or reduced markets for Cellegy's products. The adoption of any such measures or reforms could have a material adverse effect on the business and financial condition of Cellegy. Moreover, cosmeceutical products generally are not reimbursed by third party payors.

We have very limited staffing and will continue to be dependent upon key employees.

Our success is dependent upon the efforts of a small technical and management team. If key individuals leave Cellegy, we could be adversely affected if suitable replacement personnel are not quickly recruited. Our future success depends upon our ability to continue to attract and retain qualified scientific, marketing and technical personnel. There is intense competition for qualified personnel in all functional areas and competition will make it difficult to attract and retain the qualified personnel necessary for the development and growth of our business.

We are subject to the risk of product liability lawsuits.

The testing, marketing and sale of human health care products entails an inherent risk of allegations of product liability. We are subject to the risk that substantial product liability claims could be asserted against us in the future. Cellegy has obtained limited amounts of insurance relating to our clinical trials. There can be no assurance that we will be able to obtain or maintain insurance on acceptable terms for clinical and commercial activities or that any insurance obtained will provide adequate protection against potential liabilities.

Our stock price could be volatile.

Our stock price has from time to time experienced significant price and volume fluctuations that may be unrelated to operating performance. Announcements that could significantly impact our stock price include:

- clinical trial results;
- developments or disputes concerning patent or proprietary rights;
- publicity regarding actual or potential clinical results relating to our products under development or by our competitors;
- regulatory developments in both the United States and foreign countries;
- overall movement in stock prices of comparable biopharmceutical companies;
- economic and other external factors; and,
- period-to-period fluctuations in financial results.

Our quarterly operating results are subject to fluctuations, which could affect our stock price.

Given the uncertain nature of drug development, it is difficult for us to predict operating expenses and revenues from period to period. If our products are approved, it will be very difficult to predict the sustainability of initial prescription patterns and resulting revenues of our products. These potential fluctuations in financial results may negatively impact our stock price.

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Cellegy invests its excess cash in short-term, investment grade, fixed income securities under an investment policy. All of our investments are classified as available-for-sale (see Financial Statements - Note 2). Approximately $10,970,718 of our securities will mature by the end of 2000. We believe that potential near-term losses in future earnings, fair values or cash flows related to their investment portfolio would not be significant. Cellegy has a long-term note payable outstanding (see Financial Statements - Note 4) with an interest rate which currently varies with the lender's prime rate.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data required by item 7 are set forth below on pages F-1 through F-21 of this report.

ITEM 9: CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES.

None.

PART III

ITEM 10: DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information required by this Item with respect to directors and compliance with Section 16(a) of the Securities Exchange Act of 1934 may be found in the sections captioned "Election of Cellegy Directors" and "Compliance under Section 16(a) of the Securities Exchange Act of 1934" appearing in the definitive Proxy Statement to be delivered to shareholders in connection with the Annual Meeting of Shareholders expected to be held on May 31, 2000. Such information is incorporated herein by reference. Information required by this Item with respect to executive officers may be found in Part I hereof in the section captioned "Executive Officers of the Registrant."

ITEM 11: EXECUTIVE COMPENSATION

Information with respect to this Item may be found in the section captioned "Executive Compensation" appearing in the definitive Proxy Statement to be delivered to shareholders in connection with the Annual Meeting of Shareholders expected to be held on May 31, 2000. Such information is incorporated herein by reference.

ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information with respect to this Item may be found in the section captioned "Security Ownership of Certain Beneficial Owners and Management" appearing in the definitive Proxy Statement to be delivered to Shareholders in connection with the Annual Meeting of Shareholders expected to be held on May 31, 2000. Such information is incorporated herein by reference.

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information with respect to this Item may be found in the section captioned "Certain Relationships and Related Transactions" appearing in the definitive Proxy Statement to be delivered to Shareholders in connection with the Annual Meeting of Shareholders expected to be held on May 31, 2000. Such information is incorporated herein by reference.

Index to Financial Statements

Report of Ernst & Young LLP, Independent Auditors

The Board of Directors and Shareholders
Cellegy Pharmaceuticals, Inc.

We have audited the accompanying balance sheets of Cellegy Pharmaceuticals, Inc. (a development stage company) as of December 31, 1999 and 1998, and the related statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1999, and for the period from June 26, 1989 (inception) through December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cellegy Pharmaceuticals, Inc. at December 31, 1999 and 1998, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, and for the period from June 26, 1989 (inception) through December 31, 1999, in conformity with accounting principles generally accepted in the United States.

Palo Alto, California
February 4, 2000

Cellegy Pharmaceuticals, Inc.
(a development stage company)

Balance Sheets

	December 31, 1999	December 31, 1998
Assets		
Current assets		
Cash and cash equivalents	$ 804,089	$ 1,610,826
Short-term investments	10,970,718	7,282,233
Prepaid expenses and other current assets	1,026,326	1,433,394
Total current assets	12,801,133	10,326,453
Property and equipment, net	3,149,384	2,830,808
Long-term investments	4,962,420	6,326,623
Total assets	$ 20,912,937	$ 19,483,884
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 475,166	$ 1,551,600
Deferred revenue	--	250,000
Accrued research fees	238,837	94,088
Accrued compensation and related expenses	106,223	69,097
Current portion of note payable	1,152,828	402,602
Total current liabilities	1,973,054	2,367,387
Long-term portion of note payable and other long term liabilities	2,882,070	2,818,211
Other long-term liabilities	218,993	80,256
Commitments and contingencies		
Shareholders' equity		
Preferred stock, no par value; 5,000,000 shares authorized: Series A convertible preferred stock 1,100 shares designated; no shares issued or outstanding at December 31, 1999 and 1998	--	--
Common stock, no par value; 20,000,000 shares authorized: 12,010,242 shares issued and outstanding at December 31, 1999 and 10,173,294 shares issued and outstanding at December 31, 1998	55,367,903	44,363,133
Accumulated other comprehensive income (loss)	(35,471)	47,353
Deficit accumulated during the development stage	(39,493,612)	(30,192,456)
Total shareholders' equity	15,838,820	14,218,030
Total liabilities and shareholders' equity	$ 20,912,937	$ 19,483,884

See accompanying notes.

Cellegy Pharmaceuticals, Inc.
(a development stage company)

Statements of Operations

	Years ended December 31,			Period from June 26, 1989 (inception) through December 31,
	1999	1998	1997	1999
Revenues:				
Licensing and contract revenue from affiliate ...	$ --	$ --	$ --	$ 1,145,373
Licensing, milestone, and development funding ...	117,303	271,248	603,700	1,551,408
Government grants ...	29,976	102,502	223,995	429,976
Product sales ...	897,859	457,970	--	1,355,829
Total revenues ...	1,045,138	831,720	827,695	4,482,586
Costs and expenses:				
Cost of products sold ...	269,358	113,073	--	382,431
Research and development ...	7,965,477	6,668,014	3,786,411	27,542,131
General and administrative ...	2,612,601	2,485,341	1,608,319	12,888,491
Acquired in-process technology ...	--	--	3,842,968	3,842,968
Total costs and expenses ...	10,847,436	9,266,428	9,237,698	44,656,021
Operating loss ...	(9,802,298)	(8,434,708)	(8,410,003)	(40,173,435)
Interest expense ...	(362,735)	(22,146)	--	(1,248,621)
Interest income and other, net ...	863,877	1,090,523	555,935	3,376,949
Net loss ...	(9,301,156)	(7,366,331)	(7,854,068)	(38,045,107)
Non-cash preferred dividends ...	--	--	34,740	1,448,505
Net loss applicable to common shareholders ...	$ (9,301,156)	$ (7,366,331)	$ (7,888,808)	$(39,493,612)
Basic and diluted net loss per common share ...	$ (0.85)	$ (0.73)	$ (1.18)	
Weighted average common shares used in computing basic and diluted net loss per common share ...	10,913,554	10,160,026	6,670,192	

See accompanying notes.

Cellegy Pharmaceuticals, Inc.
(a development stage company)

Statements of Shareholders' Equity

	Series A Convertible Preferred Stock		Series B Convertible Preferred Stock		Series C Convertible Preferred Stock	
	Shares	Amount	Shares	Amount	Shares	Amount
Issuance of common stock for cash through December 31, 1996	--	$ --	--	$ --	--	$ --
Issuance of common stock for services rendered through December 31, 1996	--	--	--	--	--	--
Repurchase of common shares in 1992	--	--	--	--	--	--
Issuance of convertible preferred stock, net of issuance cost through December 31, 1996	27,649	6,801,730	--	--	477,081	4,978,505
Issuance of Series A convertible preferred stock and warrants to purchase 14,191 shares of Series A convertible preferred stock in exchange for convertible promissory notes and accrued interest through December 31, 1996	625,845	1,199,536	--	--	--	--
Issuance of convertible preferred stock for services rendered, and license agreement through December 31, 1996	50,110	173,198	--	--	--	--
Issuance of Series B convertible preferred stock in exchange for convertible promissory notes in 1992	--	--	12,750	114,000	--	--
Issuance of common stock in exchange for notes payable	--	--	--	--	--	--
Issuance of warrants in connection with notes payable financing	--	--	--	--	--	--
Issuance of common stock in connection with IPO in August 1995	--	--	--	--	--	--

	Common Stock		Accumulated Other Comprehensive Income (Loss)	Deficit Accumulated During the Development Stage	Total Shareholders' Equity
	Shares	Amount			
Issuance of common stock for cash through December 31, 1996	953,400	$ 126,499	$ --	$ --	$ 126,499
Issuance of common stock for services rendered through December 31, 1996	269,116	24,261	--	--	24,261
Repurchase of common shares in 1992	(3,586)	(324)	--	--	(324)
Issuance of convertible preferred stock, net of issuance cost through December 31, 1996	--	--	--	--	11,780,235
Issuance of Series A convertible preferred stock and warrants to purchase 14,191 shares of Series A convertible preferred stock in exchange for convertible promissory notes and accrued interest through December 31, 1996	--	--	--	--	1,199,536
Issuance of convertible preferred stock for services rendered, and license agreement through December 31, 1996	--	--	--	--	173,198
Issuance of Series B convertible preferred stock in exchange for convertible promissory notes in 1992	--	--	--	--	114,000
Issuance of common stock in exchange for notes payable	42,960	268,500	--	--	268,500
Issuance of warrants in connection with notes payable financing	--	487,333	--	--	487,333
Issuance of common stock in connection with IPO in August 1995	1,322,500	6,383,785	--	--	6,383,785

See accompanying notes.

Cellegy Pharmaceuticals, Inc.
(a development stage company)

Statements of Shareholders' Equity - (Continued)

	Series A Convertible Preferred Stock		Series B Convertible Preferred Stock		Series C Convertible Preferred Stock	
	Shares	Amount	Shares	Amount	Shares	Amount
Conversion of preferred stock, including dividends, to common stock through December 31, 1996	(703,409)	(7,426,958)	(12,750)	(114,000)	(477,081)	(4,978,505)
Exercise of warrants to purchase common stock	--	--	--	--	--	--
Exercise of options to purchase common stock	--	--	--	--	--	--
Compensation expense related to the extension of option exercise periods	--	--	--	--	--	--
Non-cash preferred dividends	--	1,413,765	--	--	--	--
Unrealized gains on investments	--	--	--	--	--	--
Net loss for the period June 26, 1989 (inception) through December 31, 1996	--	--	--	--	--	--
Balances at December 31, 1996	195	2,161,271	--	--	--	--
Exercise of warrants to purchase common stock	--	--	--	--	--	--
Non-cash preferred dividends	--	34,740	--	--	--	--
Conversion of preferred stock, including dividends, to common stock	(195)	(2,196,011)	--	--	--	--
Exercise of options to purchase common stock	--	--	--	--	--	--
Compensation expense related to the extension of option exercise periods	--	--	--	--	--	--
Issuance of common stock in connection with the private placement in July 1997, net of issuance costs	--	--	--	--	--	--
Issuance of common stock in connection with the public offering of common stock in November 1997, net of issuance costs	--	--	--	--	--	--
Issuance of common stock in connection with the acquisition of product rights from Neptune Pharmaceutical Corp.	--	--	--	--	--	--
Unrealized loss on investments	--	--	--	--	--	--
Net loss - 1997	--	--	--	--	--	--
Total Comprehensive Loss - 1997	--	--	--	--	--	--
Balances at December 31, 1997	--	--	--	--	--	--

	Common Stock		Accumulated Other Comprehensive Income (Loss)	Deficit Accumulated During the Development Stage	Total Shareholders' Equity
	Shares	Amount			
Conversion of preferred stock, including dividends, to common stock through December 31, 1996	2,426,762	12,519,463	--	--	--
Exercise of warrants to purchase common stock	135,256	51,814	--	--	51,814
Exercise of options to purchase common stock	6,344	11,553	--	--	11,553
Compensation expense related to the extension of option exercise periods	--	268,486	--	--	268,486
Non-cash preferred dividends	--	--	--	(1,413,765)	--
Unrealized gains on investments	--	--	22,167	--	22,167
Net loss for the period June 26, 1989 (inception) through December 31, 1996..	--	--	--	(13,523,552)	(13,523,552)
Balances at December 31, 1996	5,152,752	20,141,370	22,167	(14,937,317)	7,387,491
Exercise of warrants to purchase common stock	227,847	930	--	--	930
Non-cash preferred dividends	--	--	--	(34,740)	--
Conversion of preferred stock, including dividends, to common stock	587,879	2,196,011	--	--	--
Exercise of options to purchase common stock	132,137	362,303	--	--	362,303
Compensation expense related to the extension of option exercise periods	--	69,995	--	--	69,995
Issuance of common stock in connection with the private placement in July 1997, net of issuance costs	1,547,827	3,814,741	--	--	3,814,741
Issuance of common stock in connection with the public offering of common stock in November 1997, net of issuance costs	2,012,500	13,764,069	--	--	13,764,069

Issuance of common stock in connection with the acquisition of product rights from Neptune Pharmaceutical Corp.	462,809	3,842,968	--	--	3,842,968
Unrealized loss on investments	--	--	(34,000)	--	(34,000)
Net loss - 1997	--	--	--	7,854,068)	(7,854,068)
Total Comprehensive Loss - 1997	--	--	--	--	(7,888,068)
Balances at December 31, 1997	10,123,751	44,192,387	(11,833)	(22,826,125)	21,354,429

See accompanying notes.

Cellegy Pharmaceuticals, Inc.
(a development stage company)

Statements of Shareholders' Equity - (Continued)

	Series A Convertible Preferred Stock		Series B Convertible Preferred Stock		Series C Convertible Preferred Stock	
	Shares	Amount	Shares	Amount	Shares	Amount
Exercise of warrants to purchase common stock	--	--	--	--	--	--
Exercise of options to purchase common stock	--	--	--	--	--	--
Unrealized gain on investments	--	--	--	--	--	--
Net loss - 1998	--	--	--	--	--	--
Total Comprehensive Loss - 1998	--	--	--	--	--	--
Balances at December 31, 1998	--	$ --	--	$ --	--	$ --
Issuance of common stock in connection with the private placement of common stock in July 1999, net of issuance costs	--	--	--	--	--	--
Exercise of warrants to purchase common stock	--	--	--	--	--	--
Exercise of options to purchase common stock	--	--	--	--	--	--
Unrealized loss on investments	--	--	--	--	--	--
Net loss - 1999	--	--	--	--	--	--
Total Comprehensive Loss - 1999	--	--	--	--	--	--
Balances at December 31, 1999	--	$ --	--	$ --	--	$ --

	Common Stock		Accumulated Other Comprehensive Income (Loss)	Deficit Accumulated During the Development Stage	Total Shareholders' Equity
	Shares	Amount			
Exercise of warrants to purchase common stock	13,979	47,740	--	--	47,740
Exercise of options to purchase common stock	35,564	123,006	--	--	123,006
Unrealized gain on investments	--	--	59,186	--	59,186
Net loss - 1998	--	--	--	(7,366,331)	(7,366,331)
Total Comprehensive Loss - 1998	--	--	--	--	(7,307,145)
Balances at December 31, 1998	10,173,294	$ 44,363,133	47,353	$(30,192,456)	$ 14,218,030
Issuance of common stock in connection with the private placement of common stock in July 1999, net of issuance costs	1,616,000	10,037,662	--	--	10,037,66
Exercise of warrants to purchase common stock	119,171	502,195	--	--	502,195
Exercise of options to purchase common stock	101,777	464,913	--	--	464,913
Unrealized loss on investments	--	--	(82,824)	--	(82,824)
Net loss - 1999	--	--	--	(9,301,156)	(9,301,156)
Total Comprehensive Loss - 1999	--	--	--	--	(9,383,980)
Balances at December 31, 1999	12,010,242	$ 55,367,903	$ (35,471)	$(39,493,612)	$ 15,838,820

See accompanying notes.

Cellegy Pharmaceuticals, Inc.
(a development stage company)

Statements of Cash Flows

	Years ended December 31,			Period from June 26, 1989 (inception) through December 31,
	1999	1998	1997	1999
Operating activities				
Net loss	$ (9,301,156)	$ (7,366,331)	$ (7,854,068)	$(38,045,107)
Adjustment to reconcile net loss to net cash used in operating activities:				
Acquired in-process technology	--	--	3,842,968	3,842,968
Depreciation and amortization	428,980	15,015	17,618	711,975
Compensation expense related to the extension of option exercise periods	--	--	69,995	338,481
Amortization of discount on notes payable and deferred financing costs	--	--	--	567,503
Issuance of common shares for services	--	--	--	24,261
Issuance of convertible preferred stock for services rendered, interest, and license agreement	--	--	--	240,198
Changes in operating assets and liabilities:				
Prepaid expenses and other current assets	407,068	(421,481)	(661,352)	(1,026,326)
Accounts payable and accrued liabilities	(1,076,434)	846,447	435,140	475,166
Deferred revenue	(250,000)	(250,000)	500,000	--
Accrued research fees	144,749	(60,577)	133,665	238,837
Accrued compensation and related expenses	37,126	31,877	19,262	106,223
Net cash used in operating activities	(9,609,667)	(7,205,050)	(3,496,772)	(32,525,821)
Investing activities				
Purchases of property and equipment	(747,556)	(2,832,160)	--	(3,752,609)
Purchases of investments	(19,947,556)	(5,039,440)	(18,915,933)	(60,525,449)
Sales of investments	8,525,450	5,893,870	--	14,419,320
Maturities of investments	9,015,000	5,500,000	6,256,000	30,137,520
Net cash provided by (used in) investing activities	(3,154,662)	3,522,270	(12,659,933)	(19,721,218)

See accompanying notes.

Cellegy Pharmaceuticals, Inc.
(a development stage company)

Statements of Cash Flows - (Continued)

	Years ended December 31,			Period from June 26, 1989 (inception) through December 31,
	1999	1998	1997	1999
Financing activities				
Proceeds from notes payable	$ 1,279,187	$ 3,220,813	$ --	$ 8,047,424
Repayment of notes payable	(465,102)	--	--	(2,575,710)
Other long-term liabilities	138,737	80,256	--	218,993
Net proceeds from issuance of common stock	11,004,770	170,746	17,942,043	35,682,136
Issuance of convertible preferred stock, net of issuance costs	--	--	--	11,757,735
Deferred financing costs	--	--	--	(80,170)
Net cash provided by financing activities	11,957,592	3,471,815	17,942,043	53,050,408
Net increase (decrease) in cash	(806,737)	(210,965)	1,785,338	804,089
Cash and cash equivalents, beginning of period	1,610,826	1,821,791	36,453	--
Cash and cash equivalents, end of period	$ 804,089	$ 1,610,826	$ 1,821,791	$ 804,089
Supplemental disclosure of non-cash transactions:				
Issuance of common stock in connection with acquired in-process technology	$ --	$ --	$ 3,842,968	$ 3,842,968
Conversion of preferred stock to common stock	$ --	$ --	$ 2,196,011	$ 14,715,474
Issuance of common stock for notes payable	$ --	$ --	$ --	$ 277,250
Issuance of warrants in connection with notes payable financing	$ --	$ --	$ --	$ 487,333
Issuance of convertible preferred stock for notes	$ --	$ --	$ --	$ 1,268,316

See accompanying notes.

Cellegy Pharmaceuticals, Inc.

(a development stage company)

Notes to Financial Statements

1. Accounting Policies

Description of Business

Cellegy Pharmaceuticals, Inc., incorporated in California in June 1989, is a development stage company. Since its inception, the Company has engaged primarily in research and development activities based upon its patented transdermal and topical formulation expertise. The Company has conducted a number of clinical trials using its products, including the preparation of manufactured clinical materials. Laboratory equipment and facility improvements have been purchased and installed in support of its research and development activities. A number of sponsored, external research programs have been undertaken.

Basis of Presentation

In the course of its development, the Company incurred significant losses and will continue to incur additional losses during its development phase. As a result, the Company will require substantial additional funds for its operational activities and may seek private or public equity financings and future collaborative arrangements with third parties to meet its cash needs. There is no assurance that such additional funds will be available on acceptable terms or available at all. Insufficient funding may require the Company to delay, reduce, or eliminate some or all of its research and development, planned clinical trials, and administrative programs.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenues and Research and Development Expenses

Revenues related to cost reimbursement provisions under development contracts are recognized as the costs associated with the projects are incurred. Revenues related to milestones specified under development contracts are recognized as the milestones are achieved. The Company receives certain United States government grants that support the Company's research effort in defined research projects. These grants generally provide for reimbursement of approved costs incurred as defined in the various grants. Revenues associated with these grants are recognized as costs under each grant are incurred. Revenues related to cosmeceutical product sales are recognized upon shipment.

In December 1999, the SEC issued Staff Accounting Bulletin No. 101 ("SAB 101") summarizes certain areas of the Staff's views in applying generally accepted accounting principles to revenue recognition. Cellegy believes that its current revenue recognition principles comply with SAB 101.

Research and development costs are expensed as incurred.

Cash, Cash Equivalents and Investments

Cash equivalents consist of highly liquid financial instruments with original maturities of three months or less. The carrying value of cash and cash equivalents approximates fair value at December 31, 1999 and 1998. The Company considers all its investments as available-for-sale and reports these investments at estimated fair market value. Unrealized gains or losses on available-for-sale securities are included in shareholders' equity until their disposition. The cost of securities sold is based on the specific identification method. Realized gains or losses and declines in value judged to be other than temporary on available-for-sale securities are included in interest income and other, net.

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market. At December 31, 1999 and 1998, inventories consisted entirely of raw materials.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Furniture and fixtures, and office and laboratory equipment are depreciated using the straight-line method over estimated useful lives ranging from three to five years. Depreciation for leasehold improvements is provided over the shorter of the asset life or the remaining lease term.

Stock-Based Compensation

The Company accounts for its stock option grants in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB Opinion No. 25") and has elected to follow the disclosure-only alternative prescribed by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("FAS 123").

Segment Reporting

Effective January 1, 1998, the Company adopted the Financial Accounting Standards Board's Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 131 supersedes FASB Standard No. 14, "Financial Reporting for Segments of a Business Enterprise." SFAS No. 131 establishes standards for the way that public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in interim financial reports. SFAS No. 131 also establishes standards for related disclosures about products and services, geographic areas, and major customers. The adoption of SFAS No.131 did not affect results of operations or financial position, but did affect the disclosure of segment information. (See note 10)

Advertising Costs

Advertising costs are accounted for as expenses in the period in which they are incurred. Advertising expenses for the years ended December 31, 1999 and 1998 were $99,363 and $174,815 respectively. There were no advertising costs in 1997.

Basic and Diluted Net Loss per Common Share

Basic net loss per common share is computed using the weighted average number of common shares outstanding during the period. Diluted net loss per common share incorporates the incremental shares issued upon the assumed exercise of stock options and warrants, when dilutive. There is no difference between basic and diluted net loss per common share, as presented in the statement of operations, because all options and warrants (see note 6) are anti-dilutive. Total shares outstanding would have been 14,298,277 if all warrants and vested options were exercised by December 31, 1999.

2. Investments

At December 31, 1999, available-for-sale securities consist of the following:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate notes	$ 8,264,411	$ --	$ (18,793)	$ 8,245,618
U.S. government notes	6,481,239	--	(17,019)	6,464,220
Time deposits	227,500	--	--	227,500
Commercial paper	995,459	341	--	995,800
Total available-for-sale securities	$15,968,609	$ 341	$ (35,812)	$15,933,138

At December 31, 1998, available-for-sale securities consist of the following:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate notes	$ 9,337,751	$ 45,080	$ (7,020)	$ 9,375,811
U.S. government notes	3,996,252	9,293	--	4,005,545
Time deposits	227,500	--	--	227,500
Money market	1,463,698	--	--	1,463,698
Total available-for-sale securities	15,025,201	54,373	(7,020)	15,072,554
Less amounts classified as cash equivalents	(1,463,698)	--	--	(1,463,698)
Total investments	$ 13,561,503	$ 54,373	$ (7,020)	$ 13,608,856

The amortized cost and estimated fair value of available-for-sale securities at December 31, 1999, by contractual maturity, were as follows:

	Cost	Estimated Fair Value
Due in 1 year or less	$10,994,515	$10,970,718
Due in 1 - 3 years	4,974,094	4,962,420
Total available-for-sale securities	15,968,609	15,933,138
Less amounts classified as cash equivalents	--	--
Total investments	$15,968,609	$15,933,138

There have been no significant realized gains or losses on the sale of available-for-sale securities for the years ended December 31, 1999 and 1998.

3. Property and Equipment

Property and equipment consist of the following:

	December 31,		
	1999	1998	Delete column
Furniture and fixtures	$ 163,965	$ 145,395	$ 49,702
Office equipment	136,287	100,872	39,142
Laboratory equipment	553,724	373,767	65,310
Leasehold improvements	2,875,504	2,369,890	3,610
	3,729,480	2,989,924	157,764
Less accumulated depreciation and amortization	(580,096)	(159,116)	(144,101)
	$ 3,149,384	$ 2,830,808	$ 13,663

4 Note Payable

In June 1998, the Company entered into a loan agreement with a bank to provide up to $4.5 million through December 1999 with interest expense rates equal to the bank's prime rate plus one percentage point. The Company is required to repay the principal amount borrowed in 48 equal monthly installments ending in July 2003. In December 1999, the loan was amended to include a revolving credit line allowing the Company to pay down principal balances at any time or increase its borrowing up to a maximum of $5.0 million at an interest rate equal to the bank's prime rate plus one percentage point (9.5% at December 31, 1999). The fair value of the note payable is estimated based on current interest rates available to the Company for debt instruments with similar terms, degrees of risk, and remaining maturities. The carrying value of the note approximates its fair value. As of December 31, 1999, a total of $4.0 million is outstanding under the arrangement and $1.0 million is available. The note is secured by all of Cellegy's assets and requires the Company to maintain certain financial covenants, all of which were met as of December 31, 1999.

5. Lease Commitments

The Company leases its facilities and equipment under non-cancelable operating leases. Future minimum lease payments, net of future minimum sublease rentals at December 31, 1999, are as follows:

	Lease Commitments	Sublease Rentals	Lease Commitments Net of Sublease Rentals
2000	$ 1,777,472	$ 930,420	847,052
2001	1,667,672	852,217	815,455
2002	1,539,310	--	1,539,310
2003	1,514,832	--	1,514,832
2004	1,553,220	--	1,553,220
2005 and thereafter	6,620,328	--	6,620,328
	$14,672,834	$ 1,782,637	$12,890,197

Rental expense was $1,815,502, $437,245, and $362,532 for the years ended December 31, 1999, 1998, and 1997, respectively. For the year ended December 31, 1999, such lease expense included $141,879 of facility operating lease commitment, and $302,720 in equipment lease. The Company received a sublease income of $824,844 during the year ended December 31, 1999.

6. 401(K) Plan

The Company maintains a savings and retirement plan under Section 401(k) of the Internal Revenue Code. All employees are eligible to participate on their first day of employment with the Company. Under the plan, employees may contribute up to 15% of salaries per year subject to statutory limits. The Company provides a matching contribution equal to 25% of the employee's rate of contribution, up to a maximum contribution rate of 4%.

7. Shareholders' Equity

Convertible Series A Preferred Stock Offering

For the year ended December 31, 1997, the Company had non-cash preferred dividends of $34,740 reflecting the 8% per annum mandatory preferred dividends of the Series A preferred stock which was originally issued as part of a financing completed in April 1996.

Common Stock Private Placement

On July 23, 1997, the Company completed a $3,850,000 private placement of 1,547,827 shares of common stock. Net proceeds were $3,814,741. The purchase price for all investors, except the Company's chief executive officer, was $2.375 per share. The purchase price for the shares purchased by the Company's chief executive officer in the private placement was $2.875 per share, which is equal to the closing price of the common stock on the Nasdaq SmallCap Market on the date immediately preceding the closing date of the private placement.

Follow-on Public Offering

On November 24, 1997, the Company completed a public offering of 2,012,500 shares of common stock at $7.50 per share. Net proceeds were $13,764,069.

Private Placement of Public Equity

On July 30, 1999, Cellegy completed a private placement of 1,616,000 shares of common stock at a price of $6.25 per share to a small group of institutional investors and the Company's President and Chief Executive Officer. Net proceeds were $10,038,000.

Preferred Stock

The Company's Articles of Incorporation provide that the Company may issue up to 5,000,000 shares of preferred stock in one or more series. The Board of Directors is authorized to establish from time to time the numbers of shares to be included in, and the designation of, any such shares to determine or alter the rights, preferences, privileges, and restrictions granted to or imposed upon any wholly unissued series of preferred stock and to increase or decrease the number of shares of any such series without any further vote or action by the shareholders.

Warrants

The Company has the following warrants outstanding to purchase common stock at December 31, 1999:

Number of Shares	Exercise Price per Share	Date Issued	Expiration Date
35,496	$4.51	October 1994	December 31, 2000
4,005	0.01	February 1995	December 31, 2000
341,328	7.81	February 1995	December 31, 2000
44,374	9.02	March 1995	December 31, 2000
29,000	5.19	August 1995	December 31, 2000
115,000	10.31	August 1995	August 11, 2000
57,500	15.47	August 1995	August 11, 2000
661,250	9.38	August 1995	August 11, 2000
12,400	7.23	April 1996	April 18, 2001
94,063	9.75	November 1997	November 24, 2002
12,000	4.00	January 1999	January 19, 2001
2,000	4.69	January 1999	June 2, 2000
20,000	8.25	September 1999	December 31, 2001
1,428,416			

Included in the table above are warrants to acquire 661,250 shares of common stock at a price of $9.38 per share that were issued in connection with the Company's initial public offering. The warrants are exercisable at any time unless previously redeemed by August 11, 2000. The Company may redeem the warrants, in whole or in part, at any time upon at least thirty days prior written notice to the warrant holders at a price of $0.05 per warrant provided that the closing price of the common stock has been at least $12.50 for at least ten consecutive trading days ending on a date within 30 days before the date of the notice of redemption. No warrants have been redeemed through December 31, 1999.

Stock Option Plans

In 1995, the Company adopted the Equity Incentive Plan (the "Plan") to provide for the issuance of incentive stock options and non-statutory stock options. When the Plan was established, the Company reserved 700,000 shares for issuance. In 1996, 1997 and 1998, an additional 300,000 shares, 450,000 shares, and 1,000,000 shares were reserved for issuance under the Plan, respectively. Under the Plan, incentive stock options may be granted at a price per share of not less than the fair market value of common stock on the date of grant. Nonqualified options may be granted at a price per share of not less than 85% of fair market value on the date of grant. Options are exercisable to the extent vested. The Compensation Committee of the Board establishes the vesting schedules.

Director's Stock Option Plan

In 1995, the Company adopted the 1995 Director's Stock Option Plan (the "Director's Plan") to provide for the issuance of non-qualified stock options to eligible outside Directors. When the Plan was established, the Company reserved 150,000 shares for issuance which is the current reserve share balance. Nonqualified options are granted at fair market value on the date of the grant. Options are issued to new Directors when they join the Board and subsequent annual grants are issued to active Directors. Options are exercisable to the extent vested.

Activity under the Plan is summarized as follows:

	Shares Under Option	Price Range Per Share	Weighted Average Exercise Price
Balance at January 1, 1997 .	996,345	$0.45 - $8.25	$4.34
Granted	430,500	$3.00 - $8.81	$5.17
Canceled	(213,371)	$3.07 - $8.25	$5.58
Exercised	(132,138)	$0.45 - $5.69	$2.74
Balance at December 31, 1997	1,081,336	$0.46 - $8.81	$4.62
Granted	544,000	$3.25 - $8.50	$6.68
Canceled	(46,344)	$3.07 - $8.25	$6.19
Exercised	(35,564)	$0.46 - $5.50	$3.46
Balance at December 31, 1998	1,543,428	$0.46 - $8.81	$5.32
Granted	905,100	$3.69 - $6.25	$4.13
Canceled	(124,655)	$3.62 - $8.81	$5.14
Exercised	(136,110)	$0.46 - $7.25	$5.18
Balance at December 31, 1999	2,187,763	$0.46 - $8.81	$4.82

At December 31, 1999, options to purchase 811,026 shares of common stock were vested and exercisable at exercise prices ranging from $0.46 to $8.81 per share. At December 31, 1999, options to purchase 50,000 shares of common stock at an exercise price of $4.62 per share and 60,000 shares of common stock at an exercise price of $5.12 vest over a period of four years but are subject to earlier vesting if certain performance criteria are met. At December 31, 1999, there were 12,000 shares of common stock at an exercise price of $3.75 per share which vest in the year of 2002 but are subject to earlier vesting if certain performance criteria are met. At December 31, 1999, 104,127 options to purchase shares of common stock were available for future option grants under the Plan.

The following table summarizes information about stock options outstanding and exercisable related to the Plan at December 31, 1999:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Outstanding at December 31, 1999	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable at December 31, 1999	Weighted Average Exercise Price
$0.46 - $3.88	974,703	8.4 years	$3.41	228,263	$2.63
$4.00 - $6.63	817,560	7.7 years	$5.16	429,718	$5.12
$7.00 - $8.81	395,500	8.3 years	$7.59	152,378	$7.69
Total	2,187,763	8.1 years	$4.82	811,026	$4.91

Activity under the Directors' Plan is summarized as follows:

	Shares Under Option	Price Range Per Share	Weighted Average Exercise Price
Balance at January 1, 1997	70,000	$4.50 - $8.50	$5.22
Granted	6,000	$3.25	$3.25
Balance at December 31, 1997	76,000	$3.25 - $8.50	$5.07
Granted	40,000	$5.50	$5.50
Cancelled	(2,000)	$3.25 - $8.50	$5.88
Balance at December 31, 1998	114,000	$3.25 - $8.50	$5.20
Granted	32,000	$5.00	$5.00
Cancelled	(12,083)	$3.25 - $8.50	$5.46
Exercised	(21,417)	$3.25 - $8.50	$5.12
Balance at December 31, 1999	112,500	$3.25 - $8.50	$5.13

At December 31, 1999, options to purchase 48,543 shares of common stock were vested and exercisable at exercise prices ranging from $3.25 to $8.50 per share. At December 31, 1999, options to purchase 16,833 shares of common stock were available for future option grants under the Directors' Plan.

The following table summarizes information about stock options outstanding and exercisable related to the Directors' Plan at December 31, 1999:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Outstanding at December 31, 1999	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable at December 31, 1999	Weighted Average Exercise Price
$3.25	4,000	7.4 years	$3.25	2,000	$3.25
$4.50 - $5.50.....	106,500	8.0 years	$5.14	45,043	$5.10
$8.50	2,000	6.4 years	$8.50	1,500	$8.50
Total	112,500	8.0 years	$5.10	48,543	$5.13

The Company has elected to follow APB Opinion No. 25 and related interpretations in accounting for its stock options since, as discussed below, the alternative fair market value accounting provided for under FAS 123 requires use of option valuation models that were not developed for use in valuing stock options. Under APB Opinion No. 25, if the exercise price of the Company's stock options is equal to the market price of the underlying stock on the date of grant, no compensation expense is recognized.

Pro forma information regarding net loss and net loss per common share is required by FAS 123, which requires that the information be determined as if the Company has accounted for its common stock options granted subsequent to December 31, 1994 under the fair market value method. The fair market value of options granted has been estimated at the date of the grant using a Black-Scholes option-pricing model.

The Company valued its options using the following weighted average assumptions for the years ended December 31, 1999, 1998 and 1997:

	1999	1998	1997
Risk-free interest rate	5.54%	5.14%	6.20%
Dividend yield	0%	0%	0%
Volatility	0.826	0.531	0.487
Expected life of options in years	3.7	4.6	4.9

The Black-Scholes option valuation model was developed for use in estimating the fair market value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair market value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair market value of its stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information follows:

	1999	1998	1997
Pro forma net loss applicable to common shareholders	$(10,612,716)	$ (8,220,952)	$ (8,221,875)
Pro forma basic and diluted net loss per share applicable to common shareholders	$ (0.97)	$ (0.81)	$ (1.23)

The weighted average grant date fair value of options granted during the years ended December 31, 1999, 1998, and 1997 was $2.47, $2.88, and $2.57, respectively.

The effects of applying FAS 123 pro forma disclosures are not likely to be representative of the effects on reported net loss for future years.

Shares reserved

As of December 31, 1999, the Company has reserved shares of common stock for future issuance as follows:

Warrants	1,428,416
Stock Option Plans	2,421,223
Neptune Agreement (see note 7)	1,537,191
Total	5,386,830

8. Product Acquisitions

In December 1997, the Company acquired patent and related intellectual property rights relating to "Anogesic" (the "Anogesic Acquisition"), a topical product candidate for the treatment of anal fissures and hemorrhoids from Neptune Pharmaceuticals Corporation. Under the terms of the Agreement, the Company issued 429,752 shares of common stock to Neptune on December 31, 1997. Upon the signing of a letter of intent on November 3, 1997, 33,057 shares of common stock were issued to Neptune. No additional shares have been issued to Neptune through December 31, 1999. The Agreement calls for a series of additional payments, payable in shares of common stock, upon successful completion of various milestones which, if achieved, would occur over the next several years. Depending on several factors, including the market price of the common stock, such payments could result in issuance of a significant number of shares of common stock. Future potential milestones payable in Cellegy common stock could result in the issuance of an additional 1,388,000 shares of Cellegy common stock. The Agreement does not provide for the payment by the Company of any future product royalties in connection with sales of Anogesic.

9. License Agreements

In November 1996, the Company entered into an agreement with Glaxo Wellcome Inc. ("Glaxo") for licensing rights to Glylorin, Cellegy's compound for the treatment of ichthyoses. Under the terms of the agreement, Cellegy provided Glaxo with an exclusive license of patent rights and know-how covering Glylorin in most of the world's major markets. In exchange for this license, the Company received from Glaxo an initial license fee payment. In October 1999, Cellegy and Glaxo terminated the license agreement with the return to Cellegy of Glylorin product rights.

In October 1993, the Company entered into a license agreement with the University of California (the "Licensor") providing for an exclusive, worldwide, royalty-bearing license, subject to customary government rights, for patent rights relating to barrier repair formulations, jointly held by the Licensor and the Company, in consideration of the issuance to the Licensor of certain shares of preferred stock (which subsequently converted into shares of common stock) and the payment by the Company of a licensing fee. In March 1994, the Company entered into a second exclusive, worldwide, royalty-bearing license agreement with the Licensor for patent rights jointly held by the Licensor and the Company, relating to drug delivery technologies, in consideration of the payment by the Company of a licensing fee, and an annual maintenance fee payable each year until the Company is commercially selling a licensed product. Both agreements require the Company to pay the Licensor royalties based on net sales of consumer and prescription products (with minimum annual royalty payments). The Company has the right to grant sublicenses to third parties under both agreements. In May and October 1997, the Licensor and the Company amended these agreements. The amendments modified and extended certain development and commercialization milestones contained in the original agreements. The revised milestones are tied to the achievement of certain clinical, regulatory, or product commercialization goals over the next several years. Although there can be no assurance that such goals will be achieved, the Company believes its development programs in place will result in the satisfaction of such milestones.

10. Income Taxes

At December 31, 1999, the Company has net operating loss carryforwards of approximately $32,400,000 and $9,700,000 for federal and state purposes, respectively. The federal net operating loss carryforwards expire between the years 2004 and 2019. The state net operating loss carryforward expire between the years 2000 and 2004. At December 31, 1999, the Company also has research and development credit carryforwards of approximately $900,000 and $400,000 for federal and state purposes, respectively. The federal credits expire between the years 2006 and 2019. Pursuant to the "change in ownership" provisions of the Tax Reform Act of 1986, utilization of the Company's net operating loss and research and development tax credit carryforwards may be limited if a cumulative change of ownership of more than 50% occurs within any three-year period. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets are as follows

	December 31,	
	1999	1998
Deferred tax assets:		
Net operating loss carryforwards	$ 11,600,000	$ 8,600,000
Credit carryforwards	1,100,000	700,000
Capitalized intangibles	2,400,000	2,200,000
Other, net	--	(200,000)
Total deferred tax assets	11,300,000	15,100,000
Valuation allowance	(15,100,000)	(11,300,000)
Net deferred tax assets	$ --	$ --

The valuation allowance for deferred tax assets 1998 and 1997 increased by approximately $4,100,000 and $1,800,000 during the years ended December 31, 1998 and 1997, respectively.

11. Segment Reporting

The Company has two business segments: pharmaceuticals and cosmeceuticals. Pharmaceuticals includes primarily research and development expenses for potential prescription products to be marked directly by the Company or through corporate partners. Current pharmaceutical revenues consist primarily of SBIR grant funding. The Company expects to complete other corporate collaborations in the future for a number of its potential pharmaceutical products, which may result in milestones, development funding and royalties on sales. Cellegy expects to generate future revenues on potential products it intends to self-market.

The cosmeceutical business segment includes primarily development expenses for non-prescription anti-aging products. Using related technologies, Cellegy is currently incurring development expenses and receiving all of its product sales from one customer, Gryphon Development, Inc., which is selling product through a major specialty retailer exclusively in the United States.

Cellegy allocates its research expenses and personnel to each business segment, but does not assess segment performance or allocate resources based on a segment's assets and, therefore, assets are not reported by segment. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies.

The Company's segments are business units that will, in some cases, distribute products to different types of customers through different marketing programs. The potential future sales of cosmeceutical products requires a significantly different marketing effort than sales of pharmaceutical products to physicians and other traditional pharmaceutical distribution channels. Pharmaceutical products require more extensive clinical testing and ultimately regulatory approval by the FDA and other worldwide health registration agencies, requiring more a extensive level of development, manufacturing and compliance than a cosmeceutical product.

The following table contains information regarding revenues and operating income (loss) of each business segment for the years ended December 31, 1999, 1998, and 1997:

	Years ended December 31,		
	1999	1998	1997
Revenues:			
Pharmaceuticals	$ 147,279	$ 373,750	$ 827,695
Cosmeceuticals	897,859	457,970	--
	$ 1,045,138	$ 831,720	$ 827,695
Loss from Operations:			
Pharmaceuticals	$(9,888,212)	$(8,011,630)	$(8,066,973)
Cosmeceuticals	85,914	(423,078)	(343,030)
	$(9,802,298)	$(8,434,708)	$(8,410,003)

PART IV

ITEM 14: EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

Exhibits

(a) The following exhibits are attached hereto or incorporated herein by reference:

Exhibit Number	Exhibit Title
2.1	Asset Purchase Agreement dated December 31, 1997 between the Company and Neptune Pharmaceutical Corporation. (Confidential treatment has been granted with respect to portions of this agreement.) (Incorporated by reference to Exhibit 4.4 of the Company's Registration Statement on Form S-3 declared effective on February 19, 1998.)
3.1	Amended and Restated Articles of Incorporation of the Company. (Incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form SB-2 (Registration No. 33-93288 LA) declared effective on August 11, 1995 (the "SB-2").)
3.2	Bylaws of the Company. (Incorporated by reference to Exhibit 3.3 to the SB-2.)
4.1	Specimen Common Stock Certificate. (Incorporated by reference to Exhibit 4.1 to the SB-2.)
4.2	Specimen Warrant Certificate. (Incorporated by reference to Exhibit 4.2 to the SB-2.)
4.3	Form of Warrant Agreement Between the Company and First Interstate Bank of California. (Incorporated by reference to Exhibit 4.3 to the SB-2.)
4.4	Form of Representatives' Warrant Agreement. (Incorporated by reference to Exhibit 27.2 to the SB-2.)
10.1	Barrier Repair Formulations License Agreement, dated October 26, 1993 between the Company and the University of California. (Incorporated by reference to Exhibit 10.5 to the SB-2.)
10.2	License Agreement, dated March 4, 1994, regarding Drug Delivery by Skin Barrier Disruption, between the Company and University of California. (Incorporated by reference to Exhibit 10.6 to the SB-2.)
*10.3	Employment Agreement, dated as of January 21, 1996, between the Company and Dr. Carl Thornfeldt. (Incorporated by reference to Exhibit 10.7 to the Company's Form 10-KSB for fiscal year ended December 31, 1995 (the "1995 Form 10-KSB".)
10.4	Amended and Restated Registration Rights Agreement dated April 10, 1992. (Incorporated by reference to Exhibit 10.11 to the SB-2.)
*10.5	1992 Stock Option Plan. (Incorporated by reference to Exhibit 10.12 to the SB-2.)
10.6	Secured Debenture and Warrant Purchase Agreement dated as of February 10, 1995. (Incorporated by reference to Exhibit 10.13 to the SB-2.)
10.7	Amended and Restated Registration Rights Agreement dated as of February 10, 1995. (Incorporated by reference to Exhibit 10.14 to the SB-2.)

Exhibit Number	Exhibit Title
10.8	Warrant Agreement dated as of February 10, 1995. (Incorporated by reference to Exhibit 10.15 to the SB-2.)
10.9	Agency Agreement dated as of February 10, 1995. (Incorporated by reference to Exhibit 10.16 to the SB-2.)
*10.10	1995 Equity Incentive Plan (Incorporated by reference to Exhibit 10.17 to the 1995 Form 10-KSB.)
*10.11	1995 Directors' Stock Option Plan (Incorporated by reference to Exhibit 10.18 to the 1995 Form 10-KSB.)
10.12	Standard Industrial Lease dated April 6, 1992, between the Company and H&H Management. (Incorporated by reference to Exhibit 10.20 to the 1995 Form 10-KSB.)
10.13	Loan and Security Agreement between Silicon Valley Bank and the Company dated June 10, 1998 (Incorporated by reference to Exhibit 10.01 to the Company's Form 10-QSB for the fiscal quarter ended June 30, 1998.)
10.14	Lease Agreement between the Company and TCNorthern California Inc. dated April 8, 1998 (Incorporated by reference to Exhibit 10.01 to the Company's Form 10-QSB for fiscal quarter ended March 31, 1998.)
*10.15	Employment Agreement dated November 20, 1996, between the Company and K. Michael Forrest. (Incorporated by reference to Exhibit 10.19 to the Company's Form 10-KSB for fiscal year ended December 31, 1996 (the "1996 Form 10-KSB".)
10.16	Exclusive Licensing Agreement for Glylorin between the Company and Glaxo Wellcome Inc. dated November 11, 1996. (Confidential treatment has been granted with respect to portions of this agreement.) (Incorporated by reference to Exhibit 10.20 to the 1996 Form 10-KSB.)
10.17	Termination of Exclusive Licensing Agreement between the Company and Glaxo Wellcome Inc. dated October 15, 1999.
23.1	Consent of Ernst & Young LLP, Independent Auditors.
24.1	Power of Attorney (See signature page.)
27.1	Financial Data Schedule.

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* Represents a management contract or compensatory plan or arrangement.

(b) Reports on Form 8-K

One report on Form 8-K was filed by the Company on 12/1/99 reporting on the results of the Phase III Anogesic trial.

(c) Financial Statement Schedules

All schedules are omitted because they are not applicable or are not required, or the information required to be set forth therein is included in the financial statements or notes thereto.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of South San Francisco, State of California, on the 14th day of March, 2000.

CELLEGY PHARMACEUTICALS, INC.

By: /s/ K. MICHAEL FORREST

K. Michael Forrest
President and Chief Executive Officer

Power of Attorney

Each person whose signature appears below constitutes and appoints K. Michael Forrest and A. Richard Juelis, jointly and severally, his true and lawful attorneys-in-fact, each with the power of substitution, for him in any and all capacities, to sign amendments to this Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and conforming all that said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed by the following persons in the capacities and on the dates indicated.

Name	Title	Date
Principal Executive Officer:		
/s/ K. MICHAEL FORREST K. Michael Forrest	President, Chief Executive Officer and Director	March 14, 2000
Principal Financial Officer and Principal Accounting Officer:		
/s/ A. RICHARD JUELIS A. Richard Juelis	Vice President, Finance, Chief Financial Officer and Secretary	March 14, 2000
Directors:		
/s/ CARL R. THORNFELDT, M.D. Carl R. Thornfeldt, M.D.	Chairman of the Board of Directors	March 14, 2000
/s/ JACK L. BOWMAN Jack L. Bowman	Director	March 14, 2000
/s/ TOBI B. KLAR, M.D. Tobi B. Klar, M.D.	Director	March 14, 2000
/s/ RONALD J. SALDARINI, PH.D. Ronald J. Saldarini, Ph.D.d	Director	March 14, 2000
/s/ ALAN A. STEIGROD Alan A. Steigrod	Director	March 14, 2000
/s/ LARRY J. WELLS Larry J. Wells	Director	March 14, 2000

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

EXHIBITS

to

Form 10-K

Under

THE SECURITIES EXCHANGE ACT OF 1934

CELLEGY PHARMACEUTICALS, INC.

TERMINATION OF EXCLUSIVE LICENSING AGREEMENT

THIS AGREEMENT (the "Termination Agreement") effective as of this 12th day of October, 1999, between Glaxo Wellcome Inc., a corporation organized and existing under the laws of the State of North Carolina, with its principal place of business at Five Moore Drive, Research Triangle Park, North Carolina 27709 (hereinafter, "GW") and Cellegy Pharmaceuticals, Inc., a corporation organized and existing under the laws of the State of California, with its principal office at 349 Oyster Point Boulevard, Suite 200, South San Francisco, California 94080 (hereinafter, "Cellegy"), is entered into by the parties in order to terminate by mutual agreement the Exclusive License Agreement between them, dated the 11th of November, 1996 (the "License Agreement") pursuant to which GW obtained an exclusive license to certain rights to the compound Glylorin under patent rights and know-how possessed by Cellegy.

WHEREAS, GW and Cellegy mutually agree to terminate the License Agreement, subject to the terms and conditions set forth below.

NOW, THEREFORE, in consideration of the premises, the mutual covenants contained herein and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, GW and Cellegy hereby agree as follows:

1. Definitions. Except as otherwise defined herein, all capitalized terms used herein but not defined herein shall have the meanings ascribed to such terms in the License Agreement.

2. Termination of Agreement. GW and Cellegy hereby agree that the License Agreement is terminated in its entirety at the close of business on October 15, 1999 (the "Effective Date") and, accordingly, all of their respective rights, obligations and duties under the Agreement shall be terminated as of the Effective Date and shall thereafter no longer have any force or effect, except as may be specifically set forth in this Termination Agreement.

3. Certain Payments. This effective date for the cut off of charge-backs to GW for ongoing expenses, including, patent prosecution costs and trademark costs, charges for ongoing stability work, toxicology work and pharmaceutical professional fees, as well as all other charges relating to the Compound, shall be the Effective Date. All such charges (up to a maximum of $104,427.56) incurred prior to the Effective Date will be paid in full by GW. Cellegy will ensure that all outstanding charges are submitted to GW for collection prior to the Effective Date. Cellegy will pay GW $200,000 which

such amount represents the net amount for (i) the return of the prepaid toxicology milestone payments referenced in Section 4.4 of the License Agreement, less (ii) an amount which has been previously agreed to by the parties as settlement of a proof of principal payment due to Cellegy under the License Agreement.

4. Transfer of Regulatory Filings. (a) The IND with respect to the ichthyosis vulgaris indication (IND # 54,243), as well as copies of all regulatory correspondence between GW and FDA related thereto, will be transferred to Cellegy within sixty (60) days of the Effective Date. All FDA reporting requirements related to such IND will be updated and completed by GW through the Effective Date. Upon the date that GW transfers to Cellegy the IND referred to above, Cellegy shall assume all regulatory responsibilities related to such IND, including the preparation and filing of annual reports with respect to the IND.

(b) The IND with respect to the n-CIE indication (IND # 41,553), as well as copies of all regulatory correspondence between GW and FDA related thereto, will be transferred to Cellegy within sixty (60) days of the Effective Date. All FDA reporting requirements related to such IND will be updated and completed by GW through the Effective Date. Upon the date that GW transfers to Cellegy the IND referred to above, Cellegy shall assume all regulatory responsibilities related to such IND, including the preparation and filing of annual reports with respect to the IND.

5. Transfer of Clinical Trial Material. (a) Within sixty (60) days of the Effective Date, GW shall transfer to Cellegy all quantities of the Compound that GW has in its possession (hereinafter, the "Bulk Compound"). Thereafter, GW and Cellegy agree that Cellegy shall have legal title to the Bulk Compound. Cellegy shall pay to GW a non-refundable fee of $33,225.68 in order to acquire possession and legal title to the Bulk Compound.

(b) GW DOES NOT MAKE, AND SHALL NOT BE DEEMED TO HAVE MADE, ANY REPRESENTATION OR WARRANTY OF ANY KIND WITH RESPECT TO THE QUALITY, SAFETY OR UTILITY OF THE BULK COMPOUND, AND SUCH BULK COMPOUND IS BEING TRANSFERRED TO CELLEGY ON AN "AS IS" BASIS. GW EXPRESSLY DISCLAIMS ANY WARRANTIES OF MERCHANTIBILITY OR FITNESS FOR A PARTICULAR PURPOSE AND ANY OTHER WARRANTIES (EXPRESS OR IMPLIED) WITH RESPECT TO THE QUALITY, SAFETY, OR UTILITY OF THE BULK COMPOUND.

(c) Cellegy agrees that Cellegy shall bear all regulatory responsibility and liability for the use of the Bulk Compound. Cellegy agrees that it shall not use any of the Bulk Compound in any clinical trial or otherwise in humans unless the results of Cellegy's quality assurance testing indicate that the Bulk Compound meets the specifications set forth in an IND (which has been filed with, and not withdrawn from, the FDA) with respect to the Compound.

6. Payment Mechanics. Each of GW and Cellegy acknowledge and agree that the net total of the payments referred to in Section 3 and Section 5(a) of this Agreement results in a net amount due to GW equal to $128,798.12, which such amount shall be paid by Cellegy to GW by wire transfer within thirty (30) days of the Effective Date to an account designated by GW. The foregoing payment shall constitute full and complete payment of all amounts owed by Cellegy to GW, and by GW to Cellegy, under the terms of the License Agreement.

7. Acknowledgement. Cellegy acknowledges that prior to the date of this Termination Agreement, GW has transferred to Cellegy the completed Phase III clinical trial protocol for ichthyosis vulgaris free of charge.

8. Transfer of Project Files. Within sixty (60) days of the Effective Date, GW shall transfer to Cellegy a copy of all of the GW clinical and nonclinical project files relating to the Compound. Following the return and review of the project files by Cellegy, GW shall, at Cellegy's request (which such request shall be made, if at all, within thirty (30) days from the receipt of the project files referred to above), participate in a single video conference with Cellegy (but such video conference shall not include any potential future licensees or sublicensees of the Compound), the purpose of which shall be to answer any outstanding questions that Cellegy may have regarding the development of the Compound. Other than as specified above, GW shall be under no obligation to provide any further data or information regarding the Compound.

9. Certain Rights. Upon the Effective Date of this Termination Agreement, all rights licensed or otherwise transferred by Cellegy to GW under the License Agreement, or inventions developed by GW pursuant to the License Agreement relating to Patent Rights, Trademarks, the Compound, a Licensed Product, intellectual property or otherwise relating to the License Agreement, shall revert to Cellegy and shall be transferred and assigned back to Cellegy. GW shall take such actions and execute such instruments as Cellegy may reasonably request to reflect such transfer. Upon the Effective Date of this Termination Agreement, GW shall retain all rights, under Section 12.5(d) of the License Agreement, to use the Know-How to which it was licensed under the License Agreement; provided, however, that GW complies with its confidentiality obligations under the License Agreement to the extent that such Know-How may relate to the Compound, a Licensed Product or other Confidential Information of Cellegy.

10. No Grant of Rights. GW represents and warrants to Cellegy that GW has not granted, assigned nor sublicensed any of its rights acquired pursuant to, or relating to the License Agreement to any other person or entity. To the best of GW's knowledge, GW has taken reasonable measures to protect the confidentiality of the Know-How, but Cellegy acknowledges that GW has disclosed material portions of the Know-How or other Confidential Information regarding the Compound to the third parties listed on Exhibit A hereto. GW represents that it has confidentiality agreements, or that GW's clinical research organization, CliniCor, Inc., has clinical investigator agreements which contain confidentiality provisions with the third parties listed on Exhibit A hereto, relating to such Know-How or Confidential Information.

11. Release from Confidentiality. Upon the Effective Date of this Termination Agreement, Cellegy's confidentiality and non-use obligations under Section 10 of the License Agreement shall terminate and be of no further force and effect as applied to any Confidential Information supplied by or on behalf of GW to Cellegy under the License Agreement, and shall terminate and be of no further force and effect, notwithstanding anything to the contrary in the License Agreement.

12. Limitation of Liability. The parties acknowledge that GW is terminating its involvement in the development of the Compound. GW shall not be liable to Cellegy, its Affiliates, its sublicensees or other marketing collaborators, or their customers, or any third party, for any damages or losses whatsoever (including without limitation special, incidental, indirect, consequential or exemplary damages) resulting from the manufacture, testing, design, labeling, use, development, testing, promotion, marketing, sale or disposal of the Compound. It is acknowledged and agreed, however, that the obligation of GW to make the deliveries to Cellegy contemplated by Sections 4, 5, 8 and 9 hereof shall not be limited by the foregoing sentence.

13. Indemnification. (a) Cellegy agrees to defend, indemnify and hold harmless GW and its Affiliates, directors, officers and employees from and against any liabilities, losses, fines, penalties, damages, expenses (including reasonable attorney's fees and expenses incurred in connection with this provision), actions, or claims brought or threatened after the Effective Date and which relate to, or arise out of, the manufacture, testing, design, labeling, use, development, testing, promotion, marketing, sale or disposal of the Compound by Cellegy or its Affiliates, sublicensees, successors and assigns. It is acknowledged and agreed, however, that the foregoing obligation to defend, indemnify and hold harmless shall not apply with respect to any Compound or Licensed Product which was part of manufactured batch numbers C1148 and C0527 (hereinafter, the "Excluded Batches").

(b) GW agrees to defend, indemnify and hold harmless Cellegy and its Affiliates, directors, officers and employees from and against any liabilities, losses, fines, penalties, damages, expenses (including reasonable attorney's fees and expenses incurred in connection with this provision), actions, or claims brought or threatened after the Effective Date and which relate to, or arise out of, the manufacture, testing, design, labeling, use, development, or testing of the Excluded Batches.

(c) A party which intends to seek indemnification under this Section 13 (such party hereinafter referred to as the "Indemnitee") in respect to a liability, loss, fine, penalty, damage, expense, action, or claim brought or threatened against such Indemnitee by a Third Party (such claim hereinafter referred to as a "Third Party Claim"), shall promptly give written notice thereof to the party from whom indemnification is sought (such other party hereinafter referred to as the "Indemnitor") within a reasonable period of time after the assertion of such Third Party Claim by such Third Party; provided, however, that the failure to provide written notice of such Third Party Claim within a reasonable period of time shall not relieve the Indemnitor of any of its obligations hereunder, except to the

extent that the Indemnitor is prejudiced by such failure. The Indemnitor shall have the right to assume the complete control of the defense, compromise or settlement of any Third Party Claim (provided that no settlement of any Third Party Claim shall include any admission of wrongdoing on the part of an Indemnitee, without the prior written consent of such Indemnitee, which such consent shall not be unreasonably withheld), including, at its own expense, employment of legal counsel, and at any time thereafter the Indemnitor shall be entitled to exercise, on behalf of the Indemnitee, any rights which may mitigate the extent or amount of such Third Party Claim; provided, however, that if the Indemnitor shall have exercised its right to assume control of such Third Party Claim, the Indemnitee (i) may, in its sole discretion and at its own expense, employ legal counsel to represent it (in addition to the legal counsel employed by the Indemnitor) in any such matter, and in such event legal counsel selected by the Indemnitee shall be required to confer and cooperate with such counsel of the Indemnitor in such defense, compromise or settlement for the purpose of informing and sharing information with the Indemnitor; (ii) shall, at its own expense, make available to Indemnitor those employees, officers and directors or Indemnitee whose assistance, testimony or presence is necessary or appropriate to assist the Indemnitor in evaluating and in defending any such Third Party Claim; provided, however, that any such access shall be conducted in such a manner as not to interfere unreasonably with the operations of the businesses of Indemnitee; and (iii) shall otherwise fully cooperate with the Indemnitor and its legal counsel in the investigation and defense of such Third Party Claim.

14. Headings. All headings are for reference purposes only and shall not in any way affect the meaning or interpretation of this Termination Agreement.

15. Notices. Any notice required or permitted to be given hereunder shall be either delivered by hand or mailed by certified or registered mail or delivered by nationally recognized courier service, to the party to whom such notice is required or permitted to be given hereunder. Any notice shall be deemed to have been given when delivered, if delivered by hand, or then received by the other party if otherwise mailed or delivered.

All notices to GW shall be addressed as follows:

Glaxo Wellcome Inc.
Five Moore Drive
Research Triangle Park, NC 27709
Attn.: Vice President-Dermatology

Glaxo Wellcome Inc.
Five Moore Drive
Research Triangle Park, NC 27709
Attn.: General Counsel

All notices to Cellegy shall be addressed as follows:

Cellegy Pharmaceuticals, Inc.
349 Oyster Point Boulevard
Suite 200
South San Francisco, California 94080
Attn.: A. Richard Juelis

16. Successors and Assigns. This Termination Agreement shall bind, inure to the benefit of, and be enforceable by the successors and assigns of the parties hereto.

17. Expenses. Cellegy and GW shall each bear their own fees, costs and expenses incurred by them in connection with the negotiation, execution and performance of this Agreement.

18. Entire Agreement; Modifications. This Termination Agreement constitutes the entire agreement and understanding between the parties with respect to the termination of the License Agreement. There are no collateral understandings, agreements or other representations, expressed or implied, between the parties relating to such termination. Any previous discussions, agreements or understandings between the parties regarding such termination are hereby superseded by this Termination Agreement. This Termination Agreement may not be modified, altered or amended except by written agreement of authorized representatives of the parties.

19. Governing Law. This Termination Agreement shall be governed by and construed in accordance with the laws of the North Carolina, exclusive of its choice-of-law rules.

20. Counterparts. This Termination Agreement may be executed in one or more counterparts, each of which shall be deemed an original, and all of which shall constitute one and the same instrument.

IN WITNESS HEREOF, the parties have executed this Termination Agreement as of the Effective Date.

GLAXO WELLCOME INC.	CELLEGY PHARMACEUTICALS, INC.
/s/ Dean J. Mitchell	/s/ K. Michael Forrest
By: Dean J. Mitchell Vice President, Business Development and Planning, General Manager, Specialty Divisions	By: K. Michael Forrest President and Chief Executive Officer

EXHIBIT 23.1

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-06065), the Registration Statement (Form S-8 No. 333-32301), and the Registration Statement (Form S-8 No. 333-60343) pertaining to the 1992 Stock Option Plan, the 1995 Equity Incentive Plan, and the 1995 Directors' Stock Option Plan, and in the Registration Statement (Form S-1 No. 333-38179), the Registration Statement (Form S-3 No. 33-11457), the Registration Statement (Form S-3 No. 333-36057), the Registration Statement (Form S-3 No. 333-46087) and the Registration Statement (Form S-3 No. 333-86193) of Cellegy Pharmaceuticals, Inc. of our report dated February 4, 2000, with respect to the financial statements of Cellegy Pharmaceuticals, Inc. included in the Annual Report (Form 10-K) for the year ended December 31, 1999 filed with the Securities and Exchange Commission.

ERNST & YOUNG LLP

Palo Alto, California
March 14, 2000

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DEC-31-1999
JAN-01-1999
DEC-31-1999
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15,933
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74
12,801
3,729
(580)
20,913
1,973
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0
55,368
(39,529)
20,913
0
1,045
269
0
10,578
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(363)
(9,301)
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