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

(Mark one)

X - Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the Fiscal Year Ended December 31, 2001 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	Nasdaq National Market
(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
(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. (____)

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of March 5, 2002 was $74,196,080 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 5, 2002 was 17,304,976.

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 which will be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2001.

CELLEGY PHARMACEUTICALS, INC. 10-K ANNUAL REPORT

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

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Unless the context otherwise requires, the terms "we", "our", and "Cellegy" refer to Cellegy Pharmaceuticals, Inc., a California corporation, and its subsidiaries.

Anogesic and Celledirm are our registered trademarks. Cellegesic, Tostrex, Tostrelle, and Rectogesic are our trademarks. We also refer to trademarks of other corporations and organizations in this document. Cellegy recently began using Cellegesic in place of Anogesic for its lead product following discussions with the FDA during its review of our New Drug Application.

PART I

ITEM 1: BUSINESS

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 skin care products. Our prescription products are directed towards the treatment of gastrointestinal disorders, sexual dysfunction of both men and women, and selected conditions affecting women's health.

Cellegy's lead product candidate, CellegesicTM (nitroglycerin ointment), formerly referred to as Anogesic(R), is under review by the FDA for the treatment of chronic anal fissures, a painful condition which, in the absence of an approved drug therapy, often requires surgery. We filed the Cellegesic New Drug Application (NDA) with the FDA in June 2001, and an amendment to the NDA was filed in November 2001 including data from a second Phase III clinical study using Cellegesic to treat pain associated with chronic anal fissures. In August 2001, we submitted a Marketing Authorization Application (MAA) to the Medicines Control Agency (MCA) in the United Kingdom requesting approval of Rectogesic(TM) (nitroglycerin ointment) for the treatment of anal fissures. Rectogesic is a product similar in formulation to Cellegesic. In addition, a New Drug Submission (NDS) including data from the United States NDA for Cellegesic marketing approval will be filed by the end of the first quarter of 2002 with the Therapeutic Products Programme (TPP) in Canada. For all of these registrations, Cellegy submitted expert reports and supportive data from the Australian regulatory package for Rectogesic(TM) which was approved by the Australian Therapeutic Goods Administration (TGA) and has been successfully marketed in Australia since early 1999. Cellegy is also conducting two Phase II clinical trials using Cellegesic to determine its effect on the symptoms of hemorrhoids. Hemorrhoids afflict an estimated 22 million people annually in the United States, Europe and Japan, according to published data.

Cellegy's second lead product candidate, Tostrex(TM) (testosterone gel), is for the treatment of male hypogonadism, which usually results in diminished sexual function, lethargy and, in severe cases, reduced bone and muscle mass in men. Based on positive results achieved in an analysis of the majority of patients in the pivotal Phase III trial in November 2001, Cellegy completed patient enrollment and plans to file an NDA during the second quarter of 2002. In addition to Tostrex, Cellegy is developing a second transdermal testosterone gel, Tostrelle(TM), for the treatment of female sexual dysfunction in postmenopausal women. Testosterone deficiency in women frequently leads to diminished libido, decreased bone and muscle mass and reduced energy levels. Tostrelle has successfully completed two Phase I/II clinical studies and Cellegy expects to begin an advanced Phase II/III study by the end of the first quarter of 2002.

In November 2001, Cellegy acquired Vaxis Therapeutics Corporation ("Vaxis" or "Cellegy Canada"), a private Canadian company based in Kingston, Ontario. This acquisition expands our pipeline of products for the treatment of sexual dysfunction in males and females and complements our current products. In addition to product candidates for the treatment of sexual dysfunction, the Vaxis product pipeline consists of nitroglycerin and other nitric oxide donors for the treatment of various disorders including: Reynaud's Disease, Restless Leg Syndrome, prostate cancer and other potential indications. We have recently expanded our research to capitalize on the scientific expertise of Cellegy Canada's scientists.

Cellegy's research and development programs also focus on inflammation and second generation products for anorectal diseases. In the area of inflammation, our scientists have discovered a family of compounds that we have named CELLEDIRM. CELLEDIRM-based products may be useful in reducing inflammation associated with a number of skin, mucous membrane and gastrointestinal conditions.

This Annual Report includes forward-looking statements that involve substantial risks and uncertainties. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about our industry, our beliefs and our assumptions. 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. Our "Management's Discussion and Analysis of Financial Condition and Results of Operations" contains many such forward-looking statements. These forward-looking statements are not guarantees of future performance and concern matters that involve risks and uncertainties that could cause our actual results to differ materially from those in the forward-looking statements. These risks and uncertainties include those described in "Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors That May Affect Future Operating Results" and elsewhere in this Annual Report. Except as required by law, we

undertake no obligation to revise any forward-looking statements in order to reflect events or circumstances that may arise after the date of this Annual Report. Actual events or results may differ materially from those discussed in this Annual Report.

Marketing and Commercialization Strategy

Cellegy intends to become a leader in the development and marketing of selected specialty biopharmaceutical products that are directed towards the treatment of gastrointestinal disorders, sexual dysfunction of both men and women, and conditions affecting women's health. Key elements of our related business and commercialization strategy include the following:

- Self-Marketing to Specialty Physician Markets in United States. We plan to market Cellegesic to a targeted audience of key physician specialists, principally Colon and Rectal Surgeons, 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 the product to broader physician audiences. Cellegy intends to commercialize Tostrex through co-promotion agreements with partners in the United States. We plan to outlicense the overseas rights for products we develop in exchange for upfront and milestone payments, as well as royalties on sales.

- Marketing and Sales Agreement with Ventiv Health. We announced a comprehensive agreement with Ventiv Health, Inc. ("Ventiv"), a contract sales organization, in August 2001. Under the control and direction of Cellegy, Ventiv will provide certain sales and marketing services relating to the anticipated launch of Cellegesic, including hiring a sales force of approximately 75 representatives. Ventiv will advance up to $10 million, the amount and timing depending on various circumstances, to Cellegy to cover pre-launch and launch expenses. In return, the agreement provides Ventiv with a share of Cellegesic profits through a multi-royalty stream towards the end of the six-year agreement period.

- Acquisition of Complementary Products and Companies. As was done with the acquisitions of Vaxis in Canada in November 2001, of Rectogesic from Quay Pharmaceuticals Pty Ltd ("Quay") in Australia in June 2000, and of Cellegesic from Neptune Pharmaceuticals ("Neptune") in the United States in December 1997, we intend to acquire other products, technologies or companies with products and distribution capabilities consistent with our commercial objectives.

- Manufacturing. Cellegy has established a long term agreement with PanGeo Pharma Inc., ("PanGeo") an FDA approved contract manufacturing company based in Canada. PanGeo has successfully manufactured Cellegesic, Tostrex and Tostrelle for our clinical trials and will be the commercial manufacturer for these products, when approved.

- Distribution. Cellegy has entered into a distribution agreement for Rectogesic in South Korea and intends to contract additional distributors in Asia, Latin America and the Middle East.

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 currently marketing our C79 Intensive Moisturizer formulation to a major specialty retailer which incorporates C79 into hand cream products. Our revenues from sales of these products totaled $660,000 in 2001 and have totaled about $3,400,000 million since product introduction late in 1998.

Products Under Development

Prescription Products

Cellegesic (nitroglycerin ointment for Treatment of Anal Fissures and Hemorrhoids)

Cellegy's leading product candidate is Cellegesic, a topical, nitroglycerin-based prescription product for the treatment of anal fissures and hemorrhoids. Anal fissures are painful tears in the lining of the anal mucosa, a condition afflicting men and women of all age groups. Of the over 600,000 new cases of anal fissures occurring

each year in the United States, Europe and Japan, many of these chronic cases 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 Sates alone, there are approximately 9 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 Cellegesic.

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.

Cellegesic 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. Several previous third party studies reported that nitroglycerin, once administered to the anal canal, causes relaxation of the sphincter muscle and helps to relieve pain and promote healing of the anal fissure in most patients.

We completed an initial Phase III clinical trial using Cellegesic for the treatment of anal fissures and announced the results in November 1999. The trial did not demonstrate a statistically significant rate of healing in comparison to placebo, but did show rapid and significant pain reduction. Based on this outcome, we initiated a second Phase III trial in 2000 to confirm the drug's ability to reduce fissure pain, the primary trial endpoint, with healing of chronic anal fissures as a secondary endpoint.

The second Phase III clinical trial, which included 229 patients in several study centers in the United States and overseas, was completed in September 2001. Patients received either of two strengths of Cellegesic or placebo administered on a daily basis over an eight-week treatment period. The patient's pain scores were tabulated and the patients were examined to determine whether the fissure had healed. Positive results were achieved in the primary endpoint, which was pain reduction of chronic anal fissures. Statistical significance was not achieved in healing, the secondary endpoint.

In June 2001, we completed patient enrollment and filed an NDA with the FDA requesting marketing approval of Cellegesic for the treatment of pain associated with chronic anal fissures. We amended the NDA upon completion of the second Phase III anal fissure pain study in November 2001. The decision to file the NDA earlier than previously contemplated followed a meeting with the FDA at which Cellegy re-reviewed the results of its initial Cellegesic Phase III clinical trial and presented summary data from several trials conducted with nitroglycerin ointment by investigators around the world, as well as various other materials. Submitting the NDA before completion of the second Phase III trial may not necessarily reduce the period of time during which the FDA reviews the filing and may have no effect on the regulatory review period. There can be no assurances that the NDA filing for Cellegesic will be approved, or that earlier filing of the NDA will result in earlier product approval.

In addition to the above mentioned fissures trial, Cellegy has two Phase II clinical trials underway for various complications of hemorrhoids. Cellegesic is protected by two domestic patents, both of which have been issued, the most recent in December 1997. Similar Canadian and European patents have been issued and numerous patent applications have been filed in most major overseas markets.

Tostrex (testosterone gel for male hormone replacement therapy)

Cellegy is currently developing a transdermal testosterone gel to treat male hypogonadism, or below normal levels 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. Male hypogonadism is the first indication for which we will seek regulatory approval in the United States. Subsequently, testosterone replacement may be used for "male andropause," a potentially greater market.

There are a number of companies currently marketing testosterone in several different product forms in domestic and international markets. Cellegy believes that a significant market opportunity exists for an improved product, as the side effects and patient inconveniences associated with many of the currently marketed products have limited their use to less than 5% of potential patients. Current product forms include orals, injectables, transdermal patches

and a testosterone gel launched in 2000. The leading patch products are sold at prices averaging about $1,000 per year per patient with one other gel product priced at over $3,500 per year.

Cellegy's proprietary testosterone gel product candidate is transparent, rapid-drying and non-staining. It is designed as a once-a-day application from a unique metered dose dispenser to relatively small areas of the skin. Based on successful Phase II dose ranging clinical studies which demonstrated Tostrex's ability to deliver testosterone into the bloodstream, we began a pivotal Phase III clinical trial designed to restore normal levels of testosterone in men with testosterone deficiency. The trial, including 201 patients at several study centers in the United States was successfully completed and positive results were announced in November 2001. Cellegy now expects to file an NDA early in the second quarter of 2002.

Tostrelle (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 maintaining 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%. 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.

Based on the results of pharmacokinetic studies in men receiving Tostrex, Cellegy's scientists were able to estimate the proper dosage of testosterone required to achieve normal pre-menopausal hormone levels in postmenopausal women. The result is Cellegy's Tostrelle, a product designed to restore normal testosterone levels in hormone deficient women.

Cellegy has successfully completed two Phase I/II pharmacokinetic studies in which we determined the proper dose necessary to restore normal testosterone levels to normally menopausal and surgically-induced menopausal women. Based on these results, and a meeting with the FDA to discuss advanced trial protocols, we now intend to initiate a Phase II/III clinical study in the first quarter of 2002.

Technology

Current Research Programs

Cellegy's research and development programs focus on nitric oxide pharmacology, inflammation and nitric oxide treatments for anorectal and gastrointestinal diseases, sexual function and other indications. The recent acquisition of Vaxis has significantly broadened Cellegy research and development efforts for the treatment of female sexual dysfunction and male erectile dysfunction, and has also expanded our research into potential oncology treatments.

Cellegy's ongoing research and development efforts in the area of anorectal disease have led to the identification and formulation development of two second generation products for the treatment of anal fissures and hemorrhoids. Early studies showed that these formulations are stable and will be suitable for human clinical testing.

Our overall research efforts in nitric oxide pharmacology have expanded subsequent to the November 2001 acquisition of Vaxis. Based on research efforts at Queen's University at Kingston, we better understand the role of nitric oxide as a signaling molecule in modulating vascular smooth muscle relaxation, perhaps by down-regulating endothelin expression. The significance of this finding is that nitric oxide is capable of reducing vascular tone at a concentration much lower than needed for a direct vaso-dilatation effect, especially in tissues under an abnormally

vaso-constrictive state. This discovery presents various potential approaches to treat conditions caused by vaso-constriction, such as peripheral vascular insufficiency found in Raynaud's disease, male erectile dysfunction, and selected aspects of female sexual dysfunction. We plan to verify and validate selected potential therapeutic indications via in vivo animal testing and in pilot human studies.

We are also investigating the role of nitric oxide in modulating cancer cell metastasis induced by hypoxia (low oxygen) and in attenuating pain due to nociceptor activation. Results published in the Journal of National Cancer Institute in December 2001 showed that the administration of nitric oxide to hypoxic cancer cells led to reversal of the metastatic phenotype. Furthermore, nitric oxide can also reverse the development of hypoxia-induced drug resistance cancer phenotype to chemotherapeutic agents. Follow-up experiments since the publication further support the original findings. We will continue to expand upon these original findings with relevant in vitro and in vivo models through the research efforts at the Queen's University and to further explore the ability of nitric oxide to interfere with other nociceptive signaling pathway.

In the area of inflammation, our scientists discovered a family of compounds called CELLEDIRM (Cellegy's Dermal Inflammatory Response Modulators). CELLEDIRM is a group of compounds that have demonstrated in pre-clinical testing a reduction of the inflammation associated with the topical application of drugs and other active substances. Our in-house efforts have also identified anti-inflammatory compounds for the treatment of gastrointestinal and urogenital inflammatory disorders. Based on the safety and in vitro profiling of screened compounds, one compound was selected for further in vivo testing in a relevant model. Preliminary results using an experimental vehicle showed positive effects with the lead candidate and we are planning to conduct additional proof-of-concept studies.

In March 1994, Cellegy entered into an exclusive, worldwide, royalty bearing license agreement with the University of California (the "University") for patent rights, jointly held by the University and Cellegy, relating to certain drug delivery technologies. Cellegy agreed to pay a licensing and maintenance fee each year until Cellegy is commercially selling a product using the licensed technology. We are currently in discussion with the University to terminate, on mutually acceptable terms, the license agreement for patent rights relating to drug delivery technologies.

Cellegy's research and development expenses were $14,098,000 in 2001, $9,574,000 in 2000, and $7,965,000 in 2001, 2000 and 1999. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Patents and Trade Secrets

Cellegy has 19 issued United States patents, more than 70 issued foreign patents, and over 70 pending patent applications. Two issued United States patents, 22 issued foreign patents, and more than 10 pending patent applications relate to Cellegy's Cellegesic product for the treatment of anal fissures. One issued United States patent, and 16 pending patent applications relate to our Tostrex and Tostrelle products. Four pending United States patent applications and 21 foreign patent applications relate to possible backup compounds for our Cellegesic product. In addition, as part of Cellegy's acquisition of Vaxis, Cellegy gained rights to 3 issued United States patents, 2 issued foreign patents, and more than 25 pending patent applications. 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.

Our policy is to protect our technology by, among other things, filing patent applications for technology that we consider 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 we develop. 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 competitors 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. 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 collaborators and potential collaborators to enter into confidentiality agreements. There can be no assurance, however, that these agreements will provide meaningful protection of our 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 United States 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 currently can be maintained in secrecy until patents issue, we cannot be certain that Cellegy was the first inventor of the invention covered by our pending patent applications or patents or that we were the first to file patent applications for such inventions. Further, issued patents can later be held invalid by the patent office 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 the manufacture, use or sale of any of our product candidates will not infringe patent rights of others. 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 other 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 and product candidates, such as Cellegesic, Tostrex and Tostrelle are based on existing molecules with a history of use in humans but which are being developed by us for new therapeutic uses or in novel delivery systems which enhance therapeutic utility. We cannot obtain composition patent claims on the compounds themselves, 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. This is the case, for example, with our United States patents relating to Cellegesic and Tostrex. Such method-of-use patents may provide less protection than a composition-of-matter patent, because of the possibility of "off-label" use of the composition. Cellegy may not be able to prevent a competitor from using a different 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.

Product Acquisitions

On November 27, 2001, Cellegy acquired Vaxis Therapeutics Corporation, a private Canadian company. Vaxis, subsequently renamed Cellegy Canada, is a wholly-owned research and development subsidiary with pre-eminent scientists focusing in the areas of sexual dysfunction, peripheral vascular disorders and nitric oxide pharmacology. This research is in line with our goal of expanding our pipeline of products and protecting our patents. The purchase price of $4.1 million consisted of 533,612 shares of our common stock and $142,000 in cash. There are potential future earn-out considerations payable by Cellegy in stock or cash tied to revenues generated by Vaxis technologies.

In June 2000, Cellegy acquired Quay Pharmaceuticals, an Australian company marketing Rectogesic, a nitroglycerin ointment product similar to Cellegesic. The acquisition cost totaled $1,835,000, consisting of 169,224 shares with a value of $977,000, 171,146 warrants to purchase common stock with a value of $489,000, and cash payments of $369,000. Cellegy will continue to self-market Rectogesic in Australia through its wholly-owned Cellegy Australia subsidiary and plans to sell Rectogesic through distributors in the Pacific Rim countries and potentially other countries around the world.

In December 1997, Cellegy acquired patent and related intellectual property rights relating to Cellegesic, a topical product candidate for the treatment of anal fissures and hemorrhoids, from Neptune Pharmaceuticals. Pursuant to the purchase agreement, 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 Cellegesic in domestic and foreign markets. Two research milestones were achieved during 2001 resulting in the issuance of 104,113 Cellegy shares for a total value of $750,000. Future potential milestones, payable in Cellegy common stock, could result in the issuance of up to an additional 1,283,887 shares of Cellegy common stock worth up to approximately $9,750,000, based on the closing price of Cellegy stock at the time of issuance. The agreement does not provide for the payment by Cellegy of any future product royalties to Neptune in connection with Cellegesic revenues.

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, we 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.

Cellegy's prescription products, and our ongoing research and clinical activities such as those relating to Cellegesic, Tostrex, and Tostrelle are subject to extensive regulation by governmental regulatory authorities in the United States and other countries. Extensive current pre-clinical and clinical testing requirements and the regulatory approval process of the FDA in the United States and of certain foreign regulatory authorities, or additional future government regulations, could prevent or delay regulatory approval of Cellegy's products. Disagreements with one or more regulatory authorities may occur in the future, and one or more of our ongoing or planned clinical trials could be delayed or repeated in order to satisfy regulatory requirements. Sales of Cellegy's products outside the United States are subject to regulatory requirements governing clinical trials and marketing approval. These requirements vary widely from country to country and could delay introduction of Cellegy's products in those countries.

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 pre-clinical 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 the FDA or other international regulatory authorities will permit us to undertake any future clinical trials for potential products or to continue any of the current clinical trials. To date, except for our NDA relating to Cellegesic, we have not sought FDA approval to distribute any products. Moreover, results of pre-clinical 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 Cellegy's present or future clinical trials 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 well in early tests, only to find that later tests, including Phase III clinical trials, were inadequate or unsatisfactory, or that FDA Advisory Committees have declined to recommend approval of the drugs, or that the FDA itself refused approval, with the result that such companies' stock prices have fallen precipitously. If the FDA delays approval of, or fails to approve, our NDA for Cellegesic or planned NDA for Tostrex, our price would be materially and adversely affected.

New Drug Applications. After completion of the required clinical testing, generally an NDA is submitted. FDA approval of the NDA (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 and may request more information before it accepts the filing. 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 approvable letter or a not 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 approvable 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.

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 governmental approval in foreign countries of drug formulations utilizing our 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 a negative 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 or 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.

Competition

The pharmaceutical and cosmeceutical industries are characterized by extensive research efforts and rapid and significant technological changes. In the development and marketing of topical prescription drugs, cosmeceutical and skin care products, and drug delivery systems, Cellegy faces intense competition. Cellegy is much smaller in terms of size and resources than many of its competitors in the United States and abroad, which include, among others, major pharmaceutical, cosmetic, chemical, consumer product, and biotechnology companies, specialized firms, universities and other research institutions. Cellegy's competitors may succeed in developing technologies and products that are safer, more effective or less costly than any which are being developed by us that would 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 than us. In addition, Cellegy's products are subject to competition from existing products. For example, Cellegy's Tostrex product, if commercialized, is expected to compete with two currently marketed transdermal patch products sold by Johnson and Johnson and Watson Pharmaceuticals and one transdermal testosterone gel product marketed by

Unimed/Solvay. Cellegy's Cellegesic product, if commercialized, is expected to compete with over-the-counter products, such as Preparation H marketed by American Home Products, and various other prescription products. As a result, we cannot assure you that Cellegy's products under development will be able to compete successfully with existing products or innovative products under development by other organizations.

Therapies for sexual dysfunction and women's health products represent a very large market opportunity, especially as the overall population continues to age. As the size of the market continues to grow, the competition will expand. The approval and marketing of competitive products and other products that treat the indications targeted by Cellegy could adversely affect the market acceptance of Cellegy's products. The presence of directly competitive products could also result in more intense price competition than might otherwise exist, which could have a material adverse effect on Cellegy. Cellegy is aware of, at least, three other companies developing testosterone replacement products for women and believes that competition will be intense for all of its female and male sexual dysfunction product candidates.

Employees

As of February 28, 2002, we had 34 full-time and two part-time employees. Twenty-one of these employees, of whom 2 are M.D.'s and another 8 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 are 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, California. Approximately 33,154 square feet of this space is currently available for sublease. This space was previously subleased over the last two years. Total rental income from rent payments to Cellegy was $897,000 in 2001. We expect to receive substantially less rental income in 2002 and beyond resulting from the expiration of prior subleases and excess capacity in the office rental market. We believe our current facilities will be adequate for our needs for expansion for at least the next five years.

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, 2001.

ITEM 4A: EXECUTIVE OFFICERS OF THE REGISTRANT

MANAGEMENT

The executive officers of Cellegy are as follows:

Name	Age	Position
K. Michael Forrest	58	Chairman, President, Chief Executive Officer and Director
Daniel L. Azarnoff, M.D.	75	Senior Vice President, Clinical and Regulatory Affairs

John J. Chandler	60	Vice President, Corporate Development
A. Richard Juelis	53	Vice President, Finance and Chief Financial Officer

K. Michael Forrest. Mr. Forrest became Chairman in May 2000 and has been President, CEO, and a director since 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 INEX Pharmaceuticals, a public company developing anti-cancer products.

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, and in February of 2001 was given the additional responsibility of Medical Director. 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. Dr. Azarnoff is a member of The Institute of Medicine of the National Academy of Sciences. He received his M.D. from the University of Kansas Medical School. Dr. Azarnoff was a director of Cibus Pharmaceutical, Oread and Entropin Inc., through 1998, and is currently director of Western Center Clinical Trials.

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 the Medical Device Division of 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 an 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.

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 for seven years each with Hoffmann-LaRoche and Schering-Plough. He holds a B.S. in Chemistry from Fordham University and an M.B.A. from Columbia University.

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.

2001	High	Low
First Quarter	$ 7.37	4.31
Second Quarter	7.75	4.20
Third Quarter	7.08	5.01
Fourth Quarter	9.15	6.36
2000		
First Quarter	$ 9.97	$ 3.25
Second Quarter	8.25	4.69
Third Quarter	9.43	7.00
Fourth Quarter	8.00	4.38

Holders

As of March 5, 2002, there were approximately 175 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 we will declare or pay cash dividends on our common stock in the foreseeable future.

ITEM 6: SELECTED FINANCIAL DATA

The following selected historical information has been derived from audited financial statements of Cellegy. The financial information as of December 31, 2001 and 2000 and for each of the three years in the period ended December 31 are derived from audited financial statements. The financial statements, related notes thereto, and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Form 10-K should read carefully. The selected data is not intended to replace the financial statements.

($000's)	Years ended December 31,				
	2001	2000	1999	1998	1997
Statement of Operations Data:					
Revenues	$ 877	$ 1,586	$ 1,045	$ 832	$ 828
Costs and expenses	21,847(1)	13,573	10,847	9,266	9,238
Loss from operations	(20,970)	(11,987)	(9,802)	(8,434)	(8,410)
Interest income (expense) and other, net	1,532	569	501	1,068	556
Net loss	(19,467)	(11,418)	(9,301)	(7,366)	(7,854)
Non-cash preferred dividends	--	--	--	--	35
Net loss applicable to common shareholders	$(19,467)	$(11,418)	$ (9,301)	$ (7,366)	$ (7,889)
Basic and diluted net loss per common shareholder	$ (1.26)	$ (0.91)	$ (0.85)	$ (0.73))	$ (1.18)
Weighted average common shares outstanding	15,503	12,542	10,914	10,160	6,670

(1) During the year ended December 31, 2001, we recorded one-time, non-cash charges of $3,507,134 for in-process research and development associated with the Vaxis acquisition and $750,000 in non-cash charges for research and development expenses associated with milestone payments to Neptune Pharmaceuticals.

	December 31,				
	2001	2000	1999	1998	1997
Balance Sheet Data:					
Cash, cash equivalents and investments	$17,190(2)	$15,923(2)	$16,737	$15,220	$21,726
Total assets	22,367	21,259	20,913	19,484	22,751
Deficit accumulated during the development stage	(70,377)	(50,912)	(39,494)	(30,192)	(22,826)
Total shareholders' equity	$19,845	18,794	15,839	14,218	21,354

(2) Includes restricted cash of $614,000.

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 that involve substantial risks and uncertainties. These forward-looking statements are not historical facts, but rather based on current expectations, estimates and projections about our industry, our beliefs and our assumptions. 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 forward-looking statements are not

guarantees of future performance and concern matters that involve risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. These risks and uncertainties include those described in "Factors That May Affect Future Operating Results" and elsewhere in this Annual Report. Except as required by law, we undertake no obligation to revise any forward-looking statements in order to reflect events or circumstances that may arise after the date of this Annual Report. Actual events or results may differ materially from those discussed in this Annual Report.

Cellegy Pharmaceuticals, Inc., a specialty biopharmaceutical company incorporated in California in 1989, is engaged in the development of prescription drugs and skin care products. We are developing several prescription drugs, including Cellegesic, 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 afflics certain men, generally above the age of forty, and Tostrelle, for the treatment of sexual dysfunction in menopausal women.

General

In December 1997, we completed an asset purchase agreement with Neptune Pharmaceuticals to acquire patent and other intellectual property rights relating to Cellegesic. Cellegesic expenses have been a significant part of Cellegy's spending since the acquisition and are expected to continue to be significant during the remainder of 2002 as a result of two Phase II clinical trials for the treatment of hemorrhoids. We will incur significant expenses associated with pre-launch activities and on the on-going marketing and sales of Cellegesic, if approved.

In September 1998, we began initial shipments and product sales of C79 Intensive Moisturizing formulation to Gryphon Development Inc., ("Gryphon") 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 June 2000, we acquired all of the assets of Quay Pharmaceuticals, an Australian pharmaceutical company producing Rectogesic, a drug similar to Cellegesic. The acquired assets consisted of Quay's inventory, other tangible assets, and purchased technology. The purchase price of $1,835,000 included 169,224 shares of our common stock paid to Quay with an estimated value of $977,000, warrants to purchase 171,146 shares of common stock with an estimated value of $489,000, and cash payments of $369,000. The purchase price was allocated to net tangible assets of $97,000, purchased technology of $770,000, and goodwill of $968,000 based on their estimated fair values on the acquisition date. Purchased technology and goodwill have been amortized over three and ten years, respectively. We evaluated this acquisition under the new accounting pronouncements (discussed below), Statement 141 and 142. Under the new guidance effective January 1, 2002, goodwill will no longer be amortized and will be evaluated for impairment.

In June 2001, we completed a private placement of approximately 2.7 million shares of our common stock, resulting in approximately $15.4 million of gross proceeds to Cellegy. Participants included current investors Baker/Tisch Investments and GMT Capital, as well as, five new investors.

In August 2001, Cellegy and Ventiv Integrated Solutions, a division of Ventiv Health, Inc., signed a six year agreement to commercialize Cellegy's lead product, Cellegesic, in the United States. Ventiv will deliver integrated marketing and sales solutions, will provide pre-launch support and will recruit and train a sales force that will be jointly managed by both companies. Ventiv will loan Cellegy up to $10 million, the amount and timing depending on various circumstances, for expenses associated with the commercialization of Cellegesic under a funding agreement. Ventiv will also receive a share of product profitability through a multi-year royalty stream toward the end of the six-year agreement period.

In November 2001, we acquired a private Canadian based company, Vaxis Therapeutics, valued at $4.1 million. The purchase was payable primarily in shares of Cellegy stock. The purchase price was allocated to net tangible assets of $250,000, intangible assets of $350,000 and $3,507,000 million of in-process research and development. The intangibles of $350,000 are being amortized over five years and the in-process research and development has been expensed in the fourth quarter of 2001. The acquired technology was in an early stage of development such that, as of the acquisition date, technological feasibility had not been reached and no alternative use exists. The assumptions used in determining the purchase price allocation were based on an appropriate discount rate applied to expected cash flows. The intangible assets will be amortized over 5 years.

The purchase agreement contains earn-out provisions for seven years that are based on commercial sales of any products developed by Cellegy based on technologies acquired from Vaxis. Any contingent consideration paid in the future will be accounted for as acquired in-process research and development. The results of operations of the acquired company have been included in the company's consolidated financial statements since the acquisition date. Accumulated amortization at December 31, 2001 is $6,000. The expected amortization expense for the next five years will be approximately $68,800 per year.

Critical Accounting Policies

Use of Estimates. The preparation of consolidated financial statements, in conformity with accounting principles generally accepted in the United States, 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.

Revenue Recognition. Revenues related to cost reimbursement provisions under development contracts are recognized as the costs associated with the projects as these costs are incurred. Revenues related to milestones specified under development contracts are recognized as the milestones are achieved. Cellegy has received certain United States government grants that support our 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 as these costs are incurred. Revenues related to product sales are recognized upon shipment when title to the goods has been transferred to the customer. There is no right of return for our Rectogesic and skin care product sales.

Clinical Trial Expenses. Clinical trial expenses are payable to clinical sites and clinical research organizations. Expenses for both of these groups are accrued on a straight-line basis over the contracted period subject to adjustment for actual activity based on such factors as the number of subjects enrolled and number of subjects that have completed treatment for each trial. A monthly reconciliation of costs accrued to cost incurred is performed by Cellegy's clinical project managers and the finance department.

Investment Policy. Cellegy is subject to certain credit risk from our investment in marketable securities. By policy, we restrict amounts invested by investment type and by issuer, except for securities issued by the United States government. Cellegy has an investment policy that is approved and periodically reviewed by our Audit Committee. The policy states that investments must be highly liquid with maturities of less than three years. Cellegy's policy limits investments to the following: direct obligations of the United States Government or fully guaranteed by a government agency or by any of the states. Investments must have a rating of A1/P1 or A by Standard and Poors (or an equivalent rating); money market instruments must be a member of the Federal Reserve System with a net worth of at least $100 million and a rating of A1/AA by Standard and Poors (or equivalent rating). Any exception to the above requires approval of the Chief Financial Officer and the Chief Executive Officer.

Results of Operations

Years Ended December 31, 2001, 2000 and 1999

Revenues. Cellegy had revenues of $877,000, $1,586,000, and $1,045,000 in 2001, 2000 and 1999, respectively. Revenues in 2001 consisted of $660,000 in product sales to Gryphon Development (Gryphon), the product development arm of a major specialty retailer, and $217,000 in Rectogesic sales in Australia. Revenues in 2000 consisted of $1,389,000 in product sales to Gryphon, $125,000 in Rectogesic sales and $72,000 in SBIR grant funding. The decrease of $709,000 in total revenue in 2001 compared with 2000 was primarily due to a 52% or $729,000 decrease in Gryphon sales which was partially due to an overstocking of inventory on Gryphon's part accompanied by a decline in economic conditions during the year. The SBIR grant funding of $72,000 was completed in 2000. Revenues in 1999 consisted of $898,000 in Gryphon sales, $30,000 in SBIR grant funding and $117,000 in development funding from Glaxo. The increase in total revenue in 2000 of $541,000 or 52% compared with 1999 was primarily due to a $491,000 increase in Gryphon sales and $125,000 in Rectogesic sales partially offset by higher grant funding of $75,000 in 1999.

Research and Development Expenses. Research and development expenses were $14,098,000 in 2001 compared with $9,574,000 in 2000, and $7,965,000 in 1999. Total research and development expenses represented 65%, 70% and 73% of our total operating expenses in 2001, 2000 and 1999, respectively. Total expenses in 2001

compared to 2000 increased by $4,524,000. Approximately 81% or $3,632,000 of the increase was due to expenses associated with the completion of the Cellegesic Phase III study, NDA filing fees, costs related to the Phase II clinical studies relating to hemorrhoids, as well as costs associated with Tostrex and Tostrelle clinical studies. The remaining 18% or $830,000 was due to non-cash expenses related to milestone payments made to Neptune Pharmaceuticals and non-cash compensation charges related to stock options. Future potential milestones payable in Cellegy common stock to Neptune on the achievement of Cellegesic development milestones could result in future non-cash research and development expenses of up to $10 million. The increase of $1,609,000 or 16% in 2000 compared with 1999 was primarily due to an increase in spending associated with Cellegesic Phase III and Phase II clinical trials, as well as Phase III and Phase I/II Tostrex and Tostrelle clinical studies, respectively. Research and development expenses include salaries and benefits, laboratory supplies, external research programs, clinical studies and allocated overhead costs such as rent, supplies and utilities. In addition to clinical site payments, clinical costs include costs of manufacturing clinical supplies and costs associated with product stability studies.

We expect our research and development expenses in 2002 to be equal to or higher than 2001 levels, primarily due to our Phase II/III Tostrelle study, the planned NDA filing for Tostrex, two hemorrhoid trials using Cellegesic and in support of on-going research in Cellegy Canada. Unexpected increases in research and development expenses may occur if the FDA requires further trials to support our NDA filing for Cellegesic and Tostrex. However, in case of a delay in the approval of the Cellegesic NDA, Cellegy may need to reduce or defer overall expenditures, particularly in marketing and sales.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $4,042,000 in 2001, compared with $3,631,000 in 2000 and $2,613,000 in 1999. The increase of $411,000 or 11% in 2001 compared with 2000 was mostly due to expenses associated with our business development programs and a substantial increase in utility expenses and consulting fees. The increase in expenses of $1,018,000 in 2000 compared with 1999 was primarily due to non-cash compensation charges related to certain warrant grants. Our general and administrative expenses are expected to continue to increase in the future in support of our business development programs and product commercialization efforts.

Acquired-In-Process Research and Development. Acquired-in-process research and development expenses of $3,507,000 were incurred during 2001 as a result of the Vaxis acquisition. There were no acquired-in-process research and development expenses incurred during 2000 and 1999. The acquired technology was an early stage of development that, at the acquisition date, technological feasibility had not been reached and no alternative use existed.

Interest Income, and Other Net and Interest Expense. Cellegy recognized $1,532,000 in interest income for 2001 compared with $770,000 for 2000 and $864,000 for 1999. Fluctuations in interest income were tied primarily to changes in the average investment balances during each year. Interest expenses were $27,000 in 2001 compared with $201,000 in 2000 and $363,000 in 1999. Interest expenses in 2001 were lower due to a bank loan that was repaid in 2001. Other income includes rental income from our sub-lessees of $897,000 in 2001 compared to $80,000 in 2000. Cellegy's sub-lease agreement expired in December 2001, and this may result in significant decrease in rental income if favorable sub-leases are not found this year.

Net Loss. The net loss applicable to common shareholders in 2001 was $19,465,000 or $1.26 per share based on 15,503,000 weighted average shares outstanding compared with the net loss applicable to common shareholders in 2000 of $11,418,000 or $0.91 per share based on 12,542,000 weighted average shares outstanding. In 1999, our net loss was $9,301,000 or $0.85 per share based on 10,914,000 weighted average shares outstanding.

Liquidity and Capital Resources

We have experienced net losses and negative cash flows from operations each year since our inception. Through December 31, 2001, we had incurred an accumulated deficit of $70.4 million and had consumed cash from operations of $41.7 million. Cash from equity financing transactions have included $6.4 million in net proceeds from our 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, $10.0 million in net proceeds from a private placement in July 1999, $11.6 million in net proceeds from a private placement in October 2000 and $15.2 million in net proceeds from a private placement in June 2001. In June 1998, we entered into a loan agreement with a commercial bank to provide up to $4.5 million with an initial interest rate at the bank's prime lending rate plus

0.75%. 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 $2.5 million. As of December 31, 2001, there was no loan balance outstanding under this arrangement.

Our cash and investments were $17.2 million at December 31, 2001 compared with $15.9 million at December 31, 2000, both of which includes $614,000 of restricted cash. At December 31, 1999, cash and investments were $16.7 million. The increase in cash and investments of $1.3 million in 2001 was principally due to the net proceeds from the financing completed in June 2001, partially offset by net cash used in operating activities of 13.4 million. Our operations have used 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 our research and development programs, the progress and results of pre-clinical 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.

We have a ten-year operating lease commitment on our facility with our current landlord. Our operating lease commitments are $1,488,000 for 2002 and $12,281,000 thereafter.

In order to complete the research and development and other activities necessary to commercialize our products, additional financing will be required. As a result, we will seek private or public equity investments and future collaborative arrangements or other transactions with third parties to meet such needs. There is no assurance that 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 our research and development activities, planned clinical trials, marketing, sales, product promotion and administrative programs. We believe that available cash resources and the interest thereon, together with funding under the Ventiv agreements, will be adequate to satisfy our capital needs through at least December 31, 2002, although failure to obtain additional financing could require us to delay or reduce the scope of some of our planned research, development and sales and marketing activities.

We have paid fees to the Company's board members for their services on the board, audit committee and compensation committee. The total fees paid to these directors during 2001, 2000 and 1999 were $30,000, $46,500 amd $57,750, respectively.

Additional consulting fees were paid to two board members based on a consulting agreement. These were $80,000 and $66,000 for 2001 and 2000, respectively.

We have also recognized $100,888 in compensation expense during 2001 for a consulting agreement with a current board member. The Company issued stock options to this board member for his consulting services.

Recent Accounting Pronouncements

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 141, "Business Combinations" (Statement 141). This Statement addresses financial accounting and reporting for business combinations. Statement 141 supersedes APB Opinion No. 16, Business Combinations (Opinion 16), and amends or supersedes a number of interpretations of that Opinion.

Statement 141 requires that (1) all business combinations be accounted for by a single method the purchase method, (2) all intangible assets acquired in a business combination are to be recognized as assets apart from goodwill if they meet one of two criteria - the contractual-legal criterion or the separability criterion and (3) in addition to the disclosure requirements in Opinion 16, disclosure of the primary reasons for a business combination and the allocation of the purchase price paid to the assets acquired and liabilities assumed by major balance sheet caption. When the amounts of goodwill and intangible assets acquired are significant in relation to the purchase price paid, disclosure of other information about those assets is required, such as the amount of goodwill by reportable segment and the amount of the purchase price assigned to each major intangible asset class. The provisions of Statement 141 apply to all business combinations initiated after June 30, 2001. Cellegy adopted the provisions of Statement 141 as of July 1, 2001.

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangibles" (Statement 142). Under Statement 142, goodwill and indefinite lived intangible assets are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their estimated useful lives. Prior to December 31, 2001, Cellegy had recorded goodwill of $968,000 related to the Quay acquisition in June 2000. Cellegy will discontinue amortizing the remaining balance in goodwill of $814,000 on January 1, 2002. The adoption of this statement as of January 1, 2002 is not expected to have any other impact on our financial position, results of operations or cash flows.

In October 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (Statement 144), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. Statement 144 is effective for Cellegy's fiscal year beginning January 2002. Cellegy does not expect that the adoption of the Statement will have a

significant impact on our financial position and results of operations.

Factors That May Affect Future Operating Results

This report contains forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from the results discussed in this Annual Report. Factors that might cause such a difference include, but are not limited to, those discussed below.

We are subject to regulation by regulatory authorities including the FDA, which could delay or prevent marketing of our products.

Cellegy's prescription product candidates, and our ongoing research and clinical activities such as those relating to our product candidates Cellegesic, Tostrex, and Tostrelle, are subject to extensive regulation by governmental regulatory authorities in the United States and other countries. Extensive current pre-clinical and clinical testing requirements and the regulatory approval process of the United States Food and Drug Administration (FDA) in the United States and of certain foreign regulatory authorities, or additional future government regulations, could prevent or delay regulatory approval of Cellegy's products. Disagreements may occur in the future, and one or more of our ongoing or planned clinical trials could be delayed or be required to be repeated in order to satisfy regulatory requirements. The FDA could impose requirements on future trials that could delay or prevent the regulatory approval process for Cellegesic, Tostrex or Tostrelle. Sales of Cellegy's products outside the United States are subject to regulatory requirements governing clinical trials and marketing approval. These requirements vary widely from country to country and could delay introduction of Cellegy's products in those countries.

Before we obtain regulatory approval for the commercial sale of most potential drug products, we must demonstrate through pre-clinical 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 the FDA or other international regulatory authorities will permit us to undertake any future clinical trials for potential products or to continue any of the current clinical trials. To date, except for our NDA filing in June 2001 relating to Cellegesic, we have not sought FDA approval to distribute any products. Moreover, results of pre-clinical studies and early clinical trials may not be good predictors of results that will be obtained in later-stage clinical trials and favorable results in later stage clinical trials may not ensure FDA approval to commercialize a product. We cannot assure you that Cellegy's present or future clinical trials 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 approval, with the result that such companies' stock prices have fallen precipitously.

The timing of NDA submissions, the outcome of reviews by the FDA and the initiation and completion of other clinical trials are subject to uncertainty, change and unforeseen delays. On December 3, 2001, Cellegy announced that it had submitted an amendment to its NDA for Cellegesic to include data from a recently completed confirmatory Phase III clinical study using Cellegesic to treat pain associated with chronic anal fissures. The Cellegesic NDA was originally filed in June 2001. There can be no assurance, however, that the FDA will find the Cellegesic trial data, the statistical analysis methodology used by Cellegy, or other sections of the NDA acceptable for marketing approval. The FDA could require further trials, decide to have an Advisory Panel review the submission, with an uncertain outcome of such panel's recommendation, or take other actions having the effect of delaying or preventing commercial introduction of Cellegesic. In addition, having submitted the Cellegesic NDA in June 2001 before completion of the second Phase III trial does not necessarily reduce the period of time during which the FDA reviews the filing and may have no effect on the regulatory review period; the FDA could decide, among other things, to re-start its review as of November 2001, when Cellegy submitted an amendment to the NDA. Any delay in obtaining regulatory approval for Cellegesic could have a material adverse effect on the market price of the Common Stock and our business.

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

Our accumulated deficit as of December 31, 2001 was approximately $70.4 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 two years. We plan to increase our operating expenses as we continue to devote significant resources to pre-

clinical studies, clinical trials, administrative, marketing, sales and patent activities. Accordingly, without substantial revenues from new corporate collaborations, royalties on product sales or other revenue sources, we expect to incur substantial operating losses in the foreseeable future as our potential products move into commercialization, and we continue to invest in research and clinical trials. 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 products. We cannot assure you that we will ever be able to achieve or sustain profitability.

The Company faces intense competition from larger companies, and in the future Cellegy may not have the resources required to develop innovative products. Cellegy's products are subject to competition from existing products.

The pharmaceutical and cosmeceutical industries are subject to rapid and significant technological changes. In the development and marketing of topical prescription drugs, skin care and other products and drug delivery systems, Cellegy faces intense competition. Cellegy is much smaller in terms of size and resources than many of its competitors in the United States and abroad, which include, among others, major pharmaceutical, chemical, cosmetic, consumer product and biotechnology companies, specialized firms, universities and other research institutions. Cellegy's competitors may succeed in developing technologies and products that are more effective than any that we are developing and could render Cellegy's 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, Cellegy's products are subject to competition from existing products. For example, Cellegy's Tostrex product, if commercialized, is expected to compete with two currently marketed transdermal patch products sold by Johnson and Johnson and Watson Pharmaceuticals and one transdermal testosterone gel product marketed by Unimed/Solvay. Cellegy's Cellegesic product, if commercialized, is expected to compete with over-the-counter products, such as Preparation H marketed by American Home Products, and various other prescription products. As a result, we cannot assure you that Cellegy's products under development will be able to compete successfully with existing products or innovative products under development by other organizations.

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 two years in order to fund the additional expenses required to expand our current research and development programs and to commercialize our products once regulatory approvals have been obtained. Cellegy has no current source of significant ongoing revenues or capital beyond existing cash and investments, and certain product sales of Rectogesic in Australia and sales to Gryphon, the development subsidiary of a major specialty retailer. In order to complete the research and development and other activities necessary to commercialize our products, additional financing will be required.

Cellegy will seek private or public equity investments 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. Cellegy believes that available cash resources and interest earned, together with funding under the Ventiv agreements, will be adequate to satisfy its capital needs through at least December 31, 2002, although failure to obtain additional financing could require us to delay or reduce the scope of some of our planned research, development and sales and marketing activities.

Our stock price could be volatile.

Our stock price has from time to time experienced significant price and volume fluctuations. Sometimes our stock price has varied depending on fluctuations in the Nasdaq National Market generally, and sometimes fluctuations have resulted from matters more specific to Cellegy, such as an announcement of clinical trial or regulatory results or other corporate developments. Announcements that could significantly impact our stock price include:

- clinical trial results, such as results of Cellegesic, Tostrex or Tostrelle trials;
- developments or disputes concerning patent or proprietary rights;
- publicity or announcements regarding regulatory developments relating to our products under review or by our competitors;

- period-to-period fluctuations in our financial results, including operating expenses or profits, and

- negative announcements by our key suppliers or service providers.

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 Cellegy's products are based on existing compounds with a history of use in humans but are being developed by Cellegy for new therapeutic uses. Cellegy 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. Cellegy may not be able to prevent a competitor from using our formulations or compounds for a different purpose. Certain United States and foreign patents have previously been issued to Cellegy. However, 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 Cellegy's 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. For example, we reported in July 2001 that two oppositions had been filed with the European Patent Office regarding our European patent protecting the manufacture and use of nitroglycerin ointment and related compounds for the treatment of anal disorders, including fissures and various hemorrhoidal conditions. An adverse outcome in either opposition proceeding could have a material adverse effect on Cellegy, including marketing efforts in Europe. In addition, many other organizations are engaged in research and product development efforts in drug delivery, skin biology and cosmeceutical fields that may overlap with Cellegy's 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 Cellegy. These rights may prevent us from commercializing technology, or may require Cellegy 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. Cellegy is subject to the risk that individuals or organizations located in such countries will engage in development, marketing or sales activities of Cellegy's products.

Our product sales strategy involving corporate partners is highly uncertain.

Cellegy is seeking to enter into agreements with certain corporate partners granting rights to commercialize our lead product candidates, Cellegesic and Tostrex. Other than the agreement with Ventiv, Cellegy has not entered into any agreements with third parties to commercialize either product candidate. Cellegy may not be able to establish any such collaborative arrangements and we may not have the resources or the experience to successfully commercialize any such products on our own. Failure to enter into any such arrangements could prevent, delay or otherwise have a material adverse effect on our ability to develop and market Cellegesic, Tostrex or other products (particularly in certain international markets) that we desire to commercialize through third party arrangements. Similarly, if we are unable to find another corporate partner to develop or market our cosmeceutical products, they may never be commercialized. If we are able to enter into one or more corporate partner arrangements, we may rely on our partners to conduct clinical trials, obtain regulatory approvals and, if approved, manufacture, distribute and market or co-promote these products.

However, reliance on third party partners can create risks to our product commercialization efforts. Once agreements are completed, Cellegy 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, any arrangements that may be established may not be successful.

For example, Cellegy and Ventiv finalized a six-year services agreement and a related funding agreement to commercialize our lead product, Cellegesic. There is no guarantee that Ventiv will be able to successfully complete its funding or other obligations to Cellegy. Non-performance by Ventiv could delay the commercial introduction of

Cellegesic and delay sales of Cellegesic. Cellegy may need to seek alternative arrangements for the commercialization of the product which could have a material adverse effect on our business and our ability to commercialize Cellegesic in a timely manner.

No History of Manufacturing Products; Limited Number of Critical Suppliers.

Cellegy has no direct experience in manufacturing commercial quantities of products and currently does not have any capacity to manufacture products on a large commercial scale. We currently rely on a limited number of contract manufacturers, primarily PanGeo, and suppliers to manufacture our formulations. Although we believe that there will be 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 causing product shipment delays or a situation where the contractor may not be able to maintain compliance with the FDA's current good manufacturing practice requirements necessary to continue manufacturing our products.

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 35% securities will mature in 2002, 35% will mature in 2003 and the rest in 2004. We believe that potential near-term losses in future earnings, fair values or cash flows related to our investment portfolio are not significant.

At December 31, 2001, our investment portfolio consisted of $6,758,000 in corporate notes, $2,022,000 in government securities and $2,000,000 in commercial paper. We currently do not hedge interest rate exposure. If market interest rates were to increase by 100 basis points or 1% from December 2001 levels, the fair value of our portfolio would decline by no more than $50,000. The modeling technique used measures the change in fair value from a hypothetical shift in market interest rates.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements required by item 8 are set forth below on pages F-1 through F-20 of this report.

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 consolidated balance sheets of Cellegy Pharmaceuticals, Inc. and subsidiaries (a development stage company) as of December 31, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001, and for the period from June 26, 1989 (inception) to December 31, 2001. 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 consolidated financial position of Cellegy Pharmaceuticals, Inc. and subsidiaries (a development stage company) at December 31, 2001 and 2000 and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, and for the period from June 26, 1989 (inception) to December 31, 2001, in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP

Palo Alto, California
February 7, 2002

Cellegy Pharmaceuticals, Inc.
(a development stage company)

Consolidated Balance Sheets

	December 31, 2001	December 31, 2000
Assets		
Current assets		
Cash and cash equivalents	$ 5,795,378	$ 8,838,192
Short-term investments	4,053,280	6,470,537
Prepaid expenses and other current assets	837,344	856,076
Total current assets	10,686,002	16,164,805
Property and equipment, net	2,467,907	2,848,020
Long-term investments	6,727,240	--
Restricted cash	613,999	613,999
Intangible assets, net	1,522,266	1,531,939
Other assets	350,000	100,000
Total assets	$22,367,414	$21,258,763
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 1,893,253	$ 1,443,230
Accrued compensation and related expenses	144,614	139,073
Current portion of note payable	--	548,133
Total current liabilities	2,037,867	2,130,436
Long term liabilities	484,826	--
Non-current portion of note payable	--	333,937
Commitments:		
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, 2001 and 2000	--	--
Common stock, no par value; 25,000,000 shares authorized: 17,295,274 shares issued and outstanding at December 31, 2001 and 13,838,053 shares issued and outstanding at December 31, 2000	90,137,811	69,735,022
Accumulated other comprehensive income (loss)	83,458	(28,807)
Deficit accumulated during the development stage	(70,376,548)	(50,911,825)
Total shareholders' equity	19,844,721	18,794,390
Total liabilities and shareholders' equity	$22,367,414	$21,258,763

See accompanying notes.

Cellegy Pharmaceuticals, Inc.
(a development stage company)

Consolidated Statements of Operations

	Years ended December 31,			Period from June 26, 1989 to December 31,
	2001	2000	1999	2001
Revenues:				
Licensing and contract revenue from affiliate	$ --	$ --	$ --	$ 1,145,373
Licensing, milestone, and development funding	--	--	117,303	1,551,408
Government grants	566	71,793	29,976	502,335
Product sales	876,925	1,513,830	897,859	3,746,584
Total revenues	877,491	1,585,623	1,045,138	6,945,700
Costs and expenses:				
Cost of products sold	200,338	368,113	269,358	950,882
Research and development	14,097,746	9,574,293	7,965,477	51,214,170
Selling, general and administrative	4,041,642	3,630,616	2,612,601	20,560,749
Acquired in-process research and development	3,507,134	--	--	7,350,102
Total costs and expenses	21,846,860	13,573,022	10,847,436	80,075,903
Operating loss	(20,969,369)	(11,987,399)	(9,802,298)	(73,130,203)
Other income (expense):				
Interest expense	(27,283)	(200,689)	(362,735)	(1,476,593)
Interest income and other, net	1,531,929	769,875	863,877	5,678,753
Net loss	(19,464,723)	(11,418,213)	(9,301,156)	(68,928,043)
Non-cash preferred dividends	--	--	--	1,448,505
Net loss applicable to common shareholders	$(19,464,723)	$(11,418,213)	$ (9,301,156)	$(70,376,548)
Basic and diluted net loss per common share	$ (1.26)	$ (0.91)	$ (0.85)	
Weighted average common shares used in computing basic and diluted net loss per common share	15,502,918	12,542,232	10,913,554	

See accompanying notes.

Cellegy Pharmaceuticals, Inc.
(a development stage company)

Consolidated Statement of Shareholders' Equity

	Series A Convertible Preferred Stock		Series B Convertible Preferred Stock		Series C Convertible Preferred Stock		Common Stock	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
Issuance of convertible preferred stock, net of issuance cost through December 31, 1998	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, 1998.....	625,845	1,199,536	--	--	--	--	--	--
Issuance of convertible preferred stock for services rendered, and license agreement through December 31, 1998	50,110	173,198	--	--	--	--	--	--
Issuance of Series B convertible preferred stock in exchange for convertible promissory notes.....	--	--	12,750	114,000	--	--	--	--
Non-cash preferred dividends	--	1,448,505	--	--	--	--	--	--
Conversion of preferred stock, including dividends, to common stock through December 31, 1998.	(703,604)	(9,622,969)	(12,750)	(114,000)	(477,081)	(4,978,505)	3,014,644	14,715,474
Issuance of warrants in connection with notes payable in financing	--	--	--	--	--	--	--	487,333
Issuance of common stock in connection with private placement of common stock in July 1997, net of issuance cost	--	--	--	--	--	--	1,547,827	3,814,741
Issuance of common stock in connection with the public offering of common stock in November 1997, net of issuance cost	--	--	--	--	--	--	2,012,500	13,764,069
Issuance of common stock in connection with the acquisition of Neptune Pharmaceutical	--	--	--	--	--	--	462,809	3,842,968

	Accumulated Other Comprehensive Income (Loss)	Deficit Accumulated During the Development Stage	Total Shareholders' Equity
Issuance of convertible preferred stock, net of issuance cost through December 31, 1998	$ --	$ --	$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, 1998.....	--	--	1,199,536
Issuance of convertible preferred stock for services rendered, and license agreement through December 31, 1998	--	--	173,198
Issuance of Series B convertible preferred stock in exchange for convertible promissory notes.....	--	--	114,000

Non-cash preferred dividends	--	(1,448,505)	--
Conversion of preferred stock, including dividends, to common stock through December 31, 1998.	--	--	--
Issuance of warrants in connection with notes payable in financing	--	--	487,333
Issuance of common stock in connection with private placement of common stock in July 1997, net of issuance cost	--	--	3,814,741
Issuance of common stock in connection with the public offering of common stock in November 1997, net of issuance cost	--	--	13,764,069
Issuance of common stock in connection with the acquisition of Neptune Pharmaceutical	--	--	3,842,968

See accompanying notes

Cellegy Pharmaceuticals, Inc.
(a development stage company)

Consolidated Statement 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
Issuance of common stock in connection with IPO in August 1995	--	--	--	--	--	--
Issuance of common stock for cash through December 31, 1998.	--	--	--	--	--	--
Issuance of common stock for services rendered through December 31, 1998	--	--	--	--	--	--
Repurchase of common shares in 1992	--	--	--	--	--	--
Issuance of common stock in exchange for notes payable	--	--	--	--	--	--
Exercise of warrants to purchase common stock	--	--	--	--	--	--
Exercise of options to purchase common stock	--	--	--	--	--	--
Compensation expense related to the extension of option exercise periods	--	--	--	--	--	--
Unrealized gain on investments	--	--	--	--	--	--
Net loss for the period June 26, 1989 (inception) to December 31, 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 cost	--	--	--	--	--	--
Exercise of warrants to purchase common stock	--	--	--	--	--	--
Exercise of options to purchase common stock	--	--	--	--	--	--
Unrealized loss on investments	--	--	--	--	--	--
Net loss	--	--	--	--	--	--
Total Comprehensive Loss						

	Common Stock		Accumulated Other Comprehensive Income	Deficit Accumulated During the Development	Total Shareholders'
	Shares	Amount	(Loss)	Stage	Equity
Issuance of common stock in connection with IPO in August 1995	1,322,500	6,383,785	--	--	6,383,785
Issuance of common stock for cash through December 31, 1998	953,400	126,499	--	--	126,499
Issuance of common stock for services rendered through December 31, 1998	269,116	24,261	--	--	24,261
Repurchase of common shares in 1992	(3,586)	(324)	--	--	(324)
Issuance of common stock in exchange for notes payable	42,960	268,500	--	--	268,500
Exercise of warrants to purchase common stock	377,082	100,484	--	--	100,484

Exercise of options to purchase common stock.....	174,045	496,862	--	--	496,862
Compensation expense related to the extension of option exercise periods.....	--	338,481	--	--	338,481
Unrealized gain on investments...	--	--	47,353	--	47,353
Net loss for the period June 26, 1989 (inception) to December 31, 1998.....	--	--	--	(28,743,951)	(28,743,951)
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 cost.....	1,616,000	10,037,662	--	--	10,037,662
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.....	--	--	--	(9,301,156)	(9,301,156)
Total Comprehensive Loss.....					(9,383,980)

See accompanying notes.

Cellegy Pharmaceuticals, Inc.
(a development stage company)

Consolidated Statement 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
Balances at December 31, 1999..	--	--	--	--	--	--
Issuances of common stock in connection with the private placement of common stock in October 2000, net of issuance costs of $22,527.....	--	--	--	--	--	--
Exercise of warrants to purchase common stock.....	--	--	--	--	--	--
Exercise of options to purchase common stock.....	--	--	--	--	--	--
Fair value of warrants issued in Quay acquisition.....	--	--	--	--	--	--
Common stock issued in connection with Quay acquisition.....	--	--	--	--	--	--
Compensation expense related to warrants and options granted to non-employees....	--	--	--	--	--	--
Unrealized gain on investments.	--	--	--	--	--	--
Foreign currency translation...	--	--	--	--	--	--
Net loss.....	--	--	--	--	--	--
Total Comprehensive Loss.....	-----	-----	-----	-----	-----	-----
Balances at December 31, 2000..	--	--	--	--	--	--
Issuance of common stock in connection with the private placement of common stock in June 2001, net of issuance costs of $184,795.....	--	--	--	--	--	--
Exercise of warrants to purchase common stock.....	--	--	--	--	--	--
Exercise of options to purchase common stock.....	--	--	--	--	--	--
Common stock issued in connection with Vaxis acquisition.....	--	--	--	--	--	--
Compensation expense related to warrants and options granted to non-employees....	--	--	--	--	--	--

	Common Stock		Accumulated Other Comprehensive Income	Deficit Accumulated During the Development	Total Shareholders'
	Shares	Amount	(Loss)	Stage	Equity
Balances at December 31, 1999..	12,010,242	55,367,903	(35,471)	(39,493,612)	15,838,820
Issuances of common stock in connection with the private placement of common stock in October 2000, net of issuance costs of $22,527.....	1,500,000	11,602,473	--	--	11,602,473
Exercise of warrants to purchase common stock.....	62,833	315,800	--	--	315,800
Exercise of options to					

purchase common stock.....	95,754	380,516	--	--	380,516
Fair value of warrants issued in Quay acquisition.....	--	489,477	--	--	489,477
Common stock issued in connection with Quay acquisition.....	169,224	977,105	--	--	977,105
Compensation expense related to warrants and options granted to non-employees....	--	601,748	--	--	601,748
Unrealized gain on investments.	--	--	8,201	--	8,201
Foreign currency translation...	--	--	(1,537)	--	(1,537)
Net loss.....	--	--	--	(11,418,213)	(11,418,213)
Total Comprehensive Loss.....					(11,411,549)
Balances at December 31, 2000..	13,838,053	69,735,022	(28,807)	(50,911,825)	18,794,390
Issuance of common stock in connection with the private placement of common stock in June 2001, net of issuance costs of $184,795.....	2,747,143	15,199,206	--	--	15,199,206
Exercise of warrants to purchase common stock.....	12,000	48,000	--	--	48,000
Exercise of options to purchase common stock.....	60,803	203,437	--	--	203,437
Common stock issued in connection with Vaxi acquisition.....	533,612	3,852,630	--	--	3,852,630
Compensation expense related to warrants and options granted to non-employees....	--	349,516	--	--	349,516

See accompanying notes

Cellegy Pharmaceuticals, Inc.
(a development stage company)

Consolidated Statement 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
Issuance of common stock in connection with the achievement of Neptune milestones	---	---	---	---	---	---
Unrealized gain on investments.	---	---	---	---	---	---
Foreign currency translation...	---	---	---	---	---	---
Net loss	---	---	---	---	---	---
Total Comprehensive Loss	---	---	---	---	---	---
Balances at December 31, 2001..	--	$ --	--	$ --	--	$ --

	Common Stock		Accumulated Other Comprehensive Income	Deficit Accumulated During the Development	Total Shareholders'
	Shares	Amount	(Loss)	Stage	Equity
Issuance of common stock in connection with the achievement of Neptune milestones	104,113	750,000	---	---	750,000
Unrealized gain on investments.	---	---	130,655	---	130,655
Foreign currency translation...	---	---	(18,390)	---	(18,390)
Net loss	---	---	---	(19,464,723)	(19,464,723)
Total Comprehensive Loss	---	---	---	---	(19,352,458)
Balances at December 31, 2001..	17,295,724	$90,137,811	$ 83,458	$(70,376,548)	$ 19,844,721

See accompanying notes.

Cellegy Pharmaceuticals, Inc.
(a development stage company)

Consolidated Statements of Cash Flows

	Years ended December 31,			Period from June 26, 1989 (inception) December 31,
	2001	2000	1999	2001
Operating activities				
Net loss	$(19,464,723)	$(11,418,213)	$ (9,301,156)	$(68,928,043)
Adjustment to reconcile net loss to net cash used in operating activities:				
Acquired in-process research and development	3,507,134	--	--	7,350,102
Depreciation and amortization	530,643	502,470	428,980	1,745,088
Intangible assets amortization	358,673	298,351	--	657,024
Compensation expense related to warrants and options granted	349,516	601,748	--	951,264
Compensation expense related to the extension of option exercise periods	--	--	--	338,481
Amortization of discount on notes payable and deferred financing costs	--	--	--	24,261
Issuance of common shares for services	--	--	--	990,918
Issuance of common stock for services rendered, interest, and Neptune milestones	750,000	--	--	567,503
Changes in operating assets and liabilities:				
Prepaid expenses and other current assets	18,732	70,250	407,068	(937,344)
Accounts payable and accrued liabilities	450,173	729,227	(931,685)	1,893,403
Other long term liabilities	484,826	--	(250,000)	484,826
Accrued compensation and related expenses	5,541	32,850	37,126	144,614
Net cash used in operating activities	(13,009,635)	(9,183,317)	(9,609,667)	(54,718,053)
Investing activities				
Purchases of property and equipment	(232,018)	(201,106)	(747,556)	(4,104,245)
Purchases of investments	(16,789,905)	(10,575,000)	(19,947,556)	(87,890,354)
Sales of investments	7,500,000	9,549,557	8,525,450	31,468,877
Maturities of investments	4,980,239	10,500,000	9,015,000	45,617,759
Acquisitions of Vaxis & Quay, net of cash provided to (acquired)	(142,456)	(369,000)	--	(511,456)
Net cash (used in) provided by investing activities	(4,602,652)	8,904,451	(3,154,662)	(15,419,419)
Financing activities				
Proceeds from notes payable	$ --	$ --	$ 1,279,187	$ 8,047,424
Repayment of notes payable	(880,070)	(3,152,828)	(465,102)	(6,610,608)
Other long-term liabilities	--	(218,993)	138,737)	--
Net proceeds from issuance of common stock	15,450,643	12,298,789	11,004,770	63,431,568
Other assets	--	(613,999)	--	(613,999)
Issuance of convertible preferred stock, net of issuance costs	--	--	--	11,757,735
Deferred financing costs	--	--	--	(80,170)
Net cash provided by financing activities	14,568,573	8,312,969	11,957,592	75,931,950
Net decrease in cash and cash equivalents	(3,043,714)	8,034,103	(806,737)	$ 5,795,378
Cash and cash equivalents, beginning of period	8,838,192	804,089	1,610,826	--
Cash and cash equivalents, end of period	$ 5,795,378	$ 8,838,192	$ 804,089	$ 5,795,378

Cellegy Pharmaceuticals, Inc.
(a development stage company)

Consolidated Statements of Cash Flows (Continued)

	2001	2000	1999	Period from June 26, 1989 through December 31, 2001
Supplemental cash flow information				
Interest Paid	$ 27,281	$ 200,689	$ 362,735	$ 612,851
Supplemental disclosure of non-cash transactions:				
Issuance of common stock in connection with acquired-in-process technology	$ 3,507,134	$ --	$ --	$ 7,350,102
Conversion of preferred stock to common stock	$ --	$ --	$ --	$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 payable	$ --	$ --	$ --	$ 1,268,316
Issuance of common stock for milestone payments	$ 750,000	$ --	$ --	$ 750,000

See accompanying notes.

Notes to Consolidated Financial Statements

1. Accounting Policies

Description of Business and Principles of Consolidation

The consolidated financial statements include the accounts of Cellegy Pharmaceuticals, Inc. and its subsidiaries (the "Company"). All significant inter-company balances and transactions have been eliminated in consolidation.

The Company was incorporated in California in June 1989 and is a development stage company. Since its inception, the Company has engaged primarily in research and clinical development activities associated with its current and potential future products and its transdermal drug delivery and topical formulation expertise. The Company has conducted a number of clinical trials using its products, including the preparation of manufactured clinical materials. A number of sponsored, external research programs have been undertaken.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States 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.

Revenue Recognition 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 product sales are recognized upon shipment when title to goods has been transferred to the customer. There is no right of return for product sales. Receivables are collected within thirty days of shipment.

Research and development costs are expensed as incurred. The type of costs included in research and development expenses include salaries and benefits, laboratory supplies, external research programs, clinical studies and allocated costs such as rent, supplies and utilities.

Clinical trial expenses are payable to clinical sites and clinical research organizations. Expenses for both of these groups are accrued on a straight-line basis over the contracted period subject to adjustment for actual activity based on such factors as the number of subjects enrolled and number of subjects that have completed treatment for each trial. A monthly reconciliation of costs accrued to cost incurred is performed by Cellegy's clinical project managers and the finance department.

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, 2001 and 2000. The Company considers all its investments as available-for-sale and reports these investments at estimated fair market value using available market information. Unrealized gains or losses on available-for-sale securities are included in shareholders' equity as other comprehensive income (loss) 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.

The Company is subject to credit risk from its portfolio of marketable securities. By policy, the Company restricts amounts invested in such securities by investment type and by issuer except for securities issued by the U.S. government.

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. Amortization for leasehold improvements is taken over the shorter of the estimated useful life of the asset or the remaining lease term.

Goodwill

Goodwill that is related to the purchase of Quay Pharmaceuticals in June 2000, included in intangible assets, represents the excess purchase price over the fair value of net assets acquired which was being amortized over 10 years using the straight-line method. The carrying value of goodwill is based on management's current assessment of recoverability using objective and subjective factors.

Amortization taken to date as of December 31, 2001 was approximately $652,000. Effective January 1, 2002, the Company will no longer amortize the remaining balance of goodwill of $814,400 but will assess goodwill, at least annually, for impairment. (see New Accounting Standards below).

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 25") and related Interpretations. The Company has elected to follow the disclosure-only alternative prescribed by Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("FAS 123"). Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. Compensation for options granted to non-employees has been determined in accordance with FAS 123 at the fair value of the equity instruments issued.

Foreign Currency Translation

The foreign subsidiaries functional currencies are their local currencies. The gains and losses resulting from translating the foreign subsidiaries' financial statements into US dollars have been reported in other comprehensive income (loss).

Comprehensive Income (Loss)

Comprehensive income (loss) consists of net loss and other comprehensive income (loss). Accumulated other comprehensive income (loss) presented in the consolidated balance sheets consists of the accumulated net unrealized gain (loss) on available-for-sale investments and foreign currency translation adjustments.

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 are anti-dilutive. The total number of shares excluded was 5,041,375, 5,232,337 and 5,386,830 for the years ended December 31, 2001, 2000 and 1999, respectively.

New Accounting Standards

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141, "Business Combinations" ("Statement 141"). This Statement addresses financial accounting and reporting for business combinations. Statement 141 supersedes APB Opinion No. 16, Business Combinations (Opinion 16), and amends or supersedes a number of interpretations of that Opinion.

Statement 141 requires that (1) all business combinations be accounted for by a single method - the purchase method, (2) all intangible assets acquired in a business combination are to be recognized as assets apart from goodwill if they meet one of two criteria - the contractual-legal criterion or the separability criterion and (3) in addition to the disclosure requirements in Opinion 16, disclosure of the primary reasons for a business combination and the allocation of the purchase price paid to the assets acquired and liabilities assumed by major balance sheet caption. When the amounts of goodwill and intangible assets acquired are significant in relation to the purchase price paid, disclosure of other information about those assets is required, such as the amount of goodwill by reportable segment and the amount

of the purchase price assigned to each major intangible asset class. The provisions of Statement 141 apply to all business combinations initiated after June 30, 2001. The Company adopted the provisions of Statement 141 as of July 1, 2001 for its Vaxis acquisition.

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangibles" ("Statement 142"). Under Statement 142, goodwill and indefinite lived intangible assets are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their estimated useful lives. Cellegy had recorded goodwill prior to December 31, 2001 related to the Quay acquisition. The adoption of this statement as of January 1, 2002 will decrease amortization expense by approximately $97,000 per year for 2002 through 2009 as that goodwill will no longer be amortized.

In October 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("Statement 144"), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. Statement 144 is effective for fiscal years beginning after January 1, 2002. The Company adopted Statement 144 as of January 1, 2002 and it does not expect that the adoption of the Statement will have a significant impact on the Company's financial position and results of operations.

Reclassification

Certain prior year balances have been reclassified for comparative purposes.

2. Investments

At December 31, 2001 and 2000, investments consist of the following:

	2001			2000		
	Cost	Gross Unrealized Gains	Estimated Fair Value	Cost	Gross Unrealized Gains	Estimated Fair Value
Corporate notes.....	$ 6,678,378	$ 79,642	$ 6,758,020	$ 999,836	$ (8,879)	$ 990,957
U.S. government notes...	2,000,000	22,500	2,022,500	1,997,971	(18,391)	1,979,580
Commercial paper.....	2,000,000	--	2,000,000	3,500,000	--	3,500,000
	$10,678,378	$ 102,142	$10,780,520	$ 6,497,807	$ (27,270)	$6,470,537

There have been no significant gross realized gains or losses on the sale of available-for-sale securities for the years ended December 31, 2001 and 2000. All available-for-sale securities at December 31, 2001 have maturities between twelve months through thirty six months from the balance sheet date.

3. Property and Equipment

Property and equipment consist of the following:

	December 31, 2001	2000
Furniture and fixtures	$ 178,926	$ 175,271
Office equipment	242,233	173,419
Laboratory equipment	742,882	662,506
Leasehold improvements	2,917,075	2,919,390
	4,081,116	3,930,586
Less accumulated depreciation and amortization	(1,613,209)	(1,082,566)
	$ 2,467,907	$ 2,848,020

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 rates equal to the bank's prime rate plus one percentage point. The Company was 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 $2.5 million at an interest rate equal to the bank's prime rate plus 0.75%. 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 approximated its fair value. As of December 31, 2001, the note payable was fully repaid.

5. Lease Commitments

The Company leases its facilities and certain equipment under non-cancelable operating leases. Future minimum lease payments, net of future minimum sublease income at December 31, 2001, are as follows:

Years ending December 31,	Lease Commitments
2002	1,487,927
2003	1,595,976
2004	1,726,431
2005	1,885,690
2006	2,082,131
Thereafter	4,990,577
	$13,768,732

Rental expense, net of sublease income, was $1,653,337, $1,817,427, and $1,815,502 for the years ended December 31, 2001, 2000, and 1999, respectively. The Company received $896,896 in sublease income during the year ended December 31, 2001.

Restricted cash at December 31, 2001 and 2000 was approximately $614,000 and secures two letters of credit related to our leases.

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% of the employee's annual salary. Expenses related to the plan for the years ended December 31, 2001, 2000 and 1999 were not significant.

7. Acquisitions, Licenses and Other Agreements

Acquisitions

In December 1997, the Company acquired patent and related intellectual property rights relating to Cellegesic (the "Agreement"), a topical product candidate for the treatment of anal fissures and hemorrhoids from Neptune Pharmaceuticals Corporation ("Neptune"). 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. The Agreement calls for a series of additional payments, payable in shares of common stock, upon successful completion of various development milestones. Upon completion of milestones in 2001, the Company issued 104,113 shares of common stock valued at $750,000 which has been recorded to research and development expenses. The remaining milestones, if achieved, would become payable over the next several years. Depending on several factors, including the market price of the common stock, such payments, which are fixed based on the Agreement, could result in the issuance of a significant number of shares of common stock. Future potential milestones payable in Cellegy common stock could result in the issuance of up to an additional 1,284,000 shares of Cellegy common stock based worth up to approximately $9,750,000, on the closing price of Cellegy stock at time of issuance. The Agreement does not provide for the payment by the Company of any future product royalties in connection with sales of Cellegesic.

In June 2000, Cellegy acquired all assets of Quay Pharmaceuticals Pty Ltd ("Quay"), an Australian pharmaceutical company producing Rectogesic, a drug similar to Cellegesic. The acquired assets consisted of Quay's inventory, purchased at Quay's cost at the time of acquisition, other tangible assets and purchased technology. The aggregate purchase price of $1,835,000 included the aggregate value of the 169,224 shares of Cellegy common stock issued to Quay with a value of $977,000, warrants to purchase 171,146 shares of common stock with a fair value of $489,000, and cash payments of $369,000. The purchase price was allocated to the net tangible assets of $97,000, purchased technology of $770,000, and goodwill of $968,000, based on their estimated fair values on the acquisition date. Purchased technology and goodwill were being amortized over three and ten years, respectively. Following the adoption of FAS 142, the goodwill will no longer be amortized as of January 1, 2002. This transaction has been accounted for by the purchase method of accounting and accordingly, the approximated purchase price, shown above, has been allocated to the net assets acquired and the liabilities assumed based on the estimated fair values at the date of acquisition, with the excess of the purchase price over assigned asset values recorded as goodwill. The results of operating the acquired company have been included in the Company's consolidated financial statements since the acquisition date.

On November 27, 2001, Cellegy acquired Vaxis Therapeutics, a private Canadian company. Vaxis, renamed Cellegy Canada, is a small early stage research and development entity with access to pre-eminent scientists in the areas of sexual dysfunction, peripheral vascular disorders and nitric oxide pharmacology. The acquisition of this research is in line with the Company's goal of expanding its pipeline of products and protecting its patents. The purchase price of $4.1 million consisted of 533,612 shares of common stock and $142,000 in cash. The purchase price was allocated as follows: $350,000 to intangible assets, $250,000 to tangible assets and $3,500,000 to acquired in-process research and development. The acquired technology was in an early stage of development that, as of the acquisition date, technological feasibility had not been reached and no alternative use existed. The assumptions used in determining the purchase price allocation was a discount rate of 37% on probability of expected cash flows. The intangible assets will be amortized over 5 years, the period of contractual obligation.

The Vaxis purchase agreement contains earn-out provisions for seven years that are based on commercial sales of any products developed by the Company or other revenues generated from the acquired research. Any contingent consideration paid in the future will be accounted for as a cost of earning the related revenues. The results of operations of the acquired company have been included in the Company's consolidated financial statements since the acquisition date.

Accumulated amortization of the Vaxis intangible assets at December 31, 2001 was $6,000. The expected amortization expense for the next five years will be approximately $68,800 per year.

Other Agreements

In October 1993, Cellegy entered into a license agreement with the University of California 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 University and Cellegy, in consideration of the issuance to the University 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, Cellegy entered into an exclusive, worldwide, royalty bearing license agreement with the University for patent rights, jointly held by the University of California and Cellegy, relating to certain 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. The Company is currently in the process of terminating the exclusive license for patent rights relating to drug delivery technologies. Following the termination, each of the joint owners of the patent

rights will retain non-exclusive rights to the patents. The termination of these licenses reflects, in part, a shift towards development of products from the Company's own research efforts in areas believed to have the potential to be more commercially viable.

In August 2001, Cellegy announced a comprehensive agreement with Ventiv Integrated Solutions, a division of Ventiv Health, Inc. ("Ventiv"), a contract sales organization. Under the control and direction of Cellegy, Ventiv will provide certain sales and marketing

services relating to the anticipated launch of Cellegesic, including a sales force of approximately 75 representatives. Ventiv will advance up to $10 million, the amount and timing depending on various circumstances, to Cellegy to cover pre-launch and launch expenses. In return, the agreement provides Ventiv with a share of Cellegesic profits with Cellegy retaining more than 80% of product operating profit over the six-year life of the agreement. Activity under the agreement was minimal through December 31, 2001.

9. Shareholders' Equity

Common Stock Private Placements

In July 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.

In October 2000, Cellegy completed a private placement of 1,500,000 shares of common stock at a price of $7.75 to a group of institutional investors. Net proceeds were $11,602,473.

In June 2001, we completed a private placement of approximately 2,700,000 million shares of common stock at a price of $5.60. Participants included two current investors, Baker/Tisch Investments and GMT Capital, as well as, five new investors. Net proceeds were $15,199,206.

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.

Stock Option Plans

In 1995, Cellegy 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, Cellegy reserved 700,000 shares for issuance. From 1996 to 2001, an additional 2,750,000 shares were reserved for issuance under the Plan.

Activity under the Plan is summarized as follows:

	Shares Under Option	Exercise Price Range Per Share	Weighted Average Exercise Price
Balance at January 1, 1999...	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)	$0.50 - $7.25	$4.57
Balance at December 31, 1999.	2,187,763	$0.50 - $8.81	$4.82
Granted.....	191,350	$3.31 - $9.00	$6.21
Canceled.....	(132,718)	$3.00 - $9.00	$5.35
Exercised.....	(95,754)	$1.81 - $6.25	$3.97
Balance at December 31, 2000.	2,150,641	$0.50 - $9.00	$5.00
Granted.....	476,000	$4.56 - $15.00	$7.96

Canceled.....	(123,634)	$3.69 - $7.87	$5.71
Exercised.....	(60,803)	$1.81 - $4.62	$3.35
Balance at December 31, 2001.	2,442,204	$0.50 - $15.00	$5.59

At December 31, 2001, options to purchase 1,576,834 shares of common stock were vested and exercisable at exercise prices ranging from $0.46 to $15.00 per share. At December 31, 2001, 519,638 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, 2001:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Outstanding at December 31, 2001	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable at December 31, 2001	Weighted Average Exercise Price
$0.46 - $3.88....	824,424	6.7 years	$3.55	625,358	$3.49
$4.00 - $6.99....	1,007,180	6.7 years	$5.50	565,701	$5.20
$7.00 - $15.00....	610,600	7.3 years	$8.49	385,775	$7.50
Total	2,442,204	6.9 years	$5.59	1,576,834	$5.08

Director's Stock Option Plan

In 1995, Cellegy adopted the 1995 Directors' Stock Option Plan (the "Directors' Plan") to provide for the issuance of non-qualified stock options to eligible outside Directors. When the plan was established, Cellegy reserved 150,000 shares for issuance. During 2000, Cellegy reserved an additional 100,000 shares for issuance under the Directors' Plan.

Activity under the Directors' Plan is summarized as follows:

	Shares Under Option	Price Range Per Share	Weighted Average Exercise Price
Balance at January 1, 1999.....	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
Granted.....	70,000	$4.81	$4.81
Balance at December 31, 2000.....	182,500	$3.25 - $8.50	$5.01
Granted.....	46,000	$5.50 - $6.50	$5.85
Balance at December 31, 2001.....	228,500	$3.25 - $8.50	$7.26

At December 31, 2001, options to purchase 134,999 shares of common stock were vested and exercisable at exercise prices ranging from $3.25 to $8.50 per share. At December 31, 2001, options to purchase 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, 2001:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Outstanding at December 31, 2001	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable at December 31, 2001	Weighted Average Exercise Price
$3.25.....	4,000	5.3 years	$3.25	4,000	$3.25
$4.50 - $5.50.....	206,500	7.1 years	$5.08	129,999	$5.07
$6.50 - $8.50.....	18,000	8.9 years	$6.72	1,000	$8.50
Total	228,500	7.3 years	$5.18	134,999	$5.04

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 related to employee or director grants.

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 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 valuation model.

The Company valued its options using the following weighted average assumptions for the years ended December 31, 2001, 2000 and 1999:

	2001	2000	1999
Risk-free interest rate.....	3.5%	6.00%	5.54%
Dividend yield.....	0%	0%	0%
Volatility.....	0.60	0.91	0.83
Expected life of options in years.....	4.3	4.3	3.7

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 for the years ended December 31 are as follows:

	2001	2000	1999
Net loss as reported.....	$ (19,464,723)	$ (11,418,213)	$ (9,301,156)
Pro forma net loss.....	$ (22,152,474)	$ (13,105,202)	$ (10,612,716)
Basic and diluted net loss as reported.....	$ (1.43)	$ (0.91)	$ (0.85)
Pro forma basic and diluted net loss per share applicable to common shareholders..	$ (1.26)	$ (1.04)	$ (0.97)

The weighted average grant date fair value of options granted during the years ended December 31, 2001, 2000, and 1999 was $5.33, $4.30 and $2.47, respectively. The weighted average remaining contractual life of those options is 6.8 years, 7.2 years and 8.1 years during the years ended December 31, 2001, 2000 and 1999, 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, 2001, the Company has reserved shares of common stock for future issuance as follows:

Warrants	635,700
Stock Option Plans	3,191,175
Neptune Agreement	1,285,000
Total	5,041,375

10. Income Taxes

At December 31, 2001 the Company had net operating loss carryforwards of approximately $58,000,000 and $10,000,000 for federal and state purposes, respectively. The federal net operating loss carryforwards expire between the years 2004 and 2021. The state net operating loss carryforwards expire between the years 2002 and 2005. At December 31, 2001, the Company also had research and development credit carryforwards of approximately $1,300,000 and $900,000 for federal and state purposes, respectively. The federal credits expire between the years 2006 and 2021. 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, 2001	December 31, 2000
Deferred tax assets:		
Net operating loss carryforwards	$ 20,200,000	$ 15,400,000
Credit carryforwards	1,900,000	1,600,000
Capitalized intangibles	1,800,000	1,200,000
Other, net	300,000	400,000
Total deferred tax assets	24,200,000	18,600,000
Valuation allowance	(24,200,000)	(18,600,000)
Net deferred tax assets	$ ---	$ ---

The valuation allowance for deferred tax assets for 2001, 2000, and 1999 increased by approximately $5,700,000, $3,500,000, and $3,800,000, respectively.

11. Segment Reporting

The Company has two business segments: pharmaceuticals and cosmeceuticals. Pharmaceuticals include primarily research and clinical development expenses for potential prescription products to be marketed directly by Cellegy or through corporate partners. Current pharmaceutical revenues consist primarily of Rectogesic sales in Australia. 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 one of the company's products, exclusively in the United States, through a major specialty retailer.

Cellegy allocates its revenues and operating expenses to each business segment, but does not assess segment performance or allocate resources based on a segment's assets and, therefore, asset depreciation and amortization and capital expenditures 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 a more 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, 2001, 2000, and 1999:

	Years ended December 31,		
	2001	2000	1999
Revenues:			
Pharmaceuticals.....	$ 217,439	$ 196,434	$ 147,279
Cosmeceuticals.....	660,052	1,389,189	897,859
	$ 877,491	$ 1,585,623	$ 1,045,138
Operating Income (Loss):			
Pharmaceuticals.....	$(21,021,796)	$(13,114,538)	$(9,888,212)
Cosmeceuticals.....	52,427	1,127,139	85,914
	$(20,969,369)	$(11,987,399)	$(9,802,298)

Revenue from Major Customer

Revenues from product sales to one customer represented approximately 75%, 88%, and 86% of consolidated revenue for 2001, 2000 and 1999, respectively.

Total assets were minimal for the cosmeceutical segment.

Geographic data

Approximately 25% of our total revenues are from sales of Rectogesic in Australia. All other sales are in the United States.

12. Related Party Transactions

We have paid fees to the Company's board members for their services on the board, audit committee and compensation committee. The total fees paid to these directors during 2001, 2000 and 1999 were $30,000, $46,500 amd $57,750, respectively.

Additional consulting fees were paid to two board members based on a consulting agreement. These were $80,000 and $66,000 for 2001 and 2000, respectively.

We have also recognized $100,888 in compensation expense during 2001 for a consulting agreement with a current board member. The Company issued stock options to this board member for his consulting services.

13. Quarterly Financial Data (unaudited)
(amounts in thousands except per share data)

2001	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Total revenue.....	$ 41	$ 53	$ 265	$ 518	$ 877
Operating loss.....	(4,206)	(4,352)	(4,182)	(8,229)	(20,969)
Net loss.....	(3,777)	(4,156)	(3,871)	(7,661)	(19,465)
Basic & diluted net loss per common share.....	$ (0.27)	$ (0.29)	$ (0.23)	$ (0.47)	$ (1.26)

2000	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Total revenue	$ 530	$ 132	$ 626	$ 298	$ 1,586
Operating loss	(1,981)	(2,894)	(3,122)	(3,990)	(11,987)
Net loss	(1,915)	(2,690)	(3,059)	(3,754)	(11,418)
Basic & diluted net loss per common share	$ (0.16)	$ (0.22)	$ (0.25)	$ (0.28)	$ (0.91)

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 (the "2002 Proxy Statement") to be delivered to shareholders in connection with the Annual Meeting of Shareholders expected to be held on June 5, 2002. 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 2002 Proxy Statement and 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 2002 Proxy Statement and 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 2002 Proxy Statement and is incorporated herein by reference.

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 file no. 333-46087 on February 11, 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.)
10.1	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.)
*10.2	1992 Stock Option Plan. (Incorporated by reference to Exhibit 10.12 to the SB-2.)
10.5	Warrant Agreement dated as of February 10, 1995. (Incorporated by reference to Exhibit 10.15 to the SB-2.)
10.6	Agency Agreement dated as of February 10, 1995. (Incorporated by reference to Exhibit 10.16 to the SB-2.)
*10.7	1995 Equity Incentive Plan (Incorporated by reference to Exhibit 10.17 to the Annual Report on Form 10-KSB for the year ended December 31, 1995 (the "1995 Form 10-KSB").)
*10.8	1995 Directors' Stock Option Plan (Incorporated by reference to Exhibit 10.18 to the 1995 Form 10-KSB.)
10.9	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.)
10.10	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.)
*10.11	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".)
10.12	Services Agreement dated as of August 10, 2001 by and among the Company, Ventiv Health Inc. and VIS Financial LLC. (Confidential treatment has been requested with respect to portions of this agreement.)
10.13	Funding Arrangement dated August 10, 2001 by and among the Company, Ventiv Health Inc. and VIS Financial LLC. (Confidential treatment has been requested with respect to portions of this agreement.)
10.14	Share Purchase Agreement dated as of November 27, 2001, by and among the Company, Vaxis Therapeutics Corporation and certain stockholders of Vaxis.

23.1 Consent of Ernst & Young LLP, Independent Auditors.

24.1 Power of Attorney (See signature page.)

27.1 Financial Data Schedule.

* Represents a management contract or compensatory plan or arrangement.

(b) Reports on Form 8-K

One report on Form 8-K was filed by Cellegy on January 3, 2002 announcing our acquisition of Vaxis Therapeutics and our submission of the NDA supplement with the FDA in December 2001.

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(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 12th of March, 2002.

CELLEGY PHARMACEUTICALS, INC.

By: /s/ K. Michael Forrest

K. Michael Forrest
Chairman, President and Chief
Executive Officer

Power of Attorney

Each person whose signature appears below constitutes and appoints each of K. Michael Forrest and A. Richard Juelis, 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	Chairman, President, Chief Executive Officer	March 12, 2002
Principal Financial Officer and Principal Accounting Officer:		
/s/ A. Richard Juelis A. Richard Juelis	Vice President, Finance, Chief Financial Officer and Secretary	March 12, 2002
Directors:		
/s/ Carl R. Thornfeldt Carl R. Thornfeldt, M.D.	Director	March 12, 2002
/s/ Jack L. Bowman Jack L. Bowman	Director	March 12, 2002
/s/ Felix J. Baker Felix J. Baker, Ph.D.	Director	March 12, 2002
/s/ Julian C. Baker Julian C. Baker	Director	March 12, 2002
/s/ Tobi B. Klar Tobi B. Klar, M.D.	Director	March 12, 2002
/s/ Ronald J. Saldarini Ronald J. Saldarini, Ph.D.	Director	March 12, 2002
/s/ Alan A. Steigrod Alan A. Steigrod	Director	March 12, 2002
/s/ Larry J. Wells Larry J. Wells	Director	March 12, 2002

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

EXHIBITS

to

Form 10-K

Under

THE SECURITIES EXCHANGE ACT OF 1934

CELLEGY PHARMACEUTICALS, INC.

Exhibit 10.12

CONFIDENTIAL TREATMENT REQUESTED

SERVICES AGREEMENT

THIS SERVICES AGREEMENT (this "Agreement") dated as of August 10, 2001 (the "Effective Date"), is entered into by and between CELLEGY PHARMACEUTICALS, INC., a California corporation, having a place of business at 349 Oyster Point Boulevard, Suite 200, South San Francisco, California 94080 ("Cellegy"), VENTIV HEALTH, INC., a Delaware corporation, having a place of business at 1114 Avenue of the Americas, New York, New York 10036 ("Ventiv") and VIS FINANCIAL LLC, a Delaware limited liability company and a wholly owned subsidiary of Ventiv, having a place of business at 1114 Avenue of the Americas, New York, New York 10036 ("VFLLC"); Cellegy and Ventiv being referred to collectively as the "Parties" and each, individually, as a "Party".

RECITALS

WHEREAS, Cellegy is a specialty biopharmaceutical company engaged in the development of prescription drugs and skin care products; and

WHEREAS, Ventiv is a leading provider of outsourced sales and marketing services to the healthcare and pharmaceutical industries; and

WHEREAS, Ventiv has agreed to provide, or cause its Affiliates to provide, a combination of sales, marketing and analytical services, on the terms and conditions set forth herein, together with funding for such services, to Cellegy in connection with Cellegy's Anogesic(R) product (the "Product"), in exchange for a certain percentage of the revenues generated from the sale of the Product;

NOW, THEREFORE, in exchange for the mutual covenants and promises set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows:

SECTION 1 Definitions.

(a) Certain terms used but not otherwise defined in this Agreement shall have the following meanings:

"Additional Products" shall mean those pharmaceutical products approved by the FDA, other than the Product, that a Party shall in good faith determine would be economically beneficial to both Parties if introduced to the Product Detail Team for marketing in the Territory.

"Affiliate" shall mean, with respect to any given Person, any other Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such Person. The term "control" (including, with correlative meaning, the terms "controlled by" and "under common control with"), as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise.

"Approval Date" shall mean the date on which Cellegy obtains all necessary Governmental Body approvals for the sale of the Product in the Territory.

"Business Day" shall refer to a day, other than a Saturday or a Sunday, on which commercial banks are not required or authorized to close in the city of New York.

"Call Notice" shall mean the written notice delivered to Cellegy upon the occurrence of any Call Event, pursuant to which the Funding Arrangement (or a specified percentage thereof) shall become immediately due and payable in accordance with the terms of Section 6(d) of this Agreement.

"Change of Control" shall mean, with respect to any Person, the occurrence of any of the following events: (a) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) that is not currently a shareholder of the Person as of the date of this Agreement, is or becomes the beneficial owner (as defined in Rules 13d-3 and 13d-5 under the Exchange Act, except that for the purposes of this definition such person or group shall be deemed to have "beneficial ownership" of all shares that any such person or group has the right to acquire, whether such right is exercisable immediately or only after the passage of time), directly or indirectly, of more than 50% of the total voting power of the capital stock of such Person; provided, however, that a Person shall not be deemed to have undergone a Change of Control in the event that pursuant to any such transaction, a person or group who owned a majority of the total voting power of the capital stock of such Person immediately prior to the consummation of such transaction shall continue to hold a majority of the total voting power of the capital stock immediately following the consummation of such transaction; (b) during any period of two consecutive years, individuals who at the beginning of such period constituted the board of directors (together with any new directors whose election by such board of directors or whose nomination for election by the shareholders of such Person was approved by a majority vote of the directors of such Person then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the board of directors of such Person then in office; or (c) the merger or consolidation of such Person with or into another person or the merger of another person with or into such Person or the sale of all or substantially all of the assets of such Person to another person, and, in the case of any such merger or consolidation, where the shareholders of the Person immediately before

the transaction do not, immediately after the transaction and as the result of securities received by them as a result of the transaction, hold at least a majority of the voting power of the securities of the surviving or acquiring entity (or its parent).

"Commercialization Funding" shall mean the funding in the aggregate amount of up to $10,000,000, together with simple interest thereon, to be provided to Cellegy by VFLLC in connection with the transactions contemplated hereby.

"Contribution Margin" shall mean *, less (a) ** and (b) ** for the applicable period.

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"Economic Value" shall mean *.

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

"Governmental Body" shall mean any supranational body or regulatory body or successor thereof; any country, government or governmental or regulatory body thereof or successor thereto, or political subdivision thereof or successor thereto, whether federal, state, local or foreign; any agency, instrumentality or authority of any supranational body, country or government; or any court of competent jurisdiction.

"Impaired Labeling" shall mean any material adverse change to the proposed label information for "indications", "dosage and administration", "contraindications", "directions for use" or "adverse reactions" contained in Cellegy's New Drug Application for the Product dated June 26, 2001, which one of the Parties reasonably expects will have a Material Adverse Impact on the Economic Value.

"Launch Date" shall mean the date on which the Parties begin to actively market the Product to physicians and end-users, provided that such date shall be no earlier than the Approval Date.

"Law" shall mean any federal, state, local or foreign law (including common law), constitution, statute, code, ordinance, rule, regulation, executive order, decree, governmental edict or other requirement.

"Major Change" shall mean, with respect to a quantity, an increase or decrease of at least * from such quantity over any given three month period.

"Manufacturing Costs" shall mean the variable costs and expenses associated with the manufacture of the Product including the costs and expenses of sourcing and warehousing of raw and packaging materials, incoming and outgoing quality control, and other procedures, or any part thereof, involved in making and packaging the Product, all in accordance with good manufacturing practices.

"Material Adverse Impact" shall mean, with respect to a quantity, a decrease of * or more from such quantity over the applicable period.

"Net Sales" means the gross dollar amounts earned by Cellegy (or any sublicensee, affiliate, subsidiary or other related entity of Cellegy) from or on account of sales of the Product in the Territory to any independent third party, less, to the extent included in such gross dollar amount, the aggregate of the following amounts: (i) discounts, including cash discounts, off-invoice allowances taken by customers of Cellegy, or rebates actually allowed or granted, provided that Cellegy does not receive any payments or other consideration for such discounts, off-invoice allowances or rebates; (ii) reasonable credits or allowances actually granted by Cellegy upon claims or returns; and (iii) sales and use taxes, freight, freight insurance and other governmental charges. For sake of clarity, the Parties acknowledge that the costs and expenses described in clauses (i), (ii) and (iii) are not expected to exceed * of gross revenues with respect to the Product.

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"Person" shall mean any individual, corporation, company, partnership (limited or general), joint venture, limited liability company, association, trust, Governmental Body or other entity.

"Product Budget" shall mean the monthly budget for all (a) revenues to be earned and (b) costs and expenses to be incurred, by the Parties in connection with the marketing of the Product.

"Product Detail Team" shall mean the group of individuals employed from time to time by Ventiv or its Affiliates, or, subsequent to an Early Conversion, employed from time to time by Cellegy or its Affiliates, which shall be responsible for the marketing and sale of the Product to physicians and end-users.

"Product Marketing Expenses" shall mean the direct costs and expenses associated with the Services.

"Product Operating Income (Loss)" shall mean Product Revenues less (i) Manufacturing Costs, (ii) Product Market Expenses and (iii) any other advertising, marketing and distribution expenses directly related to the Product, either as incorporated into the approved Product Budget or as actually incurred, as appropriate.

"Product Price" shall mean the average wholesale price of the Product.

"Product Quality Complaint" shall mean any complaint that questions the purity, identity, potency or quality of the Product, its packaging, or labeling, or any complaint that concerns any incident that causes Product or its labeling to be mistaken for, or applied to, another article or any bacteriological contamination, or any significant chemical, physical, or other change or deterioration in the Product, or any failure of one or more distributed batches of the Product to meet the specifications thereof in the New Drug Application for the Product.

"Product Revenues" shall mean all Net Sales generated from the sale of the Product at the point of distribution in the Territory from the Product manufacturer, based upon gross wholesale invoices.

"Product Samples" shall mean samples of the Product of equal strength and lesser quantity (e.g., * gram tubes) than the actual Product.

"Territory" shall mean the fifty states of the United States of America. For sake of clarity and avoidance of doubt, Puerto Rico and U.S. territories and possessions are excluded from the definition of "Territory".

"Ventiv Competitor" shall mean those entities listed on Schedule C attached hereto.

(b) Each of the terms set forth below shall have the meaning ascribed thereto in the following sections:

"Agreement".....Preamble
"Auditor".....ss.6(h)

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"Call Event".....ss. 6(d)
"Cellegy".....Preamble
"Cellegy Party".....ss.14(b)
"Claim".....ss.16(b)
"Confidential Information".....ss.12(a)
"Conversion".....ss.7(c)
"Default Conversion".....ss.7(c)
"Disclosing Party".....ss.12(a)
"Dispute".....ss.5(c)
"Early Conversion".....ss.7(a)
"Effective Date".....Preamble
"FDA".....ss.3(c)
"Final Decision".....ss.5(c)
"Force Majeure".....ss.20
"Funding Arrangement".....ss.6(c)
"Indemnitee".....ss.14(c)
"Indemnitor".....ss.14(c)
"Initial Term".....ss.15(a)
"Introducing Party".....ss.9(b)
"Mandatory Conversion".....ss.7(b)
"Party" or "Parties".....Preamble
"Product".....Recitals
"Product Committee".....ss.5(b)
"Recipient".....ss.12(a)
"Renewal Term".....ss.15(a)
"Services".....ss.2(a)
"Steering Committee".....ss.5(a)
"Supplemental Interest".....ss.6(f)
"Term".....ss.15(a)
"Tranche I Amount".....ss.6(b)
"Tranche II Amount".....ss.6(b)
"Tranche III Amount".....ss.6(b)
"Ventiv".....Preamble
"Ventiv Party".....ss.14(a)
"VFLLC".....Preamble

Interpretation. As used in this Agreement, neutral pronouns and any variations thereof shall be deemed to include the feminine and masculine and all terms used in the singular shall be deemed to include the plural, and vice versa, as the context may require. The words "herein," "hereof," and "hereunder" and other works of similar import refer to this Agreement as a whole, including the schedules and exhibits hereto, as the same may from time to time be amended or supplemented and not to any subdivision contained in this Agreement. The word "including" when used herein is not intended to be exclusive and means "including, without limitation".

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SECTION 2 General Objectives; Joint Responsibilities.

(a) During the Term of this Agreement, Ventiv will, or will cause its Affiliates to, * provide to Cellegy, within the Territory, the strategic analysis and measurement and outsourced sales and marketing activities set forth on Schedule A hereto (the "Services," including those listed on Schedule A as it may be amended from time to time by mutual agreement of the Parties in accordance with the terms of this Agreement), with respect to the Product, and VFLLC will provide Cellegy funding pursuant to the terms and conditions of this Agreement and the Funding Arrangement to the extent of *. In connection therewith, Cellegy and Ventiv will each use good faith and commercially reasonable efforts to cooperate with and assist each other in the development, marketing and sale of the Product, as more specifically described in this Agreement.

(b) Notwithstanding anything to the contrary set forth in this Agreement, the Parties hereby acknowledge and agree that nothing in this Agreement shall prevent or limit (i) Ventiv or its Affiliates from offering any of its products and services directly to any current or future clients; provided, however, such products and services are not offered within the Territory with respect to any product directly competitive to the Product or (ii) Cellegy from individually manufacturing, marketing or selling any of its products, except as expressly set forth in this Agreement. Cellegy agrees that it will not engage any other Person to provide the Services with respect to the Product during the Term.

(c) During the Term of this Agreement, the Parties shall have the following joint responsibilities:

(i) Development of a pre-Launch Date promotional plan for the Product, including Product management, resource allocation analysis (including any adjustment of Product Detail Team size), structure and geographic placement, advocacy development programs and representative recruiting and training;

(ii) Development of a post-Launch Date promotional plan, including Product management, the deployment of a full time Product Detail Team and promotional events (e.g., symposia and teleconferences);

(iii) Development of a distribution plan for the Product; provided, however, that Ventiv shall at no time be under any obligation to maintain or store any Product stock;

(iv) Management of all matters relating to managed care (e.g., national accounts), including strategies and order fulfillment and the deployment of a national Product Detail Team, which shall be composed initially of no more than seventy five (75) representatives; and

(v) Selection of appropriate advertising agencies for the marketing and promotion of the Product; provided, however, that the costs and expenses of such advertising agencies shall be borne by Cellegy, but funded by VFLLC, if required under the terms of the Funding Arrangement.

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(d) Beginning as of the Launch Date, each Party shall promptly notify the other Party in writing of any order, request or directive of a court or other Governmental Authority to recall or withdraw a Product in any jurisdiction. Cellegy shall be responsible, at its sole cost and expense, for the costs of any recall or withdrawal of a Product.

SECTION 3 Ventiv Obligations.

(a) During the Term of this Agreement, Ventiv shall:

(i) provide or cause its Affiliates to provide, as applicable, the Services of the types and in the amounts set forth on Schedule A attached hereto with respect to the Product, including the deployment and management of a Product Detail Team and related activities, conferences and symposia, and other promotional and accredited programs with respect to the Product (e.g. teleconferences and advisory board meetings);

(ii) administer and monitor promotional and educational projects with regard to the Product, and monitor resource allocation plans for the Product;

(iii) hire a co-Product manager reasonably acceptable to Cellegy;

(iv) distribute all collateral materials and samples to the Product Detail Team;

(v) utilize good faith efforts to provide seventy five (75) representatives to the Product Detail Team on the Launch Date; and

(vi) develop and execute an analytic support plan for the Product, including post-Launch Date strategy adjustments.

(b) Beginning as of the Launch Date, Ventiv shall notify Cellegy within twenty four hours of any serious adverse event(s) (e.g., death, life threatening event, event causing hospitalization or prolonging a hospital stay, fetal abnormality, an event signifying new medical information, adverse drug reactions and governmental inquiries) learned by Ventiv that may affect the marketing of the Product; provided, however, that Cellegy shall have the reporting responsibility for such adverse events to applicable regulatory health authorities anywhere in the world.

(c) Upon being contacted by the Food and Drug Administration ("FDA") or any other federal, state or local agency for any regulatory purpose pertaining to this Agreement or to the Product, Ventiv shall, if not prohibited by applicable Law, immediately notify Cellegy and will not respond to the agency until consulting with Cellegy, to the maximum feasible extent; provided, however, that the foregoing shall not be construed to prevent Ventiv in any way from complying, and Ventiv may permit unannounced FDA or similar inspections authorized by Law and respond to the extent necessary to comply, with its obligation under applicable Law.

(d) Ventiv shall inform Cellegy of any Product Quality Complaint received within three (3) working days but no more than four (4) calendar days from the receipt date by Ventiv.

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SECTION 4 Cellegy Obligations.

(a) During the Term of this Agreement, Cellegy shall:

(i) manage regulatory review and compliance, order fulfillment, manufacturing and clinical development of the Product and all related matters;

(ii) develop and assemble an adequate distribution chain and utilize reasonable efforts to ensure the provision of a sufficient supply of commercial Product stock as may be required for the distribution chain and end-user demand;

(iii) utilize reasonable efforts to provide a sufficient supply of Product Samples for the Product Detail Team such that, on an annual basis, at least ** percent (**%) of targeted physicians are provided with Product Samples;

(iv) to the extent Cellegy pursues any additional indications for the Product, provide all clinical support for any such additional indications promoted by Ventiv;

(v) oversee and administer compliance by the Product manufacturer with applicable regulatory and administrative cost guidelines, including the utilization of reasonable efforts to ensure Manufacturing Costs do not exceed ** percent (**%) of Product Revenues;

(vi) assess and resolve all trade and wholesale issues involving inventory or distribution of the Product;

(vii) hire a co-Product manager reasonably acceptable to Ventiv;

(viii) seek in good faith to maximize Product Revenues and Contribution Margins, and minimize the effect of price promotions and/or rebates;

(ix) produce all collateral materials and samples for the Product Detail Team, and pay all costs and expenses associated with the production and distribution thereof, provided that such costs and expenses shall be funded by VFLLC, if required under the terms of the Funding Arrangement; and

(x) purchase any prescription data required to monitor Product Revenues by distribution channel; provided, however, that costs of purchase of such prescription data, to the extent included in the Product Budget, shall be borne by Ventiv.

(b) Regulatory Matters.

(i) All regulatory matters regarding the Product shall remain under the exclusive control of Cellegy, subject to Section 3(c) hereof. Cellegy will have the sole responsibility, at its cost and expense, to respond to Product and medical complaints and to handle all returns and recalls of the Product.

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(ii) Cellegy shall furnish Ventiv with efficacy and safety information reasonably necessary or helpful to assist Ventiv in promoting the Product, including relevant clinical and safety data included in the New Drug Application for the Product and information related to the efficacy and safety profile of the Product.

SECTION 5 Structure.

(a) Upon execution of this Agreement, Cellegy and Ventiv shall establish a steering committee (the "Steering Committee") which shall have the responsibilities described in this Section 5(a). The Steering Committee shall be initially comprised of a total of four (4) members, of which two (2) members shall be appointed by Ventiv and two (2) members shall be appointed by Cellegy. The total number of Committee members may be changed by the Steering Committee from time to time as appropriate, but in all cases it will be comprised of an equal number of members designated by each of Cellegy and Ventiv, and in no event shall the Steering Committee be comprised of an aggregate of less than four (4) members. Each of Cellegy and Ventiv may substitute its representatives from time to time and the substitution shall be effective upon notice to the other Party. The Steering Committee shall meet as often as required to ensure the effective implementation of this Agreement, but in no event less than once every three months during the term of this Agreement, on such dates and at such places as to be agreed upon between the Parties. The meetings of the Steering Committee may be held in person or in any other reasonable manner, including, without limitation, by telephone, video conference or e-mail. The Committee will be primarily responsible for (i) decisions regarding Product commercialization and ongoing clinical support for the Product, (ii) decisions regarding the introduction of Additional Products to the Product Detail Team, (iii) approval of the Product Budget and (iv) resolving any difficulties or disagreements which may arise between the Parties in the implementation of this Agreement (except as otherwise provided herein). In connection therewith, any representative to the Steering Committee shall have the right at any time to call a special meeting of the Steering Committee in order to vote on the amendment of the Product Budget to include any extraordinary costs not theretofore approved by the Steering Committee.

(b) Upon execution of this Agreement, Cellegy and Ventiv shall also establish a product committee (the "Product Committee") which shall have the responsibilities described in this Section 5(b); provided, however, that to the extent both the Steering Committee and the Product Committee have responsibility with respect to a given matter, the decisions of the Steering Committee shall govern. The Product Committee will initially be comprised of a total of four (4) members (and shall at all times have a maximum of four (4) members), of which two (2) members shall be appointed by Ventiv and two (2) members shall be appointed by Cellegy. The total number of Product Committee members may be changed by the Product Committee from time to time as appropriate. The Product Committee, shall be responsible for (i) the day-to-day management and oversight of the transactions contemplated by Agreement, (ii) overseeing Product development activities under this Agreement, (iii) reviewing Product performance, (iv) reviewing marketing and sales arrangements for the Product including the formulation of any modifications to such arrangements and (v) such other functions required to be performed by it under this Agreement or as directed to be performed by the Steering Committee.

(c) Each member of the Steering Committee and the Product Committee shall have one vote and all the decisions of the Steering Committee and the Product Committee shall

be made by a simple majority of the Steering Committee or the Product Committee, as the case may be; provided, however, that in the event the members of the Product Committee are deadlocked and cannot reach a decision within three (3) calendar days after notice of a deadlock with regard to any decision required to be made by the Product Committee, the decision shall first be referred to the Steering Committee for resolution. If the Steering Committee cannot resolve such matter within three (3) calendar days, or if the Steering Committee is deadlocked and cannot reach a decision with regard to any other decision required to be made by the Steering Committee (each, a "Dispute"), then the Dispute shall be referred to the Chief Executive Officer of each Party, and if such Dispute is not resolved by the Chief Executive Officers within two (2) calendar days of such referral, Cellegy's Chief Executive Officer (or such other officer as determined by Cellegy) will be responsible for the tie-breaking vote with regard to such Dispute (the "Final Decision"); provided, further, that in the event that Ventiv determines in good faith that a Final Decision is reasonably expected to have a Material Adverse Impact on the Economic Value, the Final Decision shall trigger a renegotiation of this Agreement as set forth in Section 8(a) hereof.

SECTION 6 Reimbursement and Revenue Sharing; Funding Arrangement.

(a) During the Initial Term, and prior to the payment by Cellegy of all Tranche I and Tranche II Amounts, Ventiv shall invoice Cellegy, within ten (10) Business Days of each month end date, for all costs and expenses incurred by Ventiv (or any third Person) during the prior month in connection with sales and marketing activities with regard to the Product; provided, however, that all such costs and expenses shall have been included in the Product Budget for such period or shall have been subsequently approved by the Steering Committee. Notwithstanding the foregoing proviso, Cellegy shall be obligated to reimburse Ventiv for all of such costs and expenses to the extent they exceed the Product Budget by no more than * . Cellegy shall reimburse Ventiv for all such invoiced costs and expenses within twenty (20) Business Days of the receipt of any such invoice. In the event Cellegy shall be more than twenty (20) Business Days delinquent in its payment of any such invoiced costs to Ventiv, after receipt of a proper invoice not otherwise in dispute as to amount, Cellegy shall pay to Ventiv simple interest, at a rate of ** percent (** %) per annum, on the amount of any such delinquent reimbursements (or any undisputed portion thereof).

(b) Subsequent to the Launch Date, and provided there is a Product Operating Income, any Product Revenues will be distributed between Ventiv and Cellegy as follows:

(i) Subject to the provisions of the Funding Arrangement, Cellegy will retain ** percent (**%) of all Product Revenues until Ventiv shall have received an amount equal to the Commercialization Funding (the "Tranche I Amount");

(ii) Upon receipt by Ventiv of payments equal to the Tranche I Amount, and subject to the provisions of the Funding Arrangement, Cellegy will retain ** percent (**%) of all Product Revenues thereafter until such time as Ventiv shall have received $** (such amount, the "Tranche II Amount");

(iii) For each ** month period following receipt by Ventiv of payments equal to the Tranche I Amount and the Tranche II Amount, and until the expiration of the Initial

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Term (or any Renewal Term, if applicable) or a Mandatory or Default Conversion, Cellegy will retain (a) ** percent (**%) of all Product Revenues until such time as the Product has generated in excess of $** of Product Revenues in the aggregate during such ** month period, (b) ** percent (**%) of all Product Revenues thereafter until such time as the Product has generated $** of Product Revenues in the aggregate during such ** month period and (c) ** percent (**%) of all Product Revenues thereafter (all such amounts, collectively, the "Tranche III Amount"); and

(iv) Following the earlier of the expiration of the Initial Term or any Renewal Term, if applicable (other than as a result of a termination pursuant to Section 15) or a Mandatory or Default Conversion, Cellegy will retain (a) ** percent (**%) of all Product Revenues through and including the date that is ** of the expiration of the Initial Term; provided, however, that if Product Revenues shall exceed $** during any ** months of the period through and including the date that is the ** anniversary of the expiration of the Initial Term, Cellegy will retain ** percent (**%) of the Product Revenues exceeding $** and (b) ** percent (**%) of all Product Revenues through and including the date that is the ** anniversary of the expiration of the Initial Term; provided, however, that if Product Revenues shall exceed $** at any time during, or prior to, any ** months of the period through and including the date that is ** of the expiration of the Initial Term, Cellegy will thereafter retain ** percent (**%) of the Product Revenues exceeding $**.

(c) VFLLC will provide the Commercialization Funding pursuant to the terms and conditions of a funding arrangement (the "Funding Arrangement") in the form attached hereto as Exhibit II, that will accrue simple interest at a rate of ** percent (**%) per annum. The initial Commercialization Funding shall not exceed $**. In addition, (i) to the extent the Steering Committee determines that an increase in the initial Commercialization Funding is necessary to provide funding for post-Launch Date costs and expenses, to the extent there is a ** during the period for which such additional funds are required and (ii) upon Ventiv's consent, Ventiv may provide future funding for such period of the Term; provided, however, that in no event will the Commercialization Funding in connection with the Product exceed $10,000,000 in the aggregate; provided, further; however, in the event Ventiv chooses not to consent to such future funding, the Chief Executive Officers of the Parties shall meet as promptly as practicable thereafter to discuss whether and to what extent Ventiv's compensation as set forth in this Agreement might be adjusted, if appropriate, in respect of any such future funding supplied directly by Cellegy (up to $** million of future funding). It is understood that the preceding sentence shall not be construed to mean that Cellegy will be entitled to any compensation based on the foregoing. The Funding Arrangement will be repaid by Cellegy out of the Contribution Margin in a manner consistent with the revenue sharing percentages set forth in Section 6(b) above; provided, however, that following the ** period after the date the Product first achieves Product Operating Income, Cellegy may use proceeds other than the Contribution Margin to repay the Funding Arrangement; provided, further, that such repayment does not have a Material Adverse Impact on the Economic Value.

(d) In the event of any (i) material breach by Cellegy of the terms of this Agreement, which material breach has not been cured within thirty (30) calendar days of the receipt of notice of such breach by Cellegy, (ii) failure of Cellegy to obtain all required Governmental Body approvals for the manufacture and sale of the Product on or prior to ** or

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(iii) the Product receives Impaired Labeling (each of the foregoing circumstances, a "Call Event"), Ventiv shall have the right to terminate this Agreement and, upon delivery of a Call Notice to Cellegy concerning the circumstances of the Call Event, the stated percentage of the Funding Arrangement shall be immediately due and payable to VFLLC without further notice or action by any Party hereto. In the event Ventiv shall deliver a Call Notice pursuant to clause (i) above, then one hundred percent (100%) of the outstanding principal and interest under the Funding Arrangement shall be subject to the Call Notice. In the event Ventiv shall deliver a Call Notice pursuant to clauses (ii) or (iii) above, then * percent (**%) of the outstanding principal and interest under the Funding Arrangement shall be subject to the Call Notice. Cellegy shall have forty-five (45) calendar days from the date of such Call Notice to pay an amount in cash to VFLLC equal to the applicable percentage of the Funding Arrangement and Cellegy shall have the right thereafter, at its request, to receive all analytical and other relevant data relating to the Product, including marketing plans, to the extent such data is held by Ventiv or the Product Detail Team.

(e) In the event of termination of this Agreement by Cellegy pursuant to Section 15(b)(ii), Section 15(c) or Section 15(e), or by Ventiv pursuant to Section 15(d)(i), the obligation to repay any outstanding amounts under the Funding Arrangement shall be assumed and assigned to Ventiv and Cellegy shall have no further obligation with respect to such amounts; provided, however, that Cellegy shall be obligated to pay to Ventiv all outstanding invoiced costs and expenses previously included in the Product Budget incurred by Ventiv in connection with sales and marketing activities with regard to the Product.

(f) In addition to the amounts stated above, the outstanding principal amount of the Commercialization Funding shall accrue supplemental simple interest at the rate of ** percent (** %) per annum (the "Supplemental Interest"), until such time as the Commercialization Funding has been repaid in full by Cellegy in accordance with the provisions of this Section 6. The Supplemental Interest shall be held by Cellegy for the benefit of VFLLC until the date that is ** of the termination or expiration of the Services Agreement, at which time Cellegy shall pay to VFLLC an amount equal to the Supplemental Interest adjusted for the future value of such amount at a rate of ** percent (** %).

(g) Payments of all amounts due pursuant to Section 6(b) shall be made by Cellegy no later than thirty (30) calendar days after the end of every month in which such amounts accrue; provided, however, that no later than thirty (30) calendar days following the end of each three month period of the Initial Term, the Parties shall review all of such payments and promptly rectify any shortfalls or overpayments that have occurred during such prior three month period. Each payment pursuant to Section 6(b) shall be accompanied by a report in the form attached as Exhibit A to the Funding Arrangement containing reasonably sufficient information for the calculation of amounts due hereunder. In the event there is a dispute regarding the amount due hereunder, upon a Party's reasonable request, each Party will provide copies of all corporate and financial records or other documentation reasonably relevant to the calculation of such amounts; Each Party agrees to maintain records supporting amounts payable hereunder for a period of three (3) years following the date that the payment was made. The relevant portions of such records and accounts shall be available for inspection and audit by each Party or its representative and at such Party's expense during regular business hours and upon fifteen (15) calendar days prior written notice.

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(h) Following each anniversary of the Launch Date, Ventiv, upon written notice to Cellegy given not later than ninety (90) days after such anniversary, shall have the right to retain an independent, nationally recognized accounting firm reasonably acceptable to Cellegy (the "Auditor"), to audit the records of Cellegy to the extent they relate to the computation of Product Revenues and Contribution Margins for the 12-month period ended on such anniversary of the Launch Date. Cellegy shall make those records available to the Auditor for inspection during normal business hours at the locations reasonably determined by Cellegy. The cost of any such Auditor shall be borne by Ventiv; provided, however, that Cellegy shall bear the cost of any such Auditor to the extent the Auditor determines that Cellegy has underreported either the Product Revenues or Contribution Margins for such 12-month period by more than ten percent (10)%.

(i) Following each anniversary of the Launch Date, and until Cellegy has paid all Tranche I and Tranche II Amounts, Cellegy, upon written notice to Ventiv given not later than ninety (90) days after such anniversary, shall have the right to retain an Auditor to audit the records of Ventiv to the extent they relate to the computation of Product Marketing Expenses. Ventiv shall make those records available to the Auditor for inspection during normal business hours at the locations reasonably determined by Ventiv. The cost of any such Auditor shall be borne by Cellegy; provided, however, that Ventiv shall bear the cost of any such Auditor to the extent the Auditor determines that Ventiv has overreported Product Marketing Expenses for such 12-month period by more than ten percent (10)%.

SECTION 7 Transfer of Detail Team.

(a) During the period from the one year anniversary of the Launch Date until the expiration of the Initial Term, Ventiv shall have the obligation to transfer the Product Detail Team to Cellegy, and Cellegy shall have the obligation to assume such Product Detail Team (including all salary and bonus obligations with respect thereto) (an "Early Conversion") as follows:

(i) at the written request of Cellegy, and within ninety (90) calendar days of the delivery of such request, if at the time of such request the Product Detail Team shall solely be marketing those products owned by or licensed to Cellegy; or

(ii) at the written request of Cellegy, and within three hundred sixty five (365) calendar days of the delivery of such request, if at the time of such request the Product Detail Team shall be marketing any products not owned by or licensed to Cellegy.

In the event of an Early Conversion, the Parties shall revise the terms of Section 6(b)(i)-(iii) hereof such that Ventiv shall receive, monthly, an amount equal to (i) monthly * of the Product for indications approved by the FDA prior to the date of such Early Conversion, divided by (ii) the ratio of ** for the ** prior to ** to the total ** for the same ** prior ** period;

the quotient of which shall be multiplied by (iii) the ratio of the * for the ** period immediately preceding ** to the ** in the applicable ** for the Product Detail Team

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related to the Product, based on its proportional share of ** and any additional ** directly related to the Product in the applicable **;

the product of which shall be multiplied by (iv) the applicable ** percentage set forth in Sections ** ;

the product of which shall be reduced by (v) the average ** for the ** period immediately preceding ** with respect to those ** that have been assumed by Cellegy; and

the difference of which shall be multiplied by (iv)(A) ** during the ** (or any portion of such **), if applicable, (B) ** , during the ** (or any portion of such **), if applicable and (C) ** , during the ** (or any portion of such **), if applicable, and in each case the provisions of Section 6(b)(iv) shall survive. An example of this calculation is set forth on Exhibit III attached hereto.

(b) Upon the expiration of the Initial Term or the Renewal Term of this Agreement, at the written request of Cellegy delivered no later than thirty (30) calendar days thereafter, Ventiv shall be obligated to transfer the Product Detail Team to Cellegy, and Cellegy shall have the obligation to assume such Product Detail Team (a "Mandatory Conversion"), such Mandatory Conversion to occur within ninety (90) calendar days of the delivery of such request. In connection with any Mandatory Conversion, Cellegy shall have the right, upon thirty (30) calendar days written notice to Ventiv, to transfer all district sales managers having oversight over the Product Detail Team to Cellegy, if at the time of such notice the Product Detail Team shall solely be marketing those products owned by or licensed to Cellegy, and any such conversion shall occur no earlier than six (6) months prior to the expiration of the Initial Term or the Renewal Term, as applicable.

(c) In the event of a termination of this Agreement by Cellegy pursuant to Section 15(b)(ii), Section 15(c) or by Ventiv pursuant to Section 15(d)(i) or Section 15(e), and upon written notice by Cellegy delivered within thirty (30) Business Days of such termination, Ventiv shall be obligated to transfer the Product Detail Team to Cellegy, and Cellegy shall have the right, in its sole discretion, to assume all or part of such Product Detail Team (a "Default Conversion," and together with the Early Conversion and Mandatory Conversion, a "Conversion"). In connection with a Default Conversion, Cellegy shall notify Ventiv as to the number of Product Detail Team representatives that shall be transferred, such number to be at the discretion of Cellegy and Cellegy shall have the obligation to assume such number of representatives.

(d) In the event of (i) a termination of this Agreement by Ventiv pursuant to Section 15(b), Section 15(d)(ii) or Section 15(d)(iii) or by Cellegy pursuant to Section 15(e) or (ii) a Call Event pursuant to (A) a failure of Cellegy to obtain all required Governmental Body approvals for the manufacture and sale of the Product on or prior to * , or (B) the Product receives Impaired Labeling, Ventiv shall retain the Product Detail Team and the Parties may negotiate the terms of a Conversion, including the fee to be paid by Cellegy to Ventiv in consideration of such Conversion.

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(e) The costs of any Conversion, including all costs associated with salary, benefits, relocation, early lease terminations and severance packages, shall be borne by Cellegy and, in addition, Cellegy shall pay royalty fees to Ventiv subsequent to such Conversion in an amount such that Ventiv will earn the same operating income, on a per annum basis, as though the Conversion had not occurred. Promptly upon the completion of any such Conversion, but in any event no later than five (5) Business Days following the completion thereof, Ventiv shall deliver to Cellegy a written notice setting forth in reasonable detail all of the costs and expenses associated with such Conversion, and Cellegy shall deliver to Ventiv the full amount of such costs and expenses no later than fifteen (15) Business Days of its receipt of notice thereof.

(f) Prior to any Conversion, neither Cellegy nor its Affiliates shall solicit any active Product Detail Team member to leave Ventiv and become employed by Cellegy; provided, however, that this restriction shall not (i) be construed to prevent or restrict Cellegy from discussing and/or offering employment to a Product Detail Team member who independently contacted Cellegy regarding possible employment opportunities.

SECTION 8 Renegotiation of Terms.

(a) The Parties agree to renegotiate the provisions of Section 6 of this Agreement in good faith in the event Cellegy shall exercise its right to cast a tie-breaking vote in accordance with the terms and conditions of Section 5 hereof and such vote is determined in good faith by Ventiv, pursuant to the provisions of Section 5 hereof, to have a Material Adverse Impact on the Economic Value, or in the event the Product receives any additional indications, including hemorrhoid indications.

(b) In the event of a Major Change in (i) Product Marketing Expenses, which results in a Material Adverse Impact on Economic Value or (ii) market conditions which results in a Material Adverse Impact on Economic Value, the Parties agree to renegotiate the provisions of Section 6 hereof in good faith in order to ensure that Ventiv and VFLLC continue to achieve, at a minimum, the Economic Value.

(c) In the event the Parties are unable to successfully renegotiate this Agreement within thirty (30) calendar days after a Party appropriately requests such renegotiation, then such failure to successfully renegotiate this Agreement shall be submitted to arbitration in accordance with Section 16 hereof.

SECTION 9 Additional Products.

(a) During the Term, in the event Cellegy determines to use a CSO for future Cellegy products, Ventiv shall have an exclusive right of first offer to provide sales and marketing services with respect to additional Cellegy products to be marketed in the Territory; provided, however, that such obligation shall not be applicable to (i) those products set forth on Schedule D attached hereto and (ii) those products that do not require third-Person marketing or sales services. In that regard, Cellegy shall promptly notify Ventiv in writing when any of such products has reached a stage of development where such could be marketed utilizing services substantially similar to the Services. Following the receipt of such notice by Ventiv, Ventiv shall have thirty (30) calendar days to deliver written notice to Cellegy of its desire to enter into a

services arrangement for such additional products, and Cellegy shall, for a sixty (60) calendar day period thereafter, negotiate in good faith, exclusively with Ventiv, with respect to the terms of a services agreement for such additional products. Following the expiration of such sixty (60) calendar day period, in the event the Parties are unable to reach an agreement, Cellegy shall have the right to negotiate with any other Person with regard to such additional products. Notwithstanding the foregoing, Cellegy shall be under no obligation to enter into any agreement with Ventiv relating to such additional products.

(b) During the Term, the Parties shall use their respective commercially reasonable efforts to identify and propose the introduction of Additional Products that the Party has the right to market (or reasonably expects to obtain the right to market) to the Product Detail Team, to the extent the Product Detail Team has excess capacity to market any such Additional Products. In the event a Party (the "Introducing Party") shall propose that an Additional Product be introduced to the Product Detail Team for marketing in the Territory, such proposal shall be brought to the Steering Committee for determination as to whether the Product Detail Team shall perform marketing services for such Additional Product. If the Steering Committee shall accept the Additional Product for marketing by the Product Detail Team, the Parties shall promptly negotiate and agree upon the revenue sharing arrangement with respect to such Additional Product; provided, however, that the final decision as to the acceptability of such Additional Product shall rest with Cellegy.

(c) In the event that (i) Ventiv shall propose the introduction of two (2) or more Additional Products within any six (6) month period of the Term, (ii) the Steering Committee shall determine that such Additional Products shall not be marketed by the Product Detail Team and (iii) Cellegy shall fail to introduce any Additional Products in place of those Additional Products proposed by Ventiv, such determination shall be brought to the attention of the Chief Executive Officers of each of the Parties. The Chief Executive Officers shall meet as promptly as practicable thereafter to discuss whether and to what extent Ventiv might be compensated for the potential loss of any profits due to such rejection by the Steering Committee or Cellegy, if appropriate. It is understood that this paragraph, (c) shall not be construed to mean that Ventiv will be entitled to any compensation based on the foregoing.

SECTION 10 Costs. Except as otherwise provided herein, the Parties hereto shall each be responsible for their own costs and expenses associated with the Agreement and the transactions contemplated hereby.

SECTION 11 Press Release. The parties shall mutually agree on the initial press release relating to this Agreement and the transactions contemplated thereby, and until after the initial press release, no press releases, public announcements, communications or other promotional materials related to this Agreement or the transactions contemplated hereby shall be made or sent by either Party without the prior written consent of the other Party, which consent shall not be unreasonably withheld or delayed, unless such Party reasonably concludes that such disclosure may be required by applicable Law.

SECTION 12 Confidentiality.

(a) Confidential Information. Each Party that receives any Confidential Information (as defined below) (the "Recipient") from the disclosing Party (the "Disclosing Party") agrees that during the term of this Agreement and for a period of three (3) years thereafter it will not disclose to any third Person, any Confidential Information of the Disclosing Party. The term "Confidential Information" shall mean all non-public information, whether business or technical in nature identified as being confidential (including but not limited to, trade secrets, proprietary information, know-how and information relating to such Party's technology, personnel, customers, business plans, promotional and marketing activities, finances and other business affairs of such Party), that either Party, or such Party's agents or affiliates, provides to the other Party or its representatives or affiliates, or is jointly developed by the Parties. If either Party has any questions as to what comprises Confidential Information of the other Party, it agrees to consult with such other Party. Nothing in this section shall prohibit or limit the Recipient's disclosure of information, and such information shall not constitute Confidential Information, if (i) at the time of disclosure hereunder such information is generally available to the public; (ii) after disclosure hereunder such information becomes generally available to the public, except through breach of this Agreement by the Recipient; (iii) the Recipient can demonstrate such information was in the Recipient's lawful possession prior to the time of disclosure by the Disclosing Party as requested and was not acquired from the Disclosing Party or its affiliates; (iv) the information becomes available to the Recipient from a third Person that is not known by the Recipient to be legally prohibited from disclosing such information or breaching a contractual obligation to the Disclosing Party; (v) such information is developed at any time by the Recipient independent of Confidential Information disclosed by the Disclosing Party to the Recipient; or (vi) such information must be disclosed pursuant to applicable federal, state or local law, regulation, court order or other legal process, provided the Recipient has notified the Disclosing Party within a reasonable time prior to such required disclosure and, to the extent reasonably possible, has given the Disclosing Party an opportunity to contest or seek confidential treatment of such required disclosure. Each Party shall ensure that its employees and agents are made aware of the confidential status of the Confidential Information, and that its employees and agents comply with all relevant provisions of this Section 12.

(b) Return of Confidential Information; Disclosure. Upon request or upon the expiration or termination of this Agreement, each Party will either destroy or return to the other Party all Confidential Information including all copies of any Confidential Information and any written materials derived from or conclusions based upon any Confidential Information, in its possession or control. Neither Party will disclose, furnish, or use in any way whatsoever any Confidential Information to which it becomes privy, except as may be necessary for that Party to perform its obligations pursuant to this Agreement or for which the prior written consent of the other Party has been obtained. Each Party shall be permitted to make such disclosures to the public or to governmental agencies as its counsel shall deem necessary to maintain compliance with and to prevent violation of applicable federal or state securities laws, provided each Party shall use reasonable best efforts to obtain confidential treatment of the material economic terms hereof.

SECTION 13 Representations and Warranties.

(a) Cellegy represents and warrants to Ventiv as follows:

(i) Existence, Good Standing and Power. Cellegy is a corporation validly existing and in good standing under the laws of the State of California, and has all requisite corporate power and authority to own, lease and operate its properties. Cellegy has all requisite corporate power and authority to conduct its business as presently conducted and has all requisite corporate power and authority to execute and deliver this Agreement and the other documents and instruments required to be executed and delivered by this Agreement and to perform its obligations hereunder and thereunder.

(ii) Authority. The execution, delivery and performance of this Agreement and the other agreements contemplated hereby to be executed and delivered by Cellegy and the consummation by Cellegy of the transactions contemplated hereby and thereby have been duly authorized by all necessary corporate action on the part of Cellegy.

(iii) Execution and Binding Effect. This Agreement has been duly and validly executed and delivered by Cellegy and constitutes, and each of the other agreements to be executed and delivered by Cellegy pursuant hereto upon its execution and delivery by Cellegy shall constitute (assuming in each case the due and valid authorization, execution and delivery thereof by the other parties thereto), a valid and legally binding obligation of Cellegy enforceable against Cellegy in accordance with its respective terms.

(iv) No Violation. The execution, delivery and performance by Cellegy of this Agreement and the transactions contemplated hereby, do not and will not conflict with or result in, with or without the giving of notice or lapse of time or both, any violation of or constitute a breach or default, or give rise to any right of acceleration, payment, amendment, cancellation or termination, under (i) the articles of incorporation or bylaws of Cellegy or any resolution adopted by the board of directors of Cellegy and not rescinded, (ii) any material agreement or other instrument to which Cellegy is a party or by which Cellegy or any of its properties or assets is bound or (iii) any applicable Law of any Governmental Body or any rule or policy of any industry association of competent jurisdiction, to which Cellegy is bound or subject.

(v) Third Party Approvals. The execution, delivery and performance by Cellegy of this Agreement and the transactions contemplated hereby do not require (i) any material consents, waivers, authorizations or approvals of, or filings with, any third Persons, or (ii) any consents, waivers, authorizations or approvals of, or filings with, any Governmental Body, in each case which have not previously been obtained by Cellegy.

(vi) Litigation. There are no judicial, administrative or other actions, proceedings or claims pending or to the knowledge of Cellegy, threatened, that question the validity of this Agreement or any action taken or to be taken by Cellegy in connection with this Agreement or that, if adversely determined, would have a material adverse effect on Cellegy' ability to conduct its business in the ordinary course of business or to perform its obligations under this Agreement.

(b) Ventiv represents and warrants to Cellegy as follows:

(i) Existence, Good Standing and Power. Ventiv is a corporation validly existing and in good standing under the laws of the State of Delaware, and has all requisite corporate power and authority to own, lease and operate its properties. Ventiv has all requisite corporate power and authority to conduct its business as presently conducted and has all requisite corporate power and authority to execute and deliver this Agreement and the other documents and instruments required to be executed and delivered by this Agreement and to perform its obligations hereunder and thereunder.

(ii) Authority. The execution, delivery and performance of this Agreement and the other agreements contemplated hereby to be executed and delivered by Ventiv and the consummation by Ventiv of the transactions contemplated hereby and thereby have been duly authorized by all necessary corporate action on the part of Ventiv.

(iii) Execution and Binding Effect. This Agreement has been duly and validly executed and delivered by Ventiv and constitutes, and each of the other agreements to be executed and delivered by Ventiv pursuant hereto upon its execution and delivery by Ventiv shall constitute (assuming in each case the due and valid authorization, execution and delivery thereof by the other Party thereto), a valid and legally binding obligation of Ventiv, enforceable against Ventiv in accordance with its respective terms.

(iv) No Violation. The execution, delivery and performance by Ventiv of this Agreement and the transactions contemplated hereby, do not and will not conflict with or result in, with or without the giving of notice or lapse of time or both, any violation of or constitute a breach or default, or give rise to any right of acceleration, payment, amendment, cancellation or termination, under (i) the certificate of incorporation or bylaws of Ventiv or any resolution adopted by the board of directors of Ventiv and not rescinded, (ii) any material agreement or other instrument to which Ventiv is a party or by which Ventiv or any of its properties or assets is bound or (iii) any applicable Law or regulation of any Governmental Body or any rule or policy of any industry association of competent jurisdiction, to which Ventiv is bound or subject.

(v) Third Party Approvals. The execution, delivery and performance by Ventiv of this Agreement and the transactions contemplated hereby do not require (i) any material consents, waivers, authorizations or approvals of, or filings with, any third Persons, or (ii) any consents, waivers, authorizations or approvals of, or filings with, any Governmental Body, in each case which have not previously been obtained by Ventiv.

(vi) Litigation. There are no judicial, administrative or other actions, proceedings or claims pending or to the knowledge of Ventiv, threatened, that question the validity of this Agreement or any action taken or to be taken by Ventiv in connection with this Agreement or that, if adversely determined, would have a material adverse effect on Ventiv' ability to conduct its business in the ordinary course of business or to perform its obligations under this Agreement.

(c) In addition to the other covenants of the Parties contained elsewhere herein, the Parties covenant and agree as follows:

(i) No Restrictions. A Party shall not, and shall cause its Affiliates not to, become subject to any contractual or other obligations or restrictions during the Term which will prohibit that Party from providing the Services or otherwise fulfilling the obligations to the other Party to the extent contemplated hereby.

(ii) Other Actions. Each Party shall use its commercially reasonable efforts to take all actions necessary or appropriate to consummate the transactions contemplated by this Agreement.

(iii) Additional Agreements. In case at any time after the Effective Date any further action is necessary or desirable to carry out the purposes of this Agreement, the proper officers and directors of each Party shall take all such necessary or desirable actions.

(iv) Representations and Warranties. Neither Party shall affirmatively take any action that would cause any of the representations and warranties made by it in this Agreement not to be true and correct in all material respects at any time during the Term and, without limiting the other Party's rights or remedies hereunder, each Party shall take all commercially reasonable action to cause its representations and warranties to remain true and correct in all material respects at all times during the Term.

(v) Cooperation. During the Term, the Parties shall cooperate with each other and take all reasonable actions necessary or appropriate to further the purposes of this Agreement.

(d) EXCEPT AS SPECIFICALLY PROVIDED IN THIS AGREEMENT, NEITHER PARTY MAKES ANY REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED, AS TO THE TRANSACTIONS CONTEMPLATED HEREBY.

SECTION 14 Indemnification; Limitation of Liability.

(a) Cellegy shall defend, indemnify and hold Ventiv and its employees, agents, officers, directors and Affiliates (a "Ventiv Party") harmless from and against any and all losses, liabilities, obligations, claims, damages, fees (including, without limitation, attorneys fees), and expenses incurred by a Ventiv Party that are claimed by or become payable to any third Person and that result from or arise in connection with (i) the breach of any covenant, representation or warranty of Cellegy contained in this Agreement, (ii) the manufacturing, sale or distribution of the Product by Cellegy or any licensee or affiliate thereof, including any claim of patent infringement, (iii) any product liability claim related to the Product, including the use by any Person of any Product that was manufactured, sold or distributed by Cellegy or any licensee or Affiliate thereof, (iv) any contamination of or defect in the Product; and (v) negligence or willful misconduct of Cellegy, or any member of the Product Detail Team subsequent to a Conversion.

(b) Ventiv shall defend, indemnify and hold Cellegy and its employees, agents, officers, directors and Affiliates (a "Cellegy Party") harmless from and against any and all losses, liabilities, obligations, claims, damages, fees (including, without limitation, attorneys

fees) and expenses brought against or incurred by a Cellegy Party that are claimed by or become payable to a third Person resulting from or arising in connection with (i) the breach by Ventiv of any covenant, representation or warranty of Ventiv contained in this Agreement this Agreement and/or (ii) negligence or willful misconduct by Ventiv, or any member of the Product Detail Team prior to a Conversion.

(c) Any Party claiming indemnification hereunder (the "Indemnitee") shall notify the indemnifying Party (the "Indemnitor") in writing promptly and in any event within thirty (30) calendar days after receiving written notice of the commencement of any legal action or of any claims or threatened claims against such Indemnitee in respect of which indemnification may be sought. The Indemnitee's failure to give, or tardiness in giving, such notice shall not relieve the Indemnitor from any liability hereunder except to the extent it is actually prejudiced hereby. If any such claim or legal action shall be made or brought against an Indemnitee and such Indemnitee shall notify the Indemnitor thereof, the Indemnitor may, or if so requested by such Indemnitee, shall assume the defense thereof, without any reservation of rights, and after notice from the Indemnitor to such Indemnitee of an election to assume the defense thereof. No Indemnitee shall settle any indemnified claim as to which the Indemnitor has not been afforded the opportunity to assume the defense without the Indemnitor's approval, which approval shall not be unreasonably withheld or delayed. The Indemnitor shall control settlement of all claims as to which it has assumed the defense, provided, however, that the Indemnitor shall not conclude any settlement without the prior approval of the Indemnitee, which approval shall not be unreasonably withheld or delayed. The Indemnitee shall provide reasonable assistance to the Indemnitor when the indemnifying party so requests, at the indemnifying party's expense, in connection with such legal action or claim.

(d) In any case in which the Indemnitor assumes the defense or settlement of any suit, action, claim or proceeding, the Indemnitee shall be entitled to continue to participate at its own cost in any such action or proceeding or in any negotiations or proceedings to settle or otherwise eliminate any claim for which indemnification is being sought and shall have the right to employ its own counsel in any such case, but the fees and expenses of such counsel shall be at the expense of such Indemnitee unless (i) the employment of such counsel shall have been authorized in writing by the Indemnitor in connection with the defense of such suit, action, claim or proceeding, (ii) the Indemnitor shall not have employed counsel (reasonably satisfactory to the Indemnitee) to take charge of the defense of such action, suit, claim or proceeding within 30 calendar days (or such shorter period as is reasonably necessary to avoid default for failure to timely respond) after notice of commencement of the action, suit, claim or proceeding, or (iii) such Indemnitee shall have reasonably concluded that there may be defenses available to it which are different from or additional to those available to the Indemnitor which, if the Indemnitor and the Indemnitee were to be represented by the same counsel, would reasonably be expected to result in a conflict of interest for such counsel or materially prejudice the prosecution of the defenses available to such Indemnitee. If any of the events specified in clauses (ii) or (iii) of the preceding sentence shall have occurred or shall otherwise be applicable, then the reasonable fees and expenses of one counsel or firm of counsel selected by the Indemnitee shall be borne by the Indemnitor. In no event shall an Indemnitor be liable to any Indemnitee for the cost of employing or using in-house legal counsel regardless of whether such Indemnitor has, or has not, assumed the defense or settlement of such action, proceeding or claim.

(e) Notwithstanding, any other provision in this Agreement to the contrary, the indemnities set forth in this Section 14 shall survive termination of this Agreement.

(f) EXCEPT FOR LIABILITY UNDER SECTIONS 14(a) AND (b) HEREOF, IN NO EVENT SHALL EITHER PARTY BE LIABLE FOR LOST PROFITS OR ANY INDIRECT, SPECIAL, INCIDENTAL, OR CONSEQUENTIAL DAMAGES OF ANY KIND ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT, WHETHER IN AN ACTION BASED ON CONTRACT, TORT (INCLUDING NEGLIGENCE) OR ANY OTHER LEGAL THEORY, EVEN IF THE PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

SECTION 15 Term and Termination.

(a) Term. This Agreement shall commence on the date hereof and shall continue in force until the fourth anniversary of the Launch Date (the "Initial Term"), unless earlier terminated according to the terms of this Agreement. This Agreement may be extended for additional one (1) year periods upon the same terms and conditions hereof upon the mutual consent of the Parties hereto (any such one-year period, a "Renewal Term", and together with the Initial Term, the "Term").

(b) Termination By Any Party. This Agreement may be terminated by either Party hereto immediately by written notice to the other Party:

(i) if the other Party ceases to do business, or otherwise terminates substantially all of its operations;

(ii) if the other Party materially breaches any provision of this Agreement and fails to cure such breach within thirty (30) calendar days of written notice describing such breach; or

(iii) if the other Party becomes insolvent, or seeks protection under any bankruptcy, receivership, trust deed, creditor's arrangement composition or comparable proceeding, or if any such proceeding is instituted against such Party.

(c) Termination by Cellegy. Cellegy will have a right to terminate the Services Agreement, upon ninety (90) calendar days prior written notice, in the event Ventiv shall fail to meet certain operational performance based metrics, as such metrics are set forth in Schedule B attached hereto and such failure is not cured within thirty (30) calendar days after the date such metrics are required to be met.

(d) Termination by Ventiv. Ventiv will have the right to terminate this Agreement:

(i) at any time after the first anniversary of the Launch Date, in the event that there is a cumulative Contribution Margin of less than zero for any three (3) calendar month period of the Term, or a cumulative Product Operating Loss for any consecutive three (3) calendar month period of the Term, either of which is reasonably expected to result in a Material

Adverse Impact on the Economic Value, such termination to be effective upon ninety (90) calendar days prior written notice by Ventiv;

(ii) upon the occurrence of a Call Event as provided in Section 6(d) hereof; or

(iii) upon the occurrence of a Change of Control of Cellegy pursuant to a transaction with a Ventiv Competitor.

(e) Additional Termination Right. This Agreement may be terminated by either Party hereto, upon six (6) months prior written notice if cumulative Net Sales do not exceed (i) * percent (**%) of cumulative projected Net Sales of $** for the first ** months following the Launch Date or (ii) ** percent (**%) of cumulative Net Sales, as projected in the approved annual Product Budget for the ** period following ** of the Launch Date or (iii) a percentage of cumulative Net Sales, as projected in the approved annual Product Budget for the ** period following ** of the Launch Date, or any subsequent ** period thereafter, such percentage to be agreed upon by the Steering Committee simultaneously with the approval of ** .

(f) Effect of Termination. Upon termination, each Party will destroy or return to the other Party, any of the other Party's Confidential Information, except as otherwise set forth in Section 6(d). Following the termination of this Agreement, all obligations of the Parties hereto shall cease; provided, however, that all obligations, if any, relating to the revenue sharing obligations set forth in Section 6(b)(iv) hereof shall continue as set forth therein.

SECTION 16 Governing Law; Disputes.

(a) This Agreement shall be governed by the laws of the State of New York without regard to its conflicts of laws rules.

(b) All controversies or claims arising out of or relating to this Agreement or the subject matter hereof, other (i) than third party claims governed by the procedures set forth in Section 14 and (ii) Steering Committee deadlocks ("Claims"), shall first be submitted to the Product Committee for resolution. If the Product Committee is unable to resolve any Claims within three (3) calendar days of submission (or such other period as determined by the Product Committee), the Claim shall be submitted to the Steering Committee for resolution. If the Steering Committee is unable to resolve any Claim within three (3) calendar days of submission (or such other period as determined by the Steering Committee), or if the Parties are unable to renegotiate the terms of this Agreement as provided herein, subject to the procedures set forth in Section 5(c) hereof, such Claim or failure to renegotiate shall be automatically submitted to arbitration.

(c) There shall be three (3) arbitrators. Each Party shall select one (1) arbitrator and the two arbitrators selected by each of the Parties shall select a third arbitrator. The arbitrators shall be selected within thirty (30) calendar days after submission for arbitration. Such arbitrators shall be accredited and shall not be Affiliates of either Party. In the event of the failure of the two arbitrators to agree as to the third arbitrator within twenty (20) Business Days after the appointment of the last of said two arbitrators, the third arbitrator shall be appointed by

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the American Arbitration Association within fifteen (15) Business Days thereafter. If a Party does not appoint an arbitrator who has consented to participate within thirty (30) days after submission for arbitration, the American Arbitration Association shall make the relevant appointment. The arbitration tribunal shall conduct the arbitration in Chicago, Illinois and apply such procedural rules as the arbitrators determine are necessary or appropriate in the circumstances and shall specify the same at the commencement of the arbitration and the substantive law set forth in Section 16(a) of this Agreement.

(d) The decision of the arbitrators shall be final and binding upon all Parties, and not subject to any appeal, to the fullest extent permitted by applicable Law, and shall deal with the question of costs of arbitration and all matters related thereto. The arbitrators may in their discretion award costs, including legal fees, to the prevailing party. Decisions of the arbitrators shall be in writing, and shall set forth the reasons therefor and, to the extent applicable, the manner in which the amount of the award was calculated, or, to the extent the dispute is related to a failure of the Parties to renegotiate as provided herein, then the basis for the arbitrators' choice as to the appropriate terms of renegotiation.

(e) Judgment upon the award rendered by the arbitration may be entered in any court having jurisdiction, or application may be made to such court for a judicial recognition of the award or any order of enforcement thereof.

(f) Any monetary award arising from the arbitration proceedings shall include interest from the date of any damages incurred for breach or other violation of this Agreement and from the date of the award, until paid in full, at a rate to be fixed by the arbitrators. Any costs, fees, including, without limitation, attorneys' fees, or taxes incident to enforcing an arbitral decision rendered in accordance with this Section 16 shall be charged against the non-prevailing party.

SECTION 17 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of and be enforceable by the Parties hereto and their respective successors and assigns. No Party may assign its rights or obligations under this Agreement or the Funding Arrangement without the prior written consent of the other Party hereto; provided, however, that no consent shall be required in connection with a Change of Control of a Party or the sale of all or substantially all of the assets of a Party, in each case, so long as such Party's successor or assign agrees to be, or by operation of law is, bound by the terms of this Agreement and; provided, further, that any purchaser of the ownership rights to the Product or all or substantially all of the assets of Cellegy, or any successor to Cellegy by merger shall be required to expressly assume the obligations under this Agreement or the Funding Arrangement prior to the consummation of any such transaction. Any purported assignment in violation hereof shall be null and void and have no force or effect.

SECTION 18 Notices. All notices hereunder shall be in writing (including by e-mail) and shall be delivered in person or by registered or certified mail, return receipt requested, or sent by a nationally recognized overnight delivery service to the applicable Party at its address set forth below (or at such different address as may be designated by such Party by written notice to the other Party). All notices by mail shall be deemed delivered upon receipt.

If to Ventiv of VFLLC:

Ventiv Health, Inc.
1114 Avenue of the Americas
New York, New York 10036
Attention: Mr. Doug Langeland

With a copy to:

Weil, Gotshal & Manges, LLP
767 Fifth Avenue
New York, New York 10153
Attention: S. Wade Angus, Esq.
Marita Makinen, Esq.

If to Cellegy:

Cellegy Pharmaceuticals, Inc.
349 Oyster Point Boulevard
Suite 200
South San Francisco, California 94080
Attention: Mr. John Chandler
Vice President, Business Development

With a copy to:

Fenwick & West LLP
815 Connecticut Avenue N.W.
Suite 200
Washington, D.C.20006
Attention: C. Kevin Kelso, Esq.

SECTION 19 Relationship of the Parties. Each of Cellegy and Ventiv is an independent contractor in the performance of services under this Agreement, and shall not be considered to be or permitted to be an agent, employee, joint venturer or partner of the other Party. Each of Cellegy and Ventiv shall be solely responsible for the compensation and taxes of its employees and the other Party shall have no obligations thereto. Each Party shall at all times during the term of this Agreement maintain such supervision, direction and control over its employees as is consistent with and necessary to preserve its independent contractor status. Nothing herein shall be construed to create a relationship of employer and employee, joint venture, partnership or association between Cellegy and Ventiv, and the Parties agree (except to the extent otherwise required by law) to treat Ventiv as an independent contractor performing services for Cellegy (and not as a partner of Cellegy) for all income tax purposes. Except as expressly provided herein, neither Party nor any of its employees shall have the right, power, or authority to bind or expend funds on behalf of the other Party without the express authorization of the other Party or to create any obligations, express or implied, on behalf of the other Party.

SECTION 20 Force Majeure. Each Party shall have no obligation to perform under this Agreement to the extent and for the period of time that such Party is prevented from doing so by reason of any cause beyond its reasonable control and without the negligence of the Party with respect to whose obligations such a delay in performance or failure in performance has occurred. Such causes shall include, without limitations, acts of God, fire, flood, earthquake, transportation disruption, labor dispute, war insurrection, or other causes beyond the reasonable control of such Party (collectively referred to herein as "force majeure"). The Party affected by such an event of force majeure, upon giving prompt notice to the other Party, shall be excused from performance hereunder on a day-to-day basis to the extent of such prevention, provided, however, that the Party so affected shall use commercially reasonable efforts to avoid or remove such cause of nonperformance and to minimize the consequences thereof and both Parties shall resume performance hereunder forthwith upon the removal of such causes.

SECTION 21 Survival. The provisions of Sections 6(b)(iv), 6(f), 7(c), 10, 11, 12, 14, 16 and this Section 21 shall survive the termination of this Agreement, and the termination of this Agreement shall not terminate any obligation with respect to any fees, costs or other amounts due and owing but unpaid to one Party from the other Party or any causes of action arising prior to termination.

SECTION 22 Severability. If any provision of this Agreement is held invalid or unenforceable by a Governmental Body of competent jurisdiction for any reason, the invalidity shall not affect the validity of the remaining provisions of this Agreement, and the Parties shall substitute for the invalid provisions a valid provision which most closely approximates the intent and economic effect of the invalid provision.

SECTION 23 Entire Agreement; Waiver; Counterparts. This Agreement including the Exhibits attached hereto sets forth all of the promises, agreements, conditions and understandings between the Parties respecting the subject matter hereof and supersedes all negotiations, conversations, discussions, correspondence and agreements between the Parties concerning the subject matter hereof, including, without limitation, the Memorandum of Terms entered into between Cellegy and Ventiv, dated July 12, 2001. This Agreement may not be modified except by a writing signed by authorized representatives of both Parties to this Agreement. No waiver of any term or provision of this Agreement or right hereunder shall be valid unless the waiver is in writing and signed by the waiving Party. No waiver or failure to enforce any provision or right hereunder shall be deemed to be a waiver of the same or any other provision or right in any other instance, nor shall the waiver by either Party of a breach of any provision hereof be taken or held to be a waiver of any succeeding breach of such provision or as a waiver of the provision itself. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

SECTION 24 Headings. The headings of this Agreement are intended solely for convenience of reference and shall be given no effect in the interpretation or construction of this Agreement.

SECTION 25 Equitable Relief. The Parties hereto acknowledge and agree that, except as otherwise specifically provided herein, it will be impossible to measure in money the damage that would be suffered if any Party hereto fails to comply with any of the restrictions or obligations imposed in this Agreement, and that the aggrieved Party will not have an adequate

remedy at Law. It is therefore agreed that such Person shall be entitled without posting a bond or other security to seek injunctive relief to enforce such restrictions or obligations, and that in the event that any action should be brought in equity to enforce any of the provisions of this Agreement, no party shall raise the defense that there is an adequate remedy at Law.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the Parties have executed this Agreement to be effective as of the date first written above.

CELLEGY PHARMACEUTICALS, INC.

By:_____

Name:_____

Title:_____

VENTIV HEALTH, INC.

By:_____

Name:_____

Title:_____

VIS FINANCIAL LLC

By:_____

Name:_____

Title:_____

Schedule A

Services

Pre-Launch

Co-Product Management

Recruitment and Training 75 detailing representatives

Market Research
Demand Forecast & Product Utilization
Key Opinion Leaders

Resource Optimization

Tactical Plan Development prior to product launch

A launch meeting

*

Development of product website before or immediately after launch

At Launch and/or Annually

Co-Product Management

Deployment and Management of 75 detailing representatives

Tactical Execution & Call Planning
Monthly/Quarterly Cycle

Annual Performance reporting

Market Research
Product Utilization & Tracking
At least ** per year
Message Effectiveness/Adoption Analysis

Annual Promotion Response Measurement Analysis
Utilize Market Research and Secondary Data Source Analysis

Annual Resource Optimization Analysis

Call Plan and Alignment Revisions, as needed

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* advisory panel meeting

** clinical update meeting

**

Updates to ** as needed (approximately every **)

** updates to formulary kit, as necessary

** maintenance of product website

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Schedule B
**Operational Performance Metrics*

Recruiting:	75 reps recruited, screened and employed on profile by National Training Meeting.
Annualized *:	**
Physician Groups (% represents approximate percent of total time spent with the respective physician specialty):	Colorectal surgeons (~**%), General Surgeons (~**%), Gastroenterologists (~**%), OB/GYN (~**%), GP/FP/Internist (~**%)
Targets: ** of physicians within a segment we are targeting / ** of total potential in the ** and ** that the ** of the physicians represents:	Colorectal: **/**
	General surgeons: **/**
	Gastroenterologists: **/**
	OB/GYN: **/**
	GP/FP/Internist: **/**
Approximate number of **/year/ targeted physician:	**/year during the ** of launch, ** /year during the next **
Calls on Targeted Physicians:	** of all calls to targeted physicians
Call to Pharmacies:	** calls / ** /**.

* Subject to change based on resource optimization analysis and tactical plan development, as approved by the Product Committee.

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Schedule C

Ventiv Competitors

Contract Sales Organizations

*

Other

**

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Schedule D

Excluded Products

All products not requiring a prescription including:

- Cosmeceutical Products
- OTC Products
- Health Supplements

In addition, one Rx product is excluded:

- Glylorin, monolaurin

Exhibit I

Economic Value Model

*	Pre-Launch	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Operating Profit before tax	*	**	**	**	**	**	**
NPV @ 15%	**						

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Exhibit II

Funding Arrangement

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Exhibit III

Early Conversion Calculation

As an example, in the event of an Early Conversion in the * post-Launch Date, the Parties shall revise the terms of Section 6(b)(i)-(iii) hereof such that Ventiv shall receive, monthly, an amount equal to:

(((** / (**/**)) * (**/**) * **) -**) * **

where:

X = the ** from ** of the Product for ** prior to the date of **

Y = the ** from ** for the ** prior to **

Z = the ** for the ** prior to **

A = the average ** for the ** period immediately preceding **

B = the ** incurred in the applicable ** for the Product Detail Team related to ** , based on its proportional share of the total ** and any additional ** directly related to the Product in the applicable **

C = the applicable ** percentage set forth in Sections 6(b)(i)-(iii)

D = the average monthly ** for the ** period immediately preceding the Early Conversion with respect to those Product Marketing Expenses that have been assumed by Cellegy

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* Confidential treatment has been requested for certain portions of this document pursuant to an application for confidential treatment sent to the Securities and Exchange Commission. Such portions are omitted from this filing and filed separately with the Securities and Exchange Commission.

Exhibit 10.13

CONFIDENTIAL TREATMENT REQUESTED

FUNDING ARRANGEMENT

FOR VALUE RECEIVED, the undersigned, CELLEGY PHARMACEUTICALS, INC., a corporation organized under the laws of the State of California (the "Corporation"), HEREBY UNCONDITIONALLY PROMISES TO PAY to the order of VIS FINANCIAL LLC, a limited liability company organized under the laws of the State of Delaware and an indirect, wholly owned subsidiary of VENTIV HEALTH, INC., a company organized under the laws of the State of Delaware ("Ventiv"), and its successors and permitted assigns (the "Holder"), subject to and upon the terms and conditions set forth in this FUNDING ARRANGEMENT (this "Funding Arrangement"), the aggregate principal sum of up to $*(1) (as such amount may be reduced from time to time by any repayment hereunder or increased from time to time in accordance with the terms hereof, the "Principal Amount") at such times and in such amounts as hereafter provided in such currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts ("U.S. Dollars"), plus any accrued interest thereon. Capitalized terms used but not defined in this Funding Arrangement shall have the meanings ascribed to such terms in that certain Services Agreement, dated as of August 10, 2001, among the Corporation, Ventiv and the Holder (the "Services Agreement"). This Funding Arrangement is referred to in, and is entitled to the benefits under, and subject to the terms and conditions of, the Services Agreement.

1. Terms and Conditions of Advances Under the Funding Arrangement. The Holder hereby agrees, on the terms and conditions hereinafter set forth, to make advances (each, an "Advance") to the Corporation from time to time during the period from the Effective Date until the termination or expiration of the Term in an aggregate amount not to exceed the Principal Amount; provided, however, that the maximum aggregate Advances during the period prior to the Launch Date shall be $**. Each Advance shall be made by the Holder within thirty (30) days after the receipt by the Holder of a notice for a monthly Advance (a "Notice of Advance"). Each Notice of Advance shall be delivered by the Corporation no later than two (2) Business Days after the approval by the Steering Committee of the monthly Product Budget, which shall include the amount of funding in respect of such monthly period required in order to provide * during the period for which such Advance is required. Each Notice of Advance shall initially be delivered by telephone and confirmed immediately in writing by facsimile or email, specifying therein the requested (i) date of such Advance and (ii) aggregate amount of such Advance, which amount shall be no greater than the amount of required funding set forth in the monthly Product Budget. The Holder shall, before 2:00 p.m. (New York City time) on the date of such Advance, make available the Advance in

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same day funds to the escrow agent (the "Escrow Agent") to be appointed by the Parties pursuant to the escrow agreement to be entered into between the Parties. Each Notice of Advance shall be irrevocable and binding on the Corporation. Notwithstanding the foregoing, in connection with the payment of any Advance, the Corporation shall receive the amount of such Advance and (i) the sum of * for the prior month, less (ii) the amount of the prior month's Advance (if any), rounded to the nearest $1,000.

2. Terms and Conditions of Payments Under the Funding Arrangement.

(a) The outstanding Principal Amount under this Funding Arrangement and any accrued and unpaid interest thereon shall be repaid by the Corporation on a monthly basis commencing immediately after the Launch Date in the full amount of the Contribution Margin as set forth in the applicable Monthly Statement (as such term is defined in Section 2(b) below), until such time as the Principal Amount under this Funding Arrangement and all accrued and unpaid interest thereon shall have been repaid in full; provided, however, that from and after the first anniversary of the date on which the Product first achieves Product Operating Income, the Corporation may use proceeds other than the Contribution Margin to repay the Principal Amount; provided, further, however, that such repayment does not have a Material Adverse Impact on the Economic Value.

(b) For each month of the Term, the Corporation shall deliver to the Holder, no later than thirty (30) calendar days following the last day of the prior month, (i) a written statement setting forth a calculation of the Contribution Margin, if any, generated by the Product during such prior month, and (ii) a certification by an authorized officer of the Corporation that such written statement is true, complete and correct in all respects, such statement and certification to be substantially in the form attached hereto as Exhibit A (the "Monthly Statement"). For each month of the Term, the Holder shall deliver to the Corporation, no later than five (5) days following the Holder's receipt of the Monthly Statement, a written statement setting forth the cumulative Principal Amount borrowed by the Corporation to date, the cumulative accrued interest thereon and the Principal Amount and interest repaid by the Corporation to date.

(c) Each payment (of principal, interest or any other amount payable hereunder) made by the Corporation under this Funding Arrangement (each, a "Payment" and collectively, "Payments") to the Holder shall be made in immediately available funds in U.S. Dollars to such account(s) as shall be specified in writing by the Holder. All Payments shall be delivered simultaneously with the delivery of the Monthly Statement, and shall be applied as follows: (i) first, to any accrued and unpaid interest on the outstanding

Principal Amount payable pursuant to the provisions of Section 4 below; and (ii) second, to reduce the Principal Amount of this Funding Arrangement.

(d) If any Payment or any notice hereunder is required to be made on any date which is a Saturday, Sunday or any other day on which banks or stock exchanges are required or authorized by Law to be closed in the City of New York, such payment or notice shall be made on the next succeeding day on which banks are open for business in the City of New York (any such day, a "Business Day"), with the same force and effect as if made on the date as originally required.

3. Funding Increases. The Holder may increase the aggregate Principal Amount available pursuant to this Funding Arrangement (a "Funding Increase"); provided, however, that in no event will the aggregate Principal Amount available hereunder exceed $10,000,000 in the aggregate. The Holder shall only agree to a Funding Increase (i) to the extent the Steering Committee determines that an increase in the initial Commercialization Funding is necessary to provide funding for post-Launch Date costs and expenses as a result of * in the Product Budget during the period for which such Funding Increase is required and (ii) upon Ventiv's consent. The Corporation shall give notice (the "Notice") to the Holder no later than 2:00 p.m. (New York City time) on the second Business Day following such determination by the Steering Committee, which Notice shall specify the requested amount of such Funding Increase, which amount shall not exceed the Product Operating Loss projected in the Product Budget. Upon receipt of such Notice, and provided the Holder has agreed to such Funding Increase, the Holder shall, within thirty (30) days after the receipt by the Holder of the Notice, make available to the Corporation, by wire transfer of immediately available funds to the Escrow Agent, the Funding Increase, and such Funding Increase shall be added to the Principal Amount of the Funding Arrangement. Each Notice shall be irrevocable and binding on the Corporation. Notwithstanding the foregoing, in connection with the payment of any Funding Increase, the Corporation shall receive the amount of such Funding Increase and (i) the sum of the actual Product Operating Loss (if any) for the prior month, less (ii) the amount of the prior month's Funding Increase or Advance (if any), rounded to the nearest $1,000.

4. Interest. Simple interest shall accrue on any unpaid portion of the Principal Amount at the rate per annum of **(2) percent (**%) per annum or, if lower, the maximum rate permitted by Law (the "Interest Rate"), commencing on the date such Principal Amount is funded by the Holder, and continuing until the date of payment in full, together with all interest accrued thereon (based on the actual number of days elapsed over a 360-day year); provided, however, that during any period in which an Event of Default has occurred and is continuing, the unpaid portion of the Principal Amount shall accrue at a simple interest rate of ** percent (**%) per annum.

5. Default; Remedy. For purposes of this Funding Arrangement, an "Event of Default" shall occur if: (i) the Corporation shall have breached the terms of the Services Agreement, which breach remains uncured for a period of thirty (30) days or more; (ii) the Corporation shall become insolvent, or seek protection under any bankruptcy, receivership, trust deed, creditor's arrangement composition or comparable proceeding, or any such proceeding is instituted against the Corporation, and such proceeding shall not be dismissed within sixty (60) calendar days (each, "Bankruptcy Event"); or (iii) upon the occurrence of a Change of Control of the Corporation pursuant to a transaction with a Ventiv Competitor (as identified on Schedule C to the Services Agreement).

In the event that any action, suit or other proceeding is instituted concerning or arising out of this Agreement or any transaction contemplated hereunder, the prevailing party shall

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(2) Confidential treatment has been requested for certain portions of this document pursuant to an application for confidential treatment sent to the Securities and Exchange Commission. Such portions are omitted from this filing and filed separately with the Securities and Exchange Commission.

recover all of such party's reasonable costs and attorneys' fees incurred in each such action, suit or other proceeding, including any and all appeals or petitions therefrom. The Corporation agrees to indemnify and hold harmless the Holder and its officers, directors, employees, agents and advisors (each, an "Indemnified Party") from and against any and all claims, damages, losses, liabilities and expenses (including, without limitation, reasonable fees and expenses of counsel) that may be incurred by or asserted or awarded against any Indemnified Party, in each case arising our of or in connection with or by reason of (including, without limitation, in connection with any investigation or proceeding or preparation of a defense in connection therewith) the enforcement of this Funding Arrangement and the Holder's rights hereunder. Without prejudice to the survival of any other agreement of the Corporation hereunder, the agreements and obligations of this Section 5 and Section 11 below shall survive the payment in full of the Principal Amount, interest due thereon and all other amounts payable hereunder.

So long as an obligation exists under this Funding Arrangement for the repayment of any Principal Amount and any interest accrued thereon, and in partial consideration of the economic benefit of the Services Agreement to Ventiv, upon the occurrence of a Bankruptcy Event, Ventiv shall have the option to license the Product on an exclusive basis, until the expiration of the Product patent, for such consideration and on such terms and conditions as shall be agreed upon by the Corporation and Ventiv promptly following such Bankruptcy Event.

6. Call Events. Notwithstanding anything to the contrary set forth in this Funding Arrangement, in the event of any (i) material breach by the Corporation of the terms of this Funding Arrangement or the Services Agreement, which material breach has not been cured within thirty (30) calendar days of the receipt of notice of such breach by the Corporation, or any other Event of Default, (ii) failure of the Corporation to obtain all required Governmental Body approvals for the manufacture and sale of the Product on or prior to * or (iii) the Product receives Impaired Labeling (each of the foregoing circumstances, a "Call Event"), the Holder shall have the right to terminate this Agreement and, upon delivery of a Call Notice to the Corporation concerning the circumstances of the Call Event, the stated percentage below of the outstanding Principal Amount shall be immediately due and payable to the Holder without further notice or action by any Party hereto. The Corporation shall have forty five (45) calendar days from the date of such Call Notice to pay an amount in cash to the Holder equal to the applicable percentage of the outstanding Principal Amount. In the event the Holder shall deliver a Call Notice pursuant to clause (i) above, then one hundred percent (100%) of the outstanding Principal Amount, and any accrued but unpaid interest thereon shall be subject to the Call Notice. In the event the Holder shall deliver a Call Notice pursuant to clauses (ii) or (iii) above, then * percent (* %) of the outstanding Principal Amount, and any accrued and unpaid interest thereon, shall be subject to the Call Notice and in such case, the obligation to repay the remaining ** percent (** %) of the outstanding Principal Amount, and any accrued and unpaid interest thereon, shall be assumed and assigned to Ventiv, and the Corporation shall have no further obligation with respect to such amount. In each case, the stated amount shall become

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immediately due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Corporation, and the Holder shall therefore be entitled to pursue all remedies as it may have, at law or in equity, for the enforcement and collection of such amounts.

7. Assignment of Repayment Obligation. Notwithstanding anything to the contrary set forth in this Funding Arrangement, in the event of a termination of the Services Agreement (i) pursuant to a material breach by Ventiv of the terms of the Services Agreement, which breach shall not be fully cured within thirty (30) calendar days of written notice describing such breach; (ii) pursuant to a failure by Ventiv to meet the operational performance based metrics set forth in Schedule B to the Services Agreement, which failure shall not be fully cured within thirty (30) calendar days after the date such metrics are required to be met, (iii) pursuant to Section 15(e) of the Services Agreement or (iv) pursuant to Section 15(d)(i) of the Services Agreement, then the obligation to repay the outstanding Principal Amount, and any accrued and unpaid interest thereon, shall be assumed and assigned to Ventiv, and the Corporation shall have no further obligation with respect to such amount.

8. Notices. All notices, requests, claims, demands and other communications hereunder shall be in writing and shall be given or made (and shall be deemed to have been duly given or made upon receipt) by delivery in person, by courier service, by facsimile, or by registered or certified mail (postage prepaid, return receipt requested) to the respective parties at the following addresses (or at such other address for a party as shall be specified in a notice given in accordance with this Section 8):

if to the Holder:

VIS Financial LLC
c/o Ventiv Health, Inc.
1114 Avenue of the Americas
New York, New York 10036
Facsimile:
Attention: Ms. Elaine Kloss
Mr. Doug Langeland

with a copy to:

Weil, Gotshal & Manges LLP
767 Fifth Avenue
New York, NY 10153
Facsimile: (212) 310-8007
Attention: S. Wade Angus, Esq.
Marita Makinen, Esq.

if to the Corporation:

Cellegy Pharmaceuticals, Inc.
349 Oyster Point Boulevard
Suite 200
South San Francisco, California 94080
Facsimile: (650) 616 2222
Attention: A. R. Juelis

with a copy to:

Fenwick & West LLP
815 Connecticut Avenue N.W.
Suite 200
Washington, D.C. 20006
Facsimile: (202) 463-6520
Attention: C. Kevin Kelso, Esq.

9. Waiver. Failure of the Holder to insist upon strict performance of the terms, conditions and provisions of this Funding Arrangement shall not be deemed a waiver of future compliance therewith or a waiver of such terms, conditions or provisions. No waiver of any terms, conditions or provisions hereof shall be deemed to have been made unless expressed in writing and signed by the Holder. The terms of this Funding Arrangement shall not be amended, supplemented or modified in any manner without the prior written consent of the Holder and the Corporation.

10. Set-Off; Waiver. All payments made by the Corporation under this Funding Arrangement shall be without set-off or counterclaim. The Corporation hereby irrevocably waives presentment, protest, notice of dishonor, notice of protest and other notices of any kind in connection with this Funding Arrangement.

11. Taxes. Any and all payments by the Corporation hereunder shall be made, in accordance with Sections 3 and 4 above, free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto (all taxes, levies, imposts, deductions, charges, withholdings and liabilities in respect of payments hereunder, excluding income tax and income tax withholding, being hereinafter referred to as "Taxes"). If the Corporation shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under this Funding Arrangement, (i) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 11) the Holder receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Corporation shall make such deductions and (iii) the Corporation shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law.

In addition, the Corporation shall pay any present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies that arise from any payment made

hereunder or from the execution, delivery or registration of, performing under, or otherwise with respect to, this Funding Arrangement (hereinafter referred to as "Other Taxes").

The Corporation shall indemnify the Holder for and hold it harmless against the full amount of Taxes or Other Taxes (including, without limitation, taxes of any kind, excluding income tax and income tax withholding, imposed by any jurisdiction on amounts payable under this Section 11) imposed on or paid by the Holder and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto. This indemnification shall be made within 30 days from the date the Holder makes written demand therefor.

The Holder shall, on or prior to the date of the Corporation's execution and delivery of this Funding Arrangement and from time to time thereafter as may be reasonably necessary, in each case upon the reasonable request of the Corporation, deliver to the Corporation any applicable forms or certifications specified by the relevant tax authority of the Corporation's jurisdiction, or reasonably requested by the Corporation, to claim the elimination or reduction of the rate of withholding tax otherwise applicable in respect of a payment or payments made by the Corporation under this Funding Arrangement to the Holder.

12. Assignment; Transfer. This Funding Arrangement shall be binding upon and inure to the benefit of and be enforceable by the parties hereto and their respective successors and assigns. No party may assign its rights or obligations under this Funding Arrangement without the prior written consent of the other party hereto; provided, however, that no consent shall be required in connection with a Change of Control of a party or the sale of all or substantially all of the assets of a party, in each case, so long as such party's successor or assign agrees to be, or by operation of law is, bound by the terms of this Agreement and; provided, further, that any purchaser of the ownership rights to the Product or all or substantially all of the assets of the Corporation, or any successor to the Corporation by merger shall be required to expressly assume the obligations under this Funding Arrangement prior to the consummation of any such transaction. Notwithstanding the foregoing, the Corporation shall require the consent of the Holder with respect to a Change of Control of the Corporation involving a Ventiv Competitor. Any purported assignment in violation hereof shall be null and void and have no force or effect. Any permitted assignment shall be effected by surrender of the old instrument and either the reissuance by the Corporation of the old instrument to the new holder or the issuance by the Corporation of a new instrument to the new holder. The Corporation agrees to keep a register in which provision shall be made for the registration of this Funding Arrangement and the registration of transfer of this Funding Arrangement. Upon consent of the Corporation (if required) and due presentment for registration or transfer of this Funding Arrangement at the office of the Corporation, a new funding arrangement will be issued to the transferee in exchange herefor without charge. The Corporation and any agent of the Corporation may deem and treat the registered holder hereof as shown on such register as the absolute owner of this Funding Arrangement for the purpose of receiving any payment on this Funding Arrangement, as herein provided, and for all other purposes, and neither the Corporation nor any agent of the Corporation shall be affected by any notice to the contrary. All payments made to or upon the order of such registered holder shall, to the extent of the sum or sums paid, effectively satisfy and discharge liability for moneys payable on this Funding Arrangement.

13. Governing Law. This Funding Arrangement and its validity, construction and performance shall be governed in all respects by, and construed in accordance with, the laws of the State of New York, without regard to conflicts of law.

14. Miscellaneous. If any provision of this Funding Arrangement shall be held to be invalid, illegal or unenforceable, such invalidity, illegality or unenforceability shall not affect any other provisions of this Funding Arrangement, and this Funding Arrangement shall be construed as if any invalid, illegal or unenforceable provisions had not been contained herein.

If this Funding Arrangement is mutilated, lost, stolen or destroyed, the Corporation shall issue a new Funding Arrangement of like form to the Holder hereof upon presentment and surrender of the mutilated Funding Arrangement, in the case of mutilation, and upon receipt of evidence of loss, theft or destruction and of indemnity in all other cases, each in form reasonably satisfactory to the Corporation.

15. Waiver of Jury Trial. Each of the Holder and the Corporation irrevocably and unconditionally waives trial by jury in any legal action or proceeding relating to this Funding Arrangement and for any counterclaim therein.

16. Disputes.

(a) All controversies or claims arising out of or relating to this Funding Arrangement or the subject matter hereof ("Claims") shall first be submitted to the Steering Committee for resolution. If the Steering Committee is unable to resolve any Claim within three (3) calendar days of submission (or such other period as determined by the Steering Committee), or if the Parties are unable to renegotiate the terms of this Agreement as provided herein, subject to the procedures set forth in Section 5(c) of the Services Agreement, such Claim or failure to renegotiate shall be automatically submitted to arbitration.

(b) There shall be three (3) arbitrators. Each Party shall select one (1) arbitrator and the two arbitrators selected by each of the Parties shall select a third arbitrator. The arbitrators shall be selected within thirty (30) calendar days after submission for arbitration. Such arbitrators shall be accredited and shall not be Affiliates of either Party. In the event of the failure of the two arbitrators to agree as to the third arbitrator within twenty (20) Business Days after the appointment of the last of said two arbitrators, the third arbitrator shall be appointed by the American Arbitration Association within fifteen (15) Business Days thereafter. If a Party does not appoint an arbitrator who has consented to participate within thirty (30) days after submission for arbitration, the American Arbitration Association shall make the relevant appointment. The arbitration tribunal shall conduct the arbitration in Chicago, Illinois and apply such procedural rules as the arbitrators determine are necessary or appropriate in the circumstances and shall specify the same at the commencement of the arbitration and the substantive law set forth in this Funding Arrangement.

(c) The decision of the arbitrators shall be final and binding upon all Parties, and not subject to any appeal, to the fullest extent permitted by applicable law, and shall deal with the question of costs of arbitration and all matters related thereto. The arbitrators

may in their discretion award costs, including legal fees, to the prevailing party. Decisions of the arbitrators shall be in writing, and shall set forth the reasons therefor and, to the extent applicable, the manner in which the amount of the award was calculated.

(d) Judgment upon the award rendered by the arbitration may be entered in any court having jurisdiction, or application may be made to such court for a judicial recognition of the award or any order of enforcement thereof.

(e) Any monetary award arising from the arbitration proceedings shall include interest from the date of any damages incurred for breach or other violation of this Agreement and from the date of the award, until paid in full, at a rate to be fixed by the arbitrators. Any costs, fees, including, without limitation, attorneys' fees, or taxes incident to enforcing an arbitral decision rendered in accordance with this Section 16 shall be charged against the non-prevailing party.

[signature page follows]

IN WITNESS WHEREOF, the Corporation has caused this Funding Arrangement to be duly executed on the date first above written.

CELLEGY PHARMACEUTICALS, INC.

By: _____
Name:
Title:

VIS FINANCIAL LLC

By: _____
Name:
Title:

VENTIV HEALTH, INC.

By: _____
Name:
Title:

EXHIBIT A

MONTHLY STATEMENT

VIS FINANCIAL LLC
1114 Avenue of the Americas
New York, New York 10036

The undersigned, the [TITLE OF OFFICER] of Cellegy Pharmaceuticals, Inc. a California corporation ("Corporation"), gives this certificate to VIS Financial LLC ("Holder") in accordance with the requirements of Section 2(b) of that certain Funding Arrangement dated as of August ___, 2001, between the Corporation, the Holder and Ventiv Health, Inc., (the "Funding Arrangement"). Capitalized terms used in this Certificate, unless otherwise defined herein, shall have the meanings ascribed to them in the Funding Arrangement.

1. Based upon my review of the balance sheets and statements of income of the Corporation for the monthly period ending _____, 20__, copies of which are attached hereto, I hereby certify that the Contribution Margin for such period is calculated and set forth on Exhibit A hereto.

2. The calculation of Contribution Margin set forth on Exhibit A hereto is true, complete and correct in all respects.

The foregoing certifications, together with the computations set forth in Exhibit A hereto, are made and delivered this ___ day of _____, 200_.

Very truly yours,

CELLEGY PHARMACEUTICALS, INC.

By: _____

EXHIBIT A TO MONTHLY STATEMENT

	$
	-
Product Revenues	
Less: Cellegy Tranche I Revenue Share	
Reimbursement of Product Marketing Expenses	
Contribution Margin	

Exhibit 10.14

SHARE PURCHASE AGREEMENT

THIS SHARE PURCHASE AGREEMENT ("Agreement") is dated as of November 27, 2001 and is entered into by and among Cellegy Pharmaceuticals, Inc., a California corporation ("Cellegy"), Vaxis Therapeutics Corporation, a corporation organized under the OBCA ("Vaxis") and the stockholders of Vaxis whose names are subscribed hereto on the signature page to this Agreement (the "Stockholders").

BACKGROUND

A. Cellegy desires to acquire the business of Vaxis through the purchase from the Stockholders of all of the issued and outstanding share capital of Vaxis, on the terms and conditions set forth in this Agreement.

B. The boards of directors of Cellegy and Vaxis each have determined that it would be in each of their best interests to carry out the transactions contemplated by this Agreement, and the Stockholders desire to sell all of the share capital of Vaxis that they own, subject to the terms and conditions of this Agreement.

AGREEMENT

The parties agree as follows:

ARTICLE I
DEFINITIONS AND INTERPRETATION

1.1 Definitions. As used in this Agreement, the following terms shall have the following meanings:

"Agreement" means this Share Purchase Agreement, including all schedules, and all amendments or restatements, as permitted, and references to "Article" or "Section" mean the specified Article or Section of this Agreement.

"Arm's Length" has the meaning that it has for purposes of the Income Tax Act (Canada).

"Benefit Plans" means plans, arrangements, agreements, programs, policies, practices or undertakings, whether oral or written, formal or informal, funded or unfunded, registered or unregistered to which Vaxis is a party or by which Vaxis is bound or under which Vaxis has, or will have, any liability or contingent liability, relating to:

(a) Pension Plans;

(b) plans in the nature of insurance plans, providing for employment benefits relating to disability or wage or benefits continuation during periods of absence from work (including, short term disability, long term disability, workers compensation and maternity and parental leave), and any and all employment benefits relating to hospitalization, healthcare, medical or dental treatments or expenses, life insurance, accidental death and dismemberment insurance, death or survivor's benefits and supplementary employment insurance, in each case regardless of whether or not such benefits are insured or self-insured; or

(c) plans in the nature of compensation plans, which means all employment benefits relating to bonuses, incentive pay or compensation, performance compensation, deferred compensation, profit sharing or deferred profit sharing, share purchase, share option, stock appreciation, phantom stock, vacation or vacation pay, sick pay, severance or termination pay, employee loans or separation from service benefits, or any other type of arrangement providing for compensation or benefits additional to base pay or salary;

with respect to any of its Employees or former employees (or any spouses, dependants, survivors or beneficiaries of any such Employees or former employees), directors or officers, individuals working on contract with Vaxis or other individuals providing services to any of them of a kind normally provided by employees or eligible dependants of such Person excluding Statutory Plans.

"Business Day" means any day, other than a Saturday or Sunday, on which the Royal Bank of Canada in Kingston, Ontario, Canada is open for commercial banking business during normal banking hours.

"Canadian GAAP" means Canadian generally accepted accounting principles from time to time approved by the Canadian Institute of Chartered Accountants, or any successor thereto, applicable as at the time on which such calculation is made or required to be made in accordance with generally accounting principles.

"Cash Amount" means $240,000, or in Cellegy's discretion, the U.S. dollar equivalent of $240,000, based on the noon spot rate of exchange from time to time in effect as announced by the Bank of Canada, determined on the day before such amounts are required to be delivered.

"Cellegy" has the meaning more particularly described in the Preamble.

"Cellegy Average Price" means the average of the closing prices of Cellegy Common Stock on the NASDAQ National Market for the 15 consecutive trading days ending on the day before the date as of which a particular determination under this Agreement is made.

"Cellegy Common Stock" means the common stock, no par value, of Cellegy.

"Claims" includes claims, demands, actions, suits, causes of action, assessment or reassessments, charges, judgments, debts, liabilities, expenses, costs, damages or losses, including loss of value, professional fees and all costs incurred in investigating or pursuing any of the foregoing or any proceeding relating to any of the foregoing.

"Closing" has the meaning more particularly described in Section 3.5 hereto.

"Closing Date" has the meaning more particularly described in Section 3.5 hereto.

"Collective Agreements" means collective agreements and related documents including benefit agreements, letters of understanding, letters of intent and other written communications with bargaining agents or trade unions for the Employees or Dependent Contractors by which Vaxis is bound or which impose any obligations upon Vaxis or set out the understanding of the parties with respect to the meaning of any provisions of such collective agreements.

"Contract" means any contract, license, lease, agreement, commitment, entitlement or engagement to which Vaxis is a party or by which it is bound or under which Vaxis has, or will have, any liability or contingent liability, and includes any quotation, order or tender for any contract which remains open for acceptance and any warranty, guarantee or commitment (express or implied).

"Dependent Contractor" has the meaning given in the Labour Relations Act (Ontario).

"Dollars or $": Unless otherwise specified in this Agreement, all references to dollar amounts in this Agreement shall refer to Canadian dollars. Where this Agreement requires or permits Cellegy to make cash payments, Cellegy may, at its option, deliver the U.S. dollar equivalent of the specified Canadian amount, based on the noon spot rate of exchange from time to time in effect as announced by the Bank of Canada, determined on the day before such amounts are required to be delivered.

"Earn-Out Consideration" has the meaning more particularly described in Section 3.2 hereto.

"Employees" means those individuals employed or retained by Vaxis as employees on a full-time, part-time or temporary basis, including those employees on disability leave, parental leave or other absence.

"Employment Contract" means any Contract, whether oral or written, relating to an Employee, including any communication or practice relating to an Employee which imposes any obligation on Vaxis.

"Encumbrance" means any mortgage, lien, pledge, encumbrance, security interest, option, encroachment, reservation, order, decree, judgment, condition, restriction, charge, claim or equity of any kind, except for any of the foregoing which (i) secures a liability which is accurately disclosed in the financial statements of the party whose interest in property is affected thereby; (ii) liens for taxes not yet due; and (iii) easements or other similar rights which do not in the aggregate materially interfere with the present use of the property affected thereby.

"Environment" means the environment or natural environment as defined in any Environmental Laws and includes air, surface water, ground water, land surface, soil, subsurface strata, any sewer system and the environment in the workplace.

"Environmental Approval" means any approval, permit, certificate, license, authorization, consent, agreement, instruction, direction, registration, or approval issued, granted, conferred or required by a Governmental Authority pursuant to an Environmental Law with respect to the operations, business or assets of Vaxis and includes any sewer surcharge agreement.

"Environmental Laws" means those Laws relating to the Environment, product liability, or employee or public health and safety, and includes any Laws relating to the storage, generation, use, handling, manufacture, processing, labeling, advertising, sale, display, transportation, treatment, reuse, recycling, Release and disposal of Hazardous Substances.

"Escrow Agent" means the Secretary of Cellegy.

"Escrow Funds" has the meaning given in Section 3.7.

"Escrow Release Dates" means the dates that are 12 months or 48 months after the Closing, as applicable, as more particularly described in Section 3.7.

"Escrow Shares" has the meaning given in Section 3.7.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Founders" means Michael Adams, Ph.D., Jeremy Heaton, M.D. and James Banting, Ph.D.

"Governmental Authority" means any government, regulatory authority, governmental department, agency, commission, board, tribunal, dispute settlement panel or body, bureau, official, minister, Crown corporation, court or other law, rule or regulation-making entity having or purporting to have jurisdiction on behalf of any nation, or province or state or other geographic or political subdivision thereof.

"Governmental Authorization" means any authorization, approval, including Environmental Approval, franchise, certificate, order, consent, directive, notice, license, permit, variance, registration or similar right issued to or required by Vaxis by or from any Governmental Authority.

"Hazardous Substance" means any pollutant, contaminant, waste of any nature, hazardous substance, hazardous material, toxic substance, prohibited substance, dangerous substance or dangerous good as defined, judicially interpreted or identified in any Environmental Laws including any asbestos or asbestos-containing materials.

"Initial Consideration" has the meaning more particularly described in Section 3.1 hereto.

"Intellectual Property Rights" means any and all intellectual property rights in any jurisdiction, including, without limitation, patents, patent applications, patent rights, trademarks, trademark applications, trade names, service marks, service mark applications, copyrights, copyright applications, publication rights, computer programs and other computer software (including source codes and object codes), inventions, know-how, trade secrets, technology, proprietary processes and formulae (including layouts, structures, sequences, flow charts, instructions, records, notes and other information of a technological or scientific nature regardless of form), used in whole or in part or required for the carrying on of the business of Vaxis, as presently conducted and as proposed to be conducted.

"Knowledge" means, with respect to any party hereto, with respect to any fact, circumstance, event or other matter in question, that any of the officers or legal or financial in-house personnel of such party (and, with respect to Section 4.20 hereof, that any of the persons engaged in development activity for Vaxis) has actual or deemed knowledge of such fact, circumstance, event or other matter after reasonable inquiry of such fact, circumstance, event or other matter. An individual will be deemed to have knowledge of a particular fact, circumstance, event or other matter if (i) such fact, circumstance, event or other matter is reflected in one or more documents, written or electronic, that are or have been in such individual's possession or that would reasonably be expected to be reviewed by an individual who has the duties and responsibilities of such individual in the customary performance of such duties and responsibilities, or (ii) such knowledge could be obtained from reasonable inquiry of those persons employed by Cellegy or Vaxis (as the case may be), and any subsidiary of Cellegy, if any, charged with administrative or operational responsibility for such matter for such party.

"Laws" means applicable laws (including common law), statutes, by-laws, rules, regulations, orders, ordinances, protocols, codes, guidelines, treaties, policies, notices, directions and judicial, arbitral, administrative, ministerial or departmental judgments, awards or other requirements of any Governmental Authority.

"Leased Real Property" means premises which are used by Vaxis which are leased, subleased, licensed or otherwise occupied by Vaxis and the interest of Vaxis in all plants, buildings, structures, fixtures, erections, improvements, easements, rights-of-way, spur tracks and other appurtenances situate on or forming part of such premises.

"Material Adverse Effect" when used with reference to any entity or group of related entities, means any event, change, violation, inaccuracy, circumstance or effect (regardless of whether or not such events or changes are inconsistent with the representations or warranties made by such party in this Agreement) that is or is reasonably likely to be, individually or in the aggregate, materially adverse to the condition (financial or otherwise), capitalization, properties, employees, assets (including intangible assets), business, prospects, operations or results of operations of such entity and its Subsidiaries, taken as a whole with its Subsidiaries.

"Non-Competition Agreement" means the Non-Competition Agreement in the form entered into by and among Cellegy and each of the Founders and Dr. Charles Graham.

"OBCA" means the Business Corporations Act (Ontario), as amended from time to time, and includes any regulations made pursuant to such Act.

"Occupational Health and Safety Laws" means all Laws relating in full or in part to the protection of employee or worker health and safety.

"Owned Real Property" means real property, owned or purported to be owned in fee simple, by Vaxis, or real property, other than Leased Real Property, in which Vaxis has an interest, including all plants, buildings, structures, fixtures, erections, improvements, easements, rights-of-way, spur tracks and other appurtenances situate on or forming part of such real property.

"Pension Plans" means all benefits relating to retirement or retirement savings including pension plans, pensions or supplemental pensions, "registered retirement savings plans" (as defined in the Income Tax Act (Canada)), "registered pension plans" (as defined in the Income Tax Act (Canada)) and "retirement compensation arrangements" (as defined in the Income Tax Act (Canada)).

"Person" means any individual, sole proprietorship, partnership, firm, entity, unincorporated association, unincorporated syndicate, unincorporated organization, trust, body corporate, Governmental Authority, and where the context requires any of the foregoing when they are acting as trustee, executor, administrator or other legal representative.

"Pro-Rata Share of the Earn-Out Consideration" means the amount of Earn-Out Consideration that may be payable to a Stockholder from time to time, calculated by dividing the Earn-Out Consideration payable at the time by the aggregate number of Purchased Shares issued and outstanding on the Closing Date and multiplying the result by the number of Purchased Shares held by such Stockholder on the Closing Date.

"Purchased Shares" means the Vaxis Common Shares that the Stockholders sell to Cellegy pursuant to the terms of this Agreement, which shares shall constitute all of the issued and outstanding share capital of Vaxis on the Closing Date.

"Real Property" means the Owned Real Property and the Leased Real Property, as more particularly described in Section 4.20.

"Release" has the meaning prescribed in any Environmental Laws and includes, any sudden, intermittent or gradual release, spill, leak, pumping, addition, pouring, emission, emptying, discharge, injection, escape, leaching, disposal, dumping, deposit, spraying, burial, abandonment, incineration, seepage, placement or introduction, whether accidental or intentional.

"Remedial Order" means any administrative complaint, direction, order or sanction issued, filed, imposed or threatened by any Governmental Authority pursuant to any Environmental Laws and includes, any order requiring investigation or remediation of any site or any remediation or clean-up of any Hazardous Substance, or requiring that any Release or any

other activity be reduced, modified or eliminated or requiring any form of payment or co-operation be provided to any Governmental Authority.

"Securities Act" means the Securities Act of 1933, as amended.

"Securities Act (Ontario)" means the Securities Act of the Province of Ontario, as amended from time to time, and includes all regulations, rules, policies and other instruments promulgated thereunder.

"Statutory Plans" means statutory Benefit Plans which Vaxis is required to comply with, including the Canada Pension Plan and plans administered pursuant to applicable health tax, workers' compensation and unemployment insurance legislation.

"Stockholders" means all of the persons and entities who are holders of Vaxis Common Shares at the Closing Date.

"Stock Ratio" means the number that is the result of (i) the number obtained by dividing the U.S. dollar equivalent of Cdn$6,000,000, determined as of the Closing Date (or such other date before the Closing as Cellegy and Vaxis may agree), by the Cellegy Average Price determined as of the date of this Agreement (or such other date before the Closing as Cellegy and Vaxis may agree), divided by (ii) the aggregate number of Purchased Shares.

"Subsidiary" or "subsidiary" when used with respect to any party means any corporation or other organization, whether incorporated or unincorporated, of which such party or any other subsidiary of such party is a general partner (excluding partnerships the general partnership interests of which held by such party or any subsidiary of such party do not have a majority of the voting interests in such partnership) or of which at least a majority of the securities or other interests having by their terms ordinary voting power to elect a majority of the Board of Directors or others performing similar functions with respect to such corporations or other organizations is directly or indirectly owned or controlled by such party or by any one or more of the subsidiaries.

"Tax Returns" includes, all returns, reports, declarations, elections, notices, filings, information returns and statements, forms, statements and other documents (whether in tangible, electronic or other form) and including schedules, attachments, supplements, appendixes or exhibits thereto prepared, filed or required to be prepared or filed by applicable Laws in respect of Taxes.

"Taxes" means taxes, duties, fees, premiums, assessments, imposts, levies and other charges of any kind whatsoever imposed by any Governmental Authority, including all interest, penalties, fines, additions to tax or other additional amounts imposed by any Governmental Authority in respect thereof, including those levied on, or measured by, or referred to as, income, gross receipts, profits, capital, transfer, land transfer, sales, goods and services, harmonized sales, use, value-added, excise, stamp, withholding, business, franchising, property, employer health, payroll, employment, health, social services, education and social security taxes, all surtaxes, all customs duties and import and export taxes, all license, franchise and registration fees and all

employment insurance, health insurance and Canada and other government pension plan premiums or contributions.

"Transaction" means the purchase of the Purchased Shares by Cellegy pursuant to the terms of this Agreement and the other transactions contemplated hereby.

"Transaction Expenses" has the meaning more particularly described in Section 7.8 hereto.

"Union Plans" means Benefit Plans which are or are required to be established and maintained pursuant to a Collective Agreement and which are not maintained or administered by Vaxis or any of its affiliates.

"Vaxis" has the meaning more particularly described in the Preamble.

"Vaxis Common Shares" means the common shares in the capital of Vaxis.

"Vaxis Intellectual Property Rights" means all Intellectual Property Rights that are part of the conduct of the business of Vaxis.

ARTICLE II
THE TRANSACTION

2.1 The Purchase. At the Closing, Cellegy shall purchase the Purchased Shares from the Stockholders, and the Stockholders shall sell the Purchased Shares to Cellegy, on the terms and subject to the conditions of this Agreement.

2.2 Further Assurances. If, at any time before or after the Closing, Cellegy believes or is advised that any further instruments, deeds, assignments or assurances are reasonably necessary or desirable to consummate the Transaction or to carry out the purposes and intent of this Agreement at or after the Closing, then (i) each of Vaxis and each Stockholder covenants and agrees that before the Closing it will, upon the reasonable request of Cellegy, use best efforts to do, execute, acknowledge and deliver or cause to be done, executed, acknowledged and delivered all such further acts, deeds, assignments, instruments and assurances as may be required for the better carrying out and performance of all the terms of this Agreement, and (ii) after the Closing Cellegy, Vaxis and their respective officers and directors may execute and deliver all such proper acts, deeds, assignments, instruments and assurances as may be required for the better carrying out the performance of all the terms of this Agreement.

ARTICLE III
PURCHASE AND SALE OF SHARES

3.1 Purchase Price. Subject to Sections 3.7 and 3.8:

(a) The purchase price for the Purchased Shares shall be paid to each Stockholder for each Purchased Share as follows:

(i) a number of shares of Cellegy Common Stock equal to the Stock Ratio payable to that Stockholder; provided, however, that the Stockholders specified in Exhibit 3.1 shall receive the Cash Amount, allocated in the amounts specified on Exhibit 3.1, in lieu of a number of shares of Cellegy Common Stock with a value, based on the Cellegy Average Price determined as of the date of this Agreement (or such other date before the Closing as Cellegy and Vaxis agree), equal to the U.S. dollar equivalent of the Cash Amount;

(ii) any Cash Amount owing to that Stockholder as more particularly set forth in Exhibit 3.1; and

(iii) the Pro-Rata Share of the Earn-Out Consideration payable to that Stockholder, as set forth in Section 3.2 below.

The shares of Cellegy Common Stock and the Cash Amount referred to in paragraphs (i) and (ii) above are collectively referred to as the "Initial Consideration". The number of shares of Cellegy Common Stock to be received by each Stockholder shall be set forth in a Schedule of Purchasers mutually agreed to by Cellegy and the Stockholders on or before the Closing. The right of a Stockholder immediately before the Closing to receive the Initial Consideration and Earn-Out Consideration may not be transferred or assigned in any manner other than by will or by the laws of intestacy, or by instrument to an inter vivos or testamentary trust in which such rights are to be passed to beneficiaries upon the death of the settlor, in each case with the transferee agreeing to be bound by all of the provisions of this Agreement relating to the Initial Consideration and Earn-Out Consideration.

(b) At the Closing, each certificate representing any Purchased Shares (a "Certificate") shall be delivered to Cellegy as set forth in Section 3.3 hereof and, subject to the provisions of Sections 3.7 and 3.8 hereof, Cellegy shall pay the Initial Consideration to the Stockholder. If before the Closing Cellegy should split or combine the shares of Cellegy Common Stock, or pay a stock dividend or other stock distribution in, or in exchange of, shares of Cellegy Common Stock, or engage in any similar transaction, then the Stock Ratio will be appropriately adjusted to reflect such split, combination, dividend, exchange or other distribution or similar transaction.

(c) At or before the Closing, Vaxis shall take such actions as are necessary so that all outstanding and unexercised stock options, warrants, convertible securities or any right of any kind to acquire any securities of Vaxis shall terminate and/or expire, so that no such options, warrants, securities or rights survive beyond the Closing Date.

3.2 Earn-Out Consideration.

(a) The Earn-Out Consideration shall consist, in the aggregate, of up to CDN $11,000,000. Such Earn-Out Consideration shall consist of 50% of the nonrefundable cash or non-cash property consideration ("Nonrefundable Consideration") actually received by Vaxis or Cellegy after the Closing Date pursuant to:

(i) commercial sales of the products currently being developed by Vaxis or derived therefrom or sales of other products by or on behalf of Cellegy or Vaxis that would constitute an infringement of the patents and patent applications (to the extent that patents ultimately issue on such applications) that Cellegy acquires from Vaxis under this Agreement ("Products"); or

(ii) the sale, license or assignment of patents or patent applications that Cellegy acquires from Vaxis under this Agreement or the transactions contemplated hereby (or technology covered by the patents and patent applications that Cellegy acquires from Vaxis under this Agreement or the transactions contemplated hereby) ("Patents").

The Products and Patents are more particularly set forth on Exhibit 3.1(b) hereto.

(b) The obligation to pay the Earn-Out Consideration shall survive in the event of the sale of all or any portion of Cellegy's right, title and interest with respect to the Products or Patents to a third party, or in connection with a sale of all or substantially all of Vaxis' or Cellegy's business (whether by merger, sale of assets or otherwise) and Cellegy shall require, as a condition of such sale, that any acquirer of the Products or Patents to be bound by the terms of this Agreement relating to payment of the Earn-Out Consideration; but the receipt of consideration from any such sale transaction shall not constitute Nonrefundable Consideration.

(c) If the Nonrefundable Consideration received by Vaxis or Cellegy is other than cash, Cellegy may at its sole option pay the Earn-Out Consideration as cash with a value (determined in good faith by Cellegy) equal to the non-cash consideration received.

(d) For greater certainty, Nonrefundable Consideration shall include, but shall not be limited to:

(i) upfront money, option payments, milestone payments or any other form of cash or non-cash property consideration received from any licensee of the Products or Patents;

(ii) royalty payments received by Vaxis or Cellegy from any licensee with respect to its sales of the Products or license of the Patents; and

(iii) operating earnings generated by the Products if Cellegy commercializes the Products anywhere in the world.

(e) Where a product of Cellegy (such as Anogesic) is prescribed for indications that are not covered by the patents and patent applications (to the extent that patents ultimately issue with respect to such applications) that Cellegy is acquiring from Vaxis pursuant to this Agreement, but may also be used for conditions that are so covered ("off-label sales"), if Cellegy, in its reasonable discretion, can determine the amount of such off-label sales with reasonable precision using a reputable published source selected by Cellegy (such as IMS, NDTI, or Scott Levin), then the amount of such off-label sales that can be so determined shall also be treated as "Product" sales with respect to which Earn-Out Consideration is payable.

(f) The Earn-Out Consideration will be paid, at Cellegy's option, in the form of cash, Cellegy Common Stock or a combination thereof. Payments will be made within 60 days after the end of each quarter in which Cellegy has received Nonrefundable Consideration. If payment is made in Cellegy Common Stock, it will be based on the Cellegy Average Price as of the end of any such calendar quarter. The Earn-Out Consideration will only be calculated and payable during the term of seven (7) years from the date of this Agreement, and no payment will be made with respect to Nonrefundable Consideration received following expiration of such period.

(g) Cellegy shall prepare and deliver to each Stockholder with payment of the Earn-Out Consideration a statement showing the amount of the Earn-Out Consideration for the applicable quarter.

(h) Cellegy shall use commercially reasonable efforts, consistent with Cellegy's other products and opportunities, to develop and commercialize such of the Products as Cellegy believes have commercial potential. Notwithstanding the foregoing, nothing in this Agreement or otherwise shall restrict Cellegy's ability to operate its business and exercise its business judgment with respect to the Products and other Intellectual Property from which Earn-Out Consideration may be derived.

3.3 Delivery of Certificates. At Closing, each of the Stockholders shall deliver certificates representing the Purchased Shares held by such Stockholder, with properly executed instruments of assignment or transfer.

3.4 Transfer Taxes; No Fractional Shares.

(a) If any certificates for any shares of Cellegy Common Stock are to be issued in a name other than that in which the Certificate surrendered in exchange therefor is registered, it shall be a condition of such exchange that the person requesting such exchange shall (i) pay to Cellegy any transfer or other taxes required by reason of the issuance of certificates for such shares of Cellegy Common Stock in a name other than that of the registered holder of the Certificate surrendered or (ii) establish to the satisfaction of Cellegy that such tax has been paid or is not applicable.

(b) No fractional shares of Cellegy Common Stock shall be issued pursuant to the Transaction.

3.5 Closing. The closing of the transactions contemplated by this Agreement (the "Closing") shall take place at the offices of Blake, Cassels & Graydon LLP, 20th Floor, 45 O'Connor Street, Ottawa, Ontario at 9:00 a.m., local time, on the first Business Day (the "Closing Date") after which all of the conditions set forth in Article VIII hereof are satisfied or waived, or at such other date, time and place as Cellegy and Vaxis shall agree.

3.6 Supplementary Action. If at any time after the Closing, any further assignments or assurances in law or any other things are necessary or desirable to vest or to perfect or confirm or record in Vaxis the title to any property or rights of Vaxis, or otherwise to carry out the provisions of this Agreement, the officers and directors of Vaxis are hereby authorized and empowered on behalf of Vaxis to execute and deliver any and all things necessary or proper to vest or to perfect or confirm title to such property or rights, and otherwise to carry out the purposes and provisions of this Agreement.

3.7 Escrow.

(a) Cellegy will withhold the stock portion of the Initial Consideration and deposit with the Escrow Agent, as soon as reasonably practicable after the Closing, the certificates for the Escrow Shares (as defined below). The Escrow Shares will be issued in the name of the Stockholders but withheld from the Cellegy Common Stock to be delivered to Stockholders at the Closing. For this purpose, "Escrow Shares" means all of the shares of Cellegy Common Stock that are included in the Initial Consideration. Any shares of Cellegy Common Stock or other equity securities issued or distributed by Cellegy (including shares issued upon a stock split, stock dividend, recapitalization or other similar event) in respect of Escrow Shares shall also be withheld in the Escrow Funds and shall also be considered to be Escrow Shares. In addition, the full amount of any Earn-Out Consideration paid or payable with respect to the period ending forty-eight (48) months after the Closing Date will be withheld by Cellegy and deposited with the Escrow Agent to be held as part of the Escrow. Any Earn-Out Consideration that is deposited into the Escrow will be referred to herein as the "Escrow Earn-Out Consideration." The Escrow Shares and any Escrow Earn-Out Consideration may be collectively referred to herein as the "Escrow Funds." Cash dividends on Escrow Shares or interest on any cash Escrow Earn-Out Consideration shall be added to the Escrow Funds and shall not be distributed to the record holders of such Escrow Funds. Cellegy will hold the certificates representing such Escrow Funds as security for the Stockholders' indemnification obligations for Damages under Article X. Except as may be expressly provided otherwise in this Agreement with respect to breach of a Stockholder's representations and warranties under Article XI, the payment of any Escrow Funds in satisfaction of any indemnification obligations under Article X shall be made in proportion to the Escrow Funds (each valued at the Cellegy Average Price Per Share as of the date that such Escrow Shares are forfeited to satisfy such indemnity obligations) held for each Stockholder in the Escrow Fund.

(b) The Escrow Funds will be released to the Stockholders by the Escrow Agent on the following release dates ("Escrow Release Dates"), subject to any Escrow Funds being withheld pursuant to Section 10.2(b):

(i) the Escrow Shares will be released twelve (12) months from the Closing Date in the case of Stockholders other than the Founders and eighteen (18) months from the Closing Date in the case of the Founders; and

(ii) the Escrow Earn-Out Consideration will be released forty-eight (48) months from the Closing Date.

3.8 Non-Resident of Canada Stockholder; Section 116 Requirements. On or before the Closing, each non-resident Stockholder shall take all reasonable steps to obtain and deliver to Cellegy a certificate issued by the Minister of National Revenue under subsection 116(2) of the Income Tax Act (Canada).

(a) If a certificate is so delivered to Cellegy on or before the Closing Date, Cellegy shall be entitled to withhold from the Initial Consideration twenty-five percent (25%) of the amount, if any, by which such non-resident Stockholder's proportionate share of the Initial Consideration exceeds the certificate limit as defined in subsection 116(2) of the Income Tax Act (Canada) and fixed by the Minister of National Revenue in such certificate

(b) If a certificate is not so delivered to Cellegy on or before the Closing Date, Cellegy shall be entitled to withhold from the Initial Consideration an amount equal to twenty-five percent (25%) of such non-resident Stockholder's proportionate share of the Initial Consideration.

(c) If Cellegy has withheld any amount under the provisions of paragraphs (a) or (b) above and a non-resident Stockholder delivers to Cellegy, after the Closing and within 29 days after the end of the month in which the Closing occurs, a certificate issued by the Minister of National Revenue under subsection 116(2) or 116(4), as the case may be, of the Income Tax Act (Canada), Cellegy shall:

(i) if such certificate was issued under subsection 116(2) of the Income Tax Act (Canada), pay forthwith to the Receiver General twenty-five percent (25%) of the amount, if any, by which the non-resident Stockholder's proportionate share of the Initial Consideration exceeds the certificate limit fixed in such certificate, and the amount so paid shall be credited as payment on account of the Initial Consideration; and

(ii) pay forthwith to the non-resident Stockholder any amount that Cellegy has withheld and is not required to pay to the Receiver General in accordance with subparagraph (i) above (and which is not otherwise constitute Escrow Funds), and the amount so paid shall be credited as payment on account of the Initial Consideration.

(d) If Cellegy has withheld any amount under the provisions of paragraphs (a) or (b) above and no certificate has been delivered to Cellegy by the non-resident Stockholder in accordance with the provisions of paragraph (c) above, such withheld amount shall be paid by Cellegy to the Receiver General on the 30th day after the end of the month in which the Closing occurs on account of Cellegy's liability pursuant to subsection 116(5) of the Income Tax Act (Canada), and the amount so paid shall be credited as payment on account of the Purchase Price.

All amounts withheld by Cellegy in accordance with this Section shall be paid to and held by the Escrow Agent. The applicable non-resident Stockholder shall pay any expenses of the Escrow Agent in connection with this Section.

3.9 Securities Laws Compliance. The parties to this Agreement intend that Cellegy shall issue the shares of Cellegy Common Stock hereunder pursuant to a private placement under Section 4(2) of the Securities Act (and/or Regulation D or Regulation S promulgated under the Securities Act) and applicable state securities laws, and under Sections 72(1)(j) and 93(1)(d) of Securities Act (Ontario). The shares of Cellegy Common Stock issuable pursuant to this Agreement shall constitute "restricted securities" within the meaning of the Securities Act. The certificates for Cellegy Common Stock to be issued in the Transaction shall bear appropriate legends to identify such shares as being restricted under the Securities Act, and, if applicable, to notice the restrictions on transfer set forth in this Agreement. Vaxis shall use its best efforts to furnish Cellegy with all information concerning Vaxis and the Stockholders as Cellegy may reasonably request in connection with establishing the availability of federal and state private placement exemptions for any action contemplated by this Section.

ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF VAXIS

Except as set forth in the corresponding section or subsection of the disclosure schedule delivered to Cellegy at or before the execution of this Agreement ("Disclosure Schedule"), Vaxis represents and warrants to Cellegy as follows:

4.1 Organization. Vaxis is a corporation duly organized, validly existing and in good standing under the OBCA and has the corporate power to carry on its business as it is now being conducted. Vaxis is duly qualified to do business, and is in good standing (to the extent the concept of good standing exists), in each jurisdiction where the character of its properties owned or held under lease or the nature of its activities makes such qualification necessary. Vaxis does not have any wholly-owned or partially-owned Subsidiaries.

4.2 Capitalization.

(a) As of the date hereof, the authorized share capital of Vaxis consists of an unlimited number of Vaxis Common Shares and unlimited number of preferred shares in the capital of Vaxis ("Vaxis Preferred Shares"). As of the date of this Agreement, 2,111,269 Vaxis Common Shares were issued and outstanding, no Vaxis Preferred Shares were issued and outstanding, no warrants to acquire Vaxis Common Shares ("Vaxis Warrants") and no stock

options to acquire Vaxis Common Shares (the "Vaxis Stock Options") were outstanding. All issued and outstanding Vaxis Common Shares are validly issued, fully paid, nonassessable and free of pre-emptive rights or similar rights created by statute, the Articles of Incorporation or Bylaws of Vaxis or any agreement to which Vaxis is a party or by which Vaxis is bound.

(b) Except as set forth above or pursuant to Vaxis Benefit Plans, there are not now, and at the Closing there will not be, any shares in the capital of Vaxis issued or outstanding or any options, warrants, subscriptions, calls, rights, convertible securities or other agreements or commitments obligating Vaxis to issue, transfer or sell any shares in its capital. As of the date hereof, no bonds, debentures, notes or other indebtedness having the right to vote (or convertible into or exercisable for securities having the right to vote) on any matters on which Stockholders may vote ("Voting Debt") of Vaxis were issued or outstanding, nor will there be any issued or outstanding at the Closing. Except as provided in this Agreement, after the Closing Vaxis will have no obligation to issue, transfer or sell any shares in its capital pursuant to any employee benefit plan or otherwise. There are no voting trust or other agreements or understandings to which Vaxis is a party with respect to the voting of the capital of Vaxis. Vaxis is not required to redeem, repurchase or otherwise acquire shares of Vaxis as a result of the transactions contemplated by this Agreement. Immediately after the Closing, there will be no option, warrant, call, right or agreement obligating Vaxis to issue, deliver or sell, or cause to be issued, delivered or sold, any Vaxis Common Shares or any Voting Debt, or obligating Vaxis to grant, extend, or enter into any such option, warrant, call, right or agreement.

4.3 Authority Relative to this Agreement. Vaxis has the corporate power to enter into this Agreement and to carry out its obligations hereunder. The execution and delivery of this Agreement by Vaxis and the consummation by Vaxis of the Transaction have been duly authorized by Vaxis' Board of Directors, and no other corporate or stockholder proceedings on the part of Vaxis are necessary to approve this Agreement or the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by Vaxis and constitutes the valid and binding agreement of Vaxis, enforceable against Vaxis in accordance with its terms, subject to applicable bankruptcy, insolvency or other similar laws relating to creditors' rights and general principles of equity.

4.4 Consents and Approvals; No Violations. Except for applicable requirements of the Securities Act and the Securities Act (Ontario) no filing with, and no permit, authorization, consent or approval of, any public or governmental body or authority is necessary for the consummation by Vaxis of the transactions contemplated by this Agreement. Neither the execution and delivery of this Agreement by Vaxis, nor the consummation by Vaxis of the Transaction, nor compliance by Vaxis with any of the provisions hereof, will (a) result in any breach of the Articles of Incorporation or Bylaws of Vaxis, (b) result in a violation or breach of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, cancellation, acceleration or change in the award, grant, vesting or determination) under, require the consent of any third party under, or give rise to creation of any Encumbrance upon any of the respective properties or assets of Vaxis under, any of the terms, conditions or provisions of any note, bond, mortgage, indenture, deed of trust, license, contract, lease, agreement, arrangement or other instrument or obligation to which Vaxis is a party or by which any of them or any of their properties or assets may be bound or (c) violate any order, writ,

injunction, decree, statute, rule or regulation applicable to Vaxis or any of its properties or assets. No vote of Stockholders is necessary to approve this Agreement and the transactions contemplated hereby.

4.5 Financial Statements.

(a) Vaxis has delivered to Cellegy copies of its audited balance sheets as of October 31, 1999 and October 31, 2000, and its unaudited balance sheet as of September 30, 2001 (such balance sheets referred to as the "Balance Sheets" and September 30, 2001 referred to as the "Balance Sheet Date") and the related audited combined statements of operations and cash flows for each of the one-year periods ended October 31, 1999 and October 31, 2000, respectively, and the related unaudited combined statements of operations and cash flows for the nine month period ended September 30, 2001 (collectively, the Financial Statements"). The Financial Statements, including the related schedules and notes thereto, have been prepared in accordance with Canadian GAAP applied on a consistent basis throughout the periods indicated and consistent with each other (subject, in the case of unaudited statements, to normal audit adjustments which would not in the aggregate be material in amount or effect and the absence of any notes thereto). The Financial Statements fairly present the financial position of Vaxis as of the dates thereof, and the results of operations and the changes in cash flows of Vaxis for the respective periods set forth therein.

(b) The books, records and accounts of Vaxis (i) have been maintained in accordance with good business practices on a basis consistent with prior years, (ii) are stated in reasonable detail and accurately and fairly reflect the transactions and dispositions of the assets of Vaxis and (iii) accurately and fairly reflect the basis for the Financial Statements. Vaxis has devised and maintains a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorization, and (ii) transactions are recorded as necessary (A) to permit preparation of financial statements in conformity with Canadian GAAP or any other criteria applicable to such statements and (B) to maintain accountability for assets.

4.6 Absence of Certain Changes or Events. Except as disclosed in Section 4.6 of the Disclosure Schedule, since the Balance Sheet Date, Vaxis has conducted its business in the ordinary course consistent with past practice, and there has not been with respect to Vaxis any:

(a) material adverse change in the business of Vaxis;

(b) amendment or change in the Articles of Incorporation or Bylaws of Vaxis;

(c) incurrence, creation or assumption by Vaxis of (i) any mortgage, deed of trust, security interest, pledge, lien, title retention device, collateral assignment, claim, charge, restriction or other Encumbrance of any kind on any of the assets or properties of Vaxis; or (ii) any obligation or liability or any indebtedness for borrowed money;

(d) offer, issuance or sale of any debt or equity securities of Vaxis, or any options, warrants or other rights to acquire from Vaxis, directly or indirectly, any debt or equity

securities of Vaxis (except options granted in the ordinary course in amounts and with terms consistent with Vaxis' past practices and reflected in the option figures set forth in Section 4.2 above);

(e) payment or discharge by Vaxis of any security interest, lien, claim, or Encumbrance of any kind on any asset or property of Vaxis, or the payment or discharge of any liability that was not either shown on the Balance Sheets or incurred in the ordinary course of Vaxis' business after the Balance Sheet Date in an amount not in excess of $25,000 for any single liability to a particular creditor;

(f) purchase, license, sale, assignment or other disposition or transfer, or any agreement or other arrangement for the purchase, license, sale, assignment or other disposition or transfer, of any of the assets, properties or goodwill of Vaxis other than a purchase, license, sale, assignment or other disposition or transfer (or agreement therefor) made in the ordinary course of Vaxis' business that does not involve any transfer of title of, or an exclusive license to, or the creation of any Encumbrance on, any product, invention or proprietary technology of Vaxis;

(g) damage, destruction or loss of any property or asset, whether or not covered by insurance, having a Material Adverse Effect on Vaxis;

(h) declaration, setting aside or payment of any dividend on, or the making of any other distribution in respect of, shares in the capital of Vaxis, any split, combination or recapitalization of shares in the capital of Vaxis or any direct or indirect redemption, purchase or other acquisition of any shares in the capital of Vaxis or any change in any rights, preferences, privileges or restrictions of any outstanding security of Vaxis;

(i) change or increase in the compensation payable or to become payable to any of the officers, directors, or employees of Vaxis, or any bonus or pension, insurance or other benefit payment or arrangement (including without limitation stock awards, stock option grants, stock appreciation rights or stock option grants) made to or with any of such officers, employees or agents except in connection with normal employee salary or performance reviews or otherwise in the ordinary course of Vaxis' business;

(j) change with respect to the management, supervisory or other key personnel of Vaxis;

(k) obligation or liability incurred by Vaxis to any of its officers, directors or stockholders except for normal and customary compensation and expense allowances payable to officers in the ordinary course of Vaxis' business;

(l) making by Vaxis of any loan, advance or capital contribution to, or any investment in, any officer, director or stockholder of Vaxis or any firm or business enterprise in which any such person had a direct or indirect material interest at the time of such loan, advance, capital contribution or investment;

(m) entering into, amendment of, relinquishment, termination or non-renewal by Vaxis of any contract, lease, transaction, commitment or other right or obligation other than in

the ordinary course of its business or any written or oral indication or assertion by the other party thereto of any material problems with Vaxis' services or performance under such contract, lease, transaction, commitment or other right or obligation or its desire to so amend, relinquish, terminate or not renew any such contract, lease, transaction, commitment or other right or obligation;

(n) assertion by any third party against Vaxis of any complaint (where the amounts involved exceed $25,000 either individually or in the aggregate) against Vaxis;

(o) entering into by Vaxis of any transaction, contract or agreement that by its terms requires or contemplates a current and/or future financial commitment, expense (inclusive of overhead expense) or obligation on the part of Vaxis involving in excess of $25,000 or that is not entered into in the ordinary course of Vaxis's business, or the conduct of any business or operations other than in the ordinary course of Vaxis's business;

(p) license, transfer or grant of a right under any Vaxis Intellectual Property Rights, other than those licensed, transferred or granted in the ordinary course of Vaxis' business consistent with its past practices; or

(q) agreement or arrangement made by Vaxis to take any action which, if taken before the date of this Agreement, would have made any representation or warranty of Vaxis set forth in Article IV of this Agreement untrue or incorrect as of the date when made.

4.7 No Undisclosed Liabilities. Vaxis does not have any liability, indebtedness, obligation, expense, claim, guarantee or endorsement of any type, whether accrued, absolute, contingent, matured, unmatured or other, which individually or in the aggregate (i) has not been reflected in the Balance Sheets, or (ii) has not arisen in the ordinary course of Vaxis' business since the Balance Sheet Date, consistent with past practices and does not reflect a material change to the business (as previously conducted), results of operations or financial condition of Vaxis.

4.8 Litigation. As of the date of this Agreement: (i) there is no action, suit, judicial or administrative proceeding, hearing, arbitration or investigation pending or, to the knowledge of Vaxis, threatened against or involving Vaxis, or any of their properties or rights, before any court, arbitrator, or administrative or governmental body; (ii) there is no judgment, decree, injunction, rule or order of any court, Governmental Authority, commission, agency, instrumentality or arbitrator, or agreement or memorandum of understanding outstanding against Vaxis; and (iii) Vaxis is not in violation of any term of any judgments, decrees, injunctions or orders outstanding against them.

4.9 Contracts.

(a) Each of the contracts, instruments, mortgages, notes, security agreements, leases, agreements or understandings, to which Vaxis is a party that relates to or affects the assets or operations of Vaxis or to which Vaxis or its assets or operations may be bound or subject is a valid and binding obligation of Vaxis and in full force and effect with respect to Vaxis and, to the

knowledge of Vaxis, with respect to all other parties thereto. Except to the extent that the consummation of the transactions contemplated by this Agreement may require the consent of third parties, there are no existing defaults by Vaxis thereunder or, to the knowledge of Vaxis, by any other party thereto; and no event of default has occurred, and no event, condition or occurrence exists, that (whether with or without notice, lapse of time, the declaration of default or other similar event) would constitute a default by Vaxis thereunder. Section 4.9(a) of the Disclosure Schedule lists all consents of third parties required for the consummation of the transactions contemplated by this Agreement.

(b) Section 4.9(b) of the Disclosure Schedule lists the following contracts and other agreements to which Vaxis is a party:

(i) any agreement (or group of related agreements) for the lease of personal property to or from any person providing for lease payments in excess of $25,000 per annum;

(ii) any agreement concerning a partnership or joint venture;

(iii) any agreement (or group of related agreements) under which it has created, incurred, assumed, or guaranteed any indebtedness for borrowed money, or any capitalized lease obligation or under which it has imposed a security interest on any of its assets, tangible or intangible;

(iv) any agreement concerning confidentiality or noncompetition, to which Vaxis or any of the Founders are a party;

(v) any agreement with any of the Stockholders and their affiliates;

(vi) any profit sharing, stock option, stock purchase, stock appreciation, deferred compensation, severance, or other material plan or arrangement for the benefit of its current or former directors, officers, or employees;

(vii) any agreement or offer letter for the employment of any individual on a full-time, part-time, consulting, or other basis providing annual compensation in excess of $25,000 or providing severance benefits;

(viii) any agreement under which it has advanced or loaned any amount to any of its directors, officers, and employees outside the ordinary course of business;

(ix) any agreement under which Vaxis is performing services for customers or clients providing for payments in excess of $25,000

per annum or any agreement under which Vaxis is receiving services providing for payments in excess of $25,000 per annum;

(x) any license agreement relating to any Vaxis Intellectual Property;

(xi) any license agreement relating to any intellectual property of another Person;

(xii) any other agreement, contract, commitment or instrument that is material to the business of Vaxis or that involves a future commitment by Vaxis in excess of $25,000; and

(xiii) any agreement under which the consequences of a default or termination could have a Material Adverse Effect.

(c) Vaxis has delivered to Cellegy a correct and complete copy of each agreement listed in Section 4.9(b) of the Disclosure Schedule and a written summary setting forth the terms and conditions of each oral agreement referred to in Section 4.9(b) of the Disclosure Schedule. With respect to each such agreement: (A) the agreement is legal, valid, binding, enforceable, and in full force and effect; (B) the agreement will continue to be legal, valid, binding, enforceable, and in full force and effect on identical terms following the consummation of the transactions contemplated hereby; (C) no party is in breach or default, and no event has occurred which with notice or lapse of time would constitute a breach or default, or permit termination, modification, or acceleration, under the agreement; and (D) no party has repudiated any provision of the agreement.

(d) Vaxis has no agreement or plan, including any stock incentive plan, stock appreciation rights plan, restricted stock plan or stock purchase plan, any of the benefits of which will be increased, or the vesting of the benefits of which will be accelerated, by the occurrence of any of the transactions contemplated by this Agreement or the value of any of the benefits of which will be calculated on the basis of any of the transactions contemplated by this Agreement.

(e) Vaxis has no agreements or arrangements to sell or otherwise dispose of, or lease, acquire or otherwise invest in, any property, lines of business or other assets, other than agreements and arrangements entered into in the ordinary course of Vaxis' business.

4.10 Employee Benefit Plans.

(a) Section 4.10 of the Disclosure Schedule set forth a complete list of the Benefit Plans.

(b) Current and complete copies of all written Benefit Plans or, where oral, written summaries of the material terms thereof, have been delivered or made available to Cellegy together with current and complete copies of all documents relating to the Benefit Plans, including, as applicable,

(i) all documents establishing, creating or amending any of the Benefit Plans;

(ii) all trust agreements and funding agreements;

(iii) all insurance contracts, investment management agreements, subscription and participation agreements;

(iv) all financial statements and accounting statements and reports, and investment reports for each of the last six years and the three most recent actuarial reports;

(v) all reports, statements, annual information returns or other returns, filings and material correspondence with any regulatory authority in the last six years;

(vi) all legal opinions, consultants' reports and correspondence relating to the administration or funding of any Benefit Plan or the use of the funds held under such plans;

(vii) all booklets, summaries, manuals and communications of a general nature distributed or made available to any Employees or former employees concerning any Benefit Plans;

(viii) a copy of the most recent letter of confirmation of registration of the Pension Plan(s), if any, pursuant to any Laws; and

(ix) a copy of any statement of investment policies and goals prepared in respect of the Pension Plans, if any, whether or not such statement has been filed with the applicable Governmental Authority.

(c) Except as disclosed in Section 4.10 of the Disclosure Schedule, each Benefit Plan is, and has been established, registered (where required), qualified, administered and invested, in compliance with (i) the terms of such Benefit Plan, (ii) all Laws and (iii) any Collective Agreements; and Vaxis has not received, in the last six years, any notice from any Person questioning or challenging such compliance (other than in respect of any claim related solely to that Person), and Vaxis does not have any knowledge of any such notice from any Person questioning or challenging such compliance beyond the last six years.

(d) All obligations to or under the Benefit Plans (whether pursuant to the terms thereof or any Laws) have been satisfied, and there are no outstanding defaults or violations thereunder by Vaxis or, to the knowledge of Vaxis, any default or violation by any other party to any Benefit Plan.

(e) Except as disclosed in Section 4.10 of the Disclosure Schedule, there have been no improvements, increases or changes to, or promised improvements, increases or changes to, the benefits provided under any Benefit Plan. None of the Benefit Plans provide for benefit increases or the acceleration of, or an increase in, funding obligations that are contingent upon or will be triggered by the entering into of this Agreement or the completion of the transactions contemplated herein.

(f) All employer or employee payments, contributions or premiums required to be remitted, paid to or in respect of each Benefit Plan have been paid or remitted in a timely fashion in accordance with its terms and all Laws, and no Taxes, penalties or fees are owing or eligible under any Benefit Plan.

(g) There is no investigation by a Governmental Authority, or Claim (other than routine claims for payment of benefits) pending or threatened involving any Benefit Plan or their assets, and no facts exist which could reasonably be expected to give rise to any such investigation or Claim (other than routine claims for benefits).

(h) No event has occurred respecting any registered Benefit Plan which would result in the revocation of the registration of such Benefit Plan (where applicable) or entitle any Person (without the consent of Vaxis) to wind-up or terminate any Benefit Plan, in whole or in part, or which could otherwise reasonably be expected to adversely affect the tax status of any such plan.

(i) There are no going concern unfounded actuarial liabilities, past service unfounded liabilities or solvency deficiencies respecting any of the Benefit Plans.

(j) No material changes have occurred in respect of any Benefit Plan since the date of the most recent financial, accounting, actuarial or other report, as applicable, issued in connection with any Benefit Plan, which could reasonably be expected to adversely affect the relevant report (including rendering it misleading in any material respect).

(k) Vaxis has not received, or applied for, any payment of surplus out of any Benefit Plan or any payment in respect of the demutualization of the insurer of any Benefit Plan.

(l) Except as disclosed in Section 4.10 of the Disclosure Schedule, (i) Vaxis has not taken any contribution or premium holidays under any Benefit Plan and, where so disclosed, Vaxis was entitled under the terms of the Benefit Plan, applicable Collective Agreements and under all Laws to take such contribution or premium holidays; and (ii) there have been no withdrawals or transfers of assets from any Benefit Plan and where so disclosed, such withdrawals or transfers of assets were in accordance with the terms of such Benefit Plan, any applicable Collective Agreements and all Laws.

(m) None of the Benefit Plans is a Union Plan or a "multi-employer" pension plan or benefit plan as defined under Laws.

(n) All employee data necessary to administer each Benefit Plan is in the possession of Vaxis and is complete, correct and in a form which is sufficient for the proper administration of the Benefit Plan in accordance with its terms and all Laws.

(o) None of the Benefit Plans, other than the Pension Plans, provide benefits beyond retirement or other termination of service to Employees or former employees or to the beneficiaries or dependents of such employees, or such benefits have been properly accrued on the Financial Statements in accordance with Canadian GAAP.

(p) None of the Benefit Plans require or permit a retroactive increase in premiums or payments, or require additional premiums or payments or termination of the Benefit Plan or any insurance contract relating thereto, and the level of insurance reserves, if any, under any insured Benefit Plan is reasonable and sufficient to provide for all incurred but unreported Claims.

(q) Vaxis' sole obligation to or in respect of any Union Plans is to make monetary contributions to the Union Plans in the amounts and in the manner set forth in the Collective Agreements, if any, disclosed to Cellegy under this Agreement.

4.11 Tax Matters.

(a) Vaxis has duly and timely prepared all Tax Returns required to be prepared by it, has duly and timely filed its Tax Returns required to be filed by it with the appropriate Governmental Authority and has duly, completely and correctly reported all income and all other amounts and information required to be reported thereon.

(b) Vaxis has duly and timely paid all Taxes, including all installments on account of Taxes for the current year, that are due and payable by it whether or not assessed by the appropriate Governmental Authority. Provision has been made on the Balance Sheet for amounts at least equal to the amount of all Taxes owing by Vaxis that are not yet due and payable and that relate to periods ending on or prior to the Closing Date.

(c) Vaxis has not requested, offered to enter into or entered into any agreement or other arrangement or executed any waiver providing for, any extension of time within which (i) to file any Tax Return covering any Taxes for which Vaxis is or may be liable; (ii) to file any elections, designations or similar filings relating to Taxes for which Vaxis is or may be liable; (iii) Vaxis is required to pay or remit any Taxes or amounts on account of Taxes; or (iv) any Governmental Authority may assess or collect Taxes for which Vaxis is or may be liable.

(d) All Canadian federal and provincial income, sales and capital tax liabilities of Vaxis have been assessed by the relevant taxing authorities and notices of assessment have been issued to it by all relevant taxing authorities for all taxation years prior to and including the taxation year ended October 31, 2000.

(e) There are no proceedings, investigations, audits or Claims now pending or, to the knowledge of Vaxis, threatened, against Vaxis in respect of any Taxes and there are no matters under discussion, audit or appeal with any Governmental Authority relating to Taxes.

(f) Vaxis has duly and timely withheld the amount of all Taxes and other deductions required by law to be withheld from any amount paid or credited by it to or for the account or benefit of any Person, including any Employees, officers or directors and any non-resident Person, and has duly and timely remitted to the appropriate Governmental Authority, such Taxes and other deductions required by law to be remitted.

(g) Except pursuant to this Agreement or as specifically disclosed in writing to Cellegy, for purposes of the Income Tax Act (Canada) or any other applicable Tax statute, except for the Stockholders no Person or group of Persons has ever acquired or had the right to acquire control of Vaxis.

(h) None of Sections 78, 80, 80.01, 80.02, 80.03 or 80.04 of the Income Tax Act (Canada), or any equivalent provision of the Tax legislation of any province or any other jurisdiction, have applied or will apply to Vaxis at any time up to and including the Closing Date.

(i) Vaxis has not acquired property from a non-Arm's Length Person, within the meaning of the Income Tax Act (Canada), for consideration, the value of which is less than the fair market value of the property acquired in circumstances which could subject it to a liability under Section 160 of the Income Tax Act (Canada).

(j) For all transactions between Vaxis and any non-resident Person with whom Vaxis was not dealing at Arm's Length during a taxation year commencing after 1998 and ending on or before the Closing Date, Vaxis has made or obtained records or documents that meet the requirements of paragraphs 247(4)(a) to (c) of the Income Tax Act (Canada).

(k) Vaxis is duly registered under subdivision (d) of Division V of Part IX of the Excise Tax Act (Canada) with respect to the goods and services tax and harmonized sales tax and its registration number is 886332568.

(l) The only reserves under the Income Tax Act (Canada) or any equivalent provincial statute to be claimed by Vaxis for the taxation year ended immediately prior to the acquisition of control by Cellegy are disclosed in Section 4.11 of the Disclosure Schedule.

(m) Vaxis has not filed any elections, designations or similar filings which will be applicable for any period ending after the Closing Date.

(n) Vaxis has duly and timely collected the amount of any sales or transfer taxes, including any goods and services, harmonized sales and provincial sales taxes, required by Law to be collected by it and has duly and timely remitted to the appropriate Governmental Authority such sales or transfer taxes required by Law to be remitted by it.

(o) Cellegy has been provided with copies of all Tax Returns and all communications to or from any Governmental Authority relating to the Taxes of Vaxis, to the extent relating to periods or events in respect of which any Governmental Authority may by Law assess or otherwise impose any such Tax on Vaxis.

4.12 Compliance With Applicable Law. Vaxis holds all licenses, franchises, permits, variances, exemptions, orders, approvals and authorizations necessary for the lawful conduct of its business under and pursuant to, and the business of Vaxis is not being conducted in material violation of, any provision of any federal, provincial, local or foreign statute, law, ordinance, rule, regulation, judgment, decree, order, concession, grant, franchise, permit or license or other Governmental Authorization or approval applicable to Vaxis.

4.13 Subsidiaries. Vaxis has no subsidiaries.

4.14. No Bankruptcy Proceedings. There is no Bankruptcy Proceeding (as defined below) pending against Vaxis, and to the best knowledge of Vaxis, no other person has threatened to commence any such Bankruptcy Proceeding against Vaxis. Vaxis is not Insolvent (as defined below), and Vaxis has no reason to believe that it may become Insolvent in the ordinary course of its business. For purposes of this Section, a Bankruptcy Proceeding shall mean and include any action, suit or judicial or administrative proceeding under any applicable bankruptcy, fraudulent conveyance or insolvency law, including but not limited to, any such action, suit or judicial or administrative proceeding: (i) involving the filing of a voluntary or involuntary bankruptcy petition, or petition from relief from Claims of creditors, with respect to Vaxis; (ii) in which it is alleged that Vaxis is insolvent; or (iii) seeking the liquidation of Vaxis, the appointment of a receiver or trustee over all or substantially all of the assets of Vaxis, or the composition or assignment of all or a substantial portion of the assets of Vaxis for the benefit of the creditors of Vaxis . For purposes of this Section, Vaxis shall be "Insolvent" if it is generally not paying, or is or will be unable or lacks the means to pay, its debts as they become in the ordinary course of its business.

4.15 Labor and Employment Matters.

(a) Section 4.15 of the Disclosure Schedule sets forth a complete list of the Employees, together with their titles, service dates and material terms of employment, including current wages, salaries or hourly rate of pay, benefits, vacation entitlement, commissions and bonus (whether monetary or otherwise) or other material compensation paid since the beginning of the most recently completed fiscal year or payable to each such Employee, the date upon which each such term of employment became effective if it became effective in the 12 month period prior to the date of this Agreement and the date upon which each such Employee was first hired by Vaxis. Except as disclosed in Section 4.15 of the Disclosure Schedule, no Employee is on short-term or long-term disability leave, parental leave, extended absence or receiving benefits pursuant to the Workplace Safety and Insurance Act (Ontario) or similar workers' compensation legislation in other jurisdictions.

(b) Except for the Employment Contracts listed in Section 4.15 of the Disclosure Schedule, there are no Employment Contracts which are not terminable on the giving

of reasonable notice in accordance with applicable law, nor are any management agreements, retention bonuses or Employment Contracts providing for cash or other compensation or benefits upon the consummation of the transactions contemplated by this Agreement.

(c) Except for the Benefit Plans or as disclosed in Section 4.15 of the Disclosure Schedule, there are no employment policies or plans, which are binding upon Vaxis.

(d) (i) Vaxis has been and are being operated in full compliance with all Laws relating to employees, including employment standards, Occupational Health and Safety Laws, workers compensation, human rights, labour relations, pay equity and employment equity. Vaxis has complied with and posted plans as required under applicable pay equity legislation. There have been no Claims nor, to the knowledge of Vaxis, are there any threatened complaints under such employment-related Laws against Vaxis.

(e) There are no Claims or complaints nor, to the knowledge of Vaxis, are there any threatened Claims or complaints, against Vaxis pursuant to any Laws relating to Employees, including employment standards, human rights, labour relations, Occupational Health and Safety Laws, worker's compensation, pay equity or employment equity. To the knowledge of Vaxis nothing has occurred which might lead to a Claim or complaint against Vaxis under any such Laws. There are no outstanding decisions, orders or settlements or pending settlements which place any obligation upon Vaxis to do or refrain from doing any act.

(f) All current assessments under the Workplace Safety and Insurance Act (Ontario) and any similar workers compensation legislation in other provinces in relation to Vaxis and all of their respective contractors and subcontractors have been paid or accrued and Vaxis has not been subject to any special or penalty assessment under such legislation which has not been paid.

(g) Vaxis has previously made available to Cellegy for review all inspection reports under the Occupational Health and Safety Act (Ontario) and Workplace Safety and Insurance Act (Ontario) relating to Vaxis. There are no outstanding inspection orders made under the Occupational Health and Safety Act (Ontario) against Vaxis. Except as set forth in Section 4.15 of the Disclosure Schedule, Vaxis are operating in compliance with all Occupational Health and Safety Laws, including but not limited to the Workplace Hazardous Materials Information System (WHMIS). To the knowledge of Vaxis, there are no pending or threatened charges against Vaxis under Occupational Health and Safety Laws. There have been no fatal or critical accidents which might lead to charges against Vaxis under Occupational Health and Safety Laws. To the knowledge of Vaxis, there are no materials present in the assets owned or used by Vaxis, exposure to which may result in an industrial disease as defined in the Workplace Safety and Insurance Act (Ontario). If such materials including asbestos, have to be removed to comply with Occupational Health and Safety laws, Vaxis shall indemnify and save harmless Cellegy for any and all costs arising from such removal. Vaxis have complied in all respects with any Remedial Orders issued under Occupational Health and Safety Laws. To the knowledge of Vaxis, there are no appeals of any Remedial Orders under Occupational Health and Safety Laws against Vaxis which are currently outstanding.

4.16 Ownership of Shares of Cellegy Common Stock. As of the date hereof, neither Vaxis nor, to its knowledge, any of its affiliates or associates (as such terms are defined under the Securities Act (Ontario)), (a) beneficially owns, directly or indirectly, or (b) is party to any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of, in each case, shares of Cellegy Common Stock, except for the "standstill" provisions of the Memorandum of Terms dated October 18, 2001, between Cellegy and Vaxis (the "No-Shop Agreement") relating to the transactions contemplated by this Agreement.

4.17 Insurance. As of the date hereof, Vaxis is insured by insurers reasonably believed by Vaxis to be of recognized financial responsibility against such losses and risks and in such amounts as are customary in the businesses in which they are engaged. All material policies of insurance and fidelity or surety bonds insuring Vaxis or its businesses, assets, employees, officers and directors are in full force and effect. There are no Claims by Vaxis under any such policy or instrument as to which any insurance company is denying liability or defending under a reservation of rights clause.

4.18 Products and FDA Matters.

(a) Vaxis has not received any written notices, citations or decisions by any Governmental Authority that any material product developed, under development, produced, manufactured, marketed or distributed at any time by Vaxis (the "Vaxis Products") is defective or fails to meet any applicable standards promulgated by any such Governmental Authority. Vaxis has complied in all material respects with the laws, regulations, policies, procedures and specifications with respect to the development, design, manufacture, labeling, testing, record keeping and inspection of the Vaxis Products and the operation of manufacturing facilities promulgated by the Food and Drug Administration (the "FDA") and Health Canada. Since January 1, 1998, there have been no recalls, field notifications or seizures ordered or, to the knowledge of Vaxis, threatened by any such Governmental Authority with respect to any of the Vaxis Products. Since January 1, 1998, Vaxis has not received a warning letter or Section 305 notice from the FDA or corresponding document from Health Canada.

(b) Vaxis has obtained, in all countries where either Vaxis or any corporate partner thereof is conducting research or trials regarding, developing or marketing any Vaxis Products, all applicable licenses, registrations, approvals, clearances and authorizations required by local, state, provincial or federal agencies (including the FDA and Health Canada) in such countries regulating the safety, effectiveness and market clearance of the Vaxis Products currently being researched, developed or marketed by Vaxis or any corporate partner thereof in such countries. Vaxis has made available for examination by Cellegy all material information relating to the regulation of the Vaxis Products.

(c) To the knowledge of Vaxis, there have been no adverse events in any clinical trials conducted by or on behalf of Vaxis of such a nature that would be required to be reported to any applicable Governmental Authority that have not been so reported to such authority.

(d) Vaxis will promptly provide Cellegy with copies of any document that is issued, prepared, or otherwise becomes available from the date of this Agreement until the Closing which bears on the regulatory status of Vaxis or Vaxis Products with the FDA or Health Canada or other foreign Governmental Authorities, including, but not limited to, any filing, deficiency letter, warning letter, non-approval letter/order, withdrawal letter/order or any similar document.

4.19 Environmental Matters.

(a) Section 4.19 of the Disclosure Schedule sets forth a complete list of the Environmental Approvals.

(b) All operations of Vaxis conducted on the Real Property and the Real Property itself while occupied by Vaxis, or at other properties over which Vaxis currently or in past had charge, management or control and to the knowledge of Vaxis, while occupied by Vaxis' predecessors in title, have been and are now, in compliance with all Environmental Laws and any future Environmental Laws that, to the knowledge of Vaxis, are presently planned or proposed by any Governmental Authority. Any Release by Vaxis and to the knowledge of Vaxis, by Vaxis' predecessors in title of any Hazardous Substance into the Environment complied and complies with all Environmental Laws.

(c) All Environmental Approvals have been obtained, are valid and in full force and effect, have been and are being complied with, and there have been and are no proceedings commenced or threatened to revoke or amend any Environmental Approval..

(d) Vaxis or any of its operations has not been or is not now the subject of any Remedial Order, nor does Vaxis have any knowledge of any investigation or evaluation commenced or threatened as to whether any such Remedial Order is necessary nor has any threat of any such Remedial Order been made nor are there any circumstances which could result in the issuance of any such Remedial Order.

(e) Vaxis has not been prosecuted for or convicted of any offence under any Environmental Law, nor has Vaxis been found liable in any proceeding to pay any fine, penalty, damages, amount or judgment to any Person as a result of any Release or threatened Release or as a result of the breach of any Environmental Law and to the knowledge of Vaxis, there is no basis for any such proceeding or action.

(f) No part of the Real Property or any other of the assets of Vaxis has ever been used by Vaxis as a landfill or for the disposal of waste and to the knowledge of Vaxis, no part of the Real Property or any other of the assets of Vaxis has been used by any other Person as a landfill or for the disposal of waste.

(g) Except in compliance with applicable Environmental Laws, no asbestos or asbestos containing materials are used, stored or otherwise present in or on the Real Property or any other assets of Vaxis. No equipment, waste or other material containing polychlorinated

biphenyls (PCBs) are used, stored or otherwise present in or on the Real Property or any other assets of Vaxis.

(h) All material environmental data and studies (including the results of any environmental audit assessment or environmental management system) relating to Vaxis have been delivered or made available to Cellegy.

(i) There has been no Release by Vaxis of any Hazardous Substance which is now present in, on or under any of the Real Property or any other assets of Vaxis or any property currently or in the past under the charge, management or control of Vaxis (including underlying soils and substrata, vegetation, surface water and groundwater) at levels which exceed decommissioning or remediation standards under any applicable Environmental Laws or standards published or administered by the Governmental Authority responsible for establishing or applying such standards.

(j) Vaxis has no knowledge of any Hazardous Substance in, on or under the Real Property or any other assets of Vaxis.

(k) There are no underground storage tanks ("USTs") on the Real Property and any storage tanks or any USTs formerly on the Real Property have been removed and any affected soil, surface water or ground water has been remediated in material compliance with all Laws.

(l) Vaxis has no knowledge of any Hazardous Substance originating from any neighboring or adjoining properties which has migrated onto, into or under or is migrating towards any of the Real Property or any other assets of Vaxis.

(m) Vaxis has no knowledge of any Hazardous Substance originating from any of the Real Property or any other assets of Vaxis which has migrated onto, or is migrating towards any neighboring and/or adjoining properties.

(n) Vaxis has no knowledge of any proposed changes to Environmental Laws which may affect the operations of Vaxis.

4.20 Intellectual Property Rights.

(a) Section 4.20(a) of the Disclosure Schedule sets forth an accurate and complete list of all Vaxis Intellectual Property Rights, including without limitation (i) patents, applications for patents, registrations of trademarks (including service marks) and applications therefor and registrations of copyrights and applications therefor that are owned by Vaxis; (ii) unexpired licenses relating to Vaxis Intellectual Property Rights that have been granted to or by Vaxis; and (iii) other agreements, including but not limited to options to other Intellectual Property Rights, relating to Intellectual Property Rights that are part of the business of Vaxis as presently conducted and as proposed to be conducted.

(b) Except as specifically identified in Section 4.20 of the Disclosure Schedule, Vaxis is the sole beneficial and registered owner of the Intellectual Property listed and described in such Schedule (such Intellectual Property owned by Vaxis being referred to herein as the "Owned Intellectual Property"), with good and marketable title thereto, free and clear of any Claims and Encumbrances or obligations to make any past, present or future payments to or confer any benefit on any other Person. Vaxis is exclusively entitled to possess, use, transfer, license and exploit the Owned Intellectual Property, without the consent or permission of or payment to any third party. Except as set out in Section 4.20 of the Disclosure Schedule, no Person other than Vaxis has any Intellectual Property Rights in or to the Owned Intellectual Property or any aspect or component thereof. There has been no sale, transfer or assignment of the Owned Intellectual Property or any granting of any agreement or right capable of becoming an agreement or option for the purchase, transfer or assignment of any such assets.

(c) With respect to any Intellectual Property used in whole or in part in or required for the carrying on of the business of Vaxis as conducted and as proposed to be conducted, or otherwise held by Vaxis, of which Vaxis is not the sole beneficial and registered owner, as identified in Section 4.20 of the Disclosure Schedule (such Intellectual Property being referred to herein as "Third Party Intellectual Property"), Vaxis has been granted all necessary rights for the continuing use of such Third Party Intellectual Property in the business of Vaxis as conducted and as proposed to be conducted, pursuant to valid, written agreements. All such agreements are in good standing and no breach or default by Vaxis or, to the knowledge of Vaxis, by any other party thereto, has occurred thereunder. All assignment of Intellectual Property rights to Vaxis have been properly executed and duly recorded.

(d) Except as otherwise specifically identified in Section 4.20 of the Disclosure Schedule, Vaxis has not granted any license, waiver or other right to any other Person with respect to the Owned Intellectual Property.

(e) All registrations or issuances of Intellectual Property Rights in any jurisdiction, and all applications in any jurisdiction for any such issuances or registrations, by or for the benefit of Vaxis, as listed in Section 4.20 of the Disclosure Schedule, are unexpired, have not been abandoned, are recorded in the name of Vaxis and, to the knowledge of Vaxis, are valid and enforceable. No registrations or issuances of Intellectual Property Rights in any jurisdiction, or any application in any jurisdiction for any such issuances or registrations, by or for the benefit of Vaxis, as listed in Section 4.20 of the Disclosure Schedule, has been rejected (without such rejection being subsequently withdrawn or overcome by amendment), and, to the knowledge of Vaxis, no Person has challenged the validity or opposed any such registration or issuance.

(f) All employees, consultants or other Persons who have been involved in the development, modification or use of the Intellectual Property Rights or who have had access to confidential Technical Knowledge relating to the Intellectual Property Rights, are under a legal obligation of confidentiality to Vaxis with respect to such information, have assigned all of their rights in and to the Intellectual Property Rights to Vaxis, expressly waived any moral rights in the Intellectual Property Rights and have executed written agreements with Vaxis to that effect. No such employee or other Person has excluded in writing works or inventions made prior to his or her employment or engagement with Vaxis from his or her assignment of

inventions pursuant to such agreement. To the knowledge of Vaxis after due and reasonable inquiry, none of the employees of Vaxis is subject to any obligation to any other Person, whether contractual or otherwise, including obligations relating to confidentiality, non-competition or possession of proprietary information, or have executed any assignment or license of any Intellectual Property Rights with any Person other than Vaxis, or are subject to any judgment, decree or order of any court or administrative agency, relating to the Intellectual Property Rights or otherwise, that would interfere with their duties to Vaxis or that would conflict with Vaxis's business as presently conducted and proposed to be conducted. To Vaxis' knowledge, no independent contractors who have performed services related to Vaxis' business have any right, title or interest in Vaxis' Intellectual Property Rights. "Technical Knowledge" means know-how, processes, methods, techniques, formulae, algorithms, inventions, plans, architectures, designs, layouts, structures, sequences, organizations, flow charts, configurations, models, concepts, specifications, technical data, descriptions, instructions, records, notes, and other information of a technological or scientific nature, regardless of form.

(g) To the knowledge of Vaxis, there are no Canadian or United States governmental prohibitions or restrictions on the use, transfer or export of the Intellectual Property Rights. Notwithstanding the foregoing, there may be prohibitions or restrictions on the use, transfer or export of the products contemplated by the business of Vaxis as conducted and as proposed to be conducted, such as for example, United States Food and Drug Administration approval or Canadian Health Protection branch approval or approval of any other governmental or regulatory organization, association or agency of any jurisdiction in which such products may be used or to which such products may be transferred or exported.

(h) There is no pending or, to the knowledge of Vaxis, threatened action, suit, proceeding, claim or investigation relating to the Owned Intellectual Property or to the Third Party Intellectual Property, whether or not involving Vaxis, contesting the rights of Vaxis or any third party thereto or that would prevent, limit or impair Vaxis's ability to utilize the Owned Intellectual Property or the Third Party Intellectual Property in the business of Vaxis as presently conducted and proposed to be conducted.

(i) The carrying on of the business of Vaxis as presently conducted and as proposed to be conducted, including (i) the manufacture, marketing, license, sale or use of any product currently or proposed to be developed, manufactured, marketed, licensed, sold or used by Vaxis, (ii) any service currently or proposed to be marketed or provided by Vaxis, or (iii) the use of any trademarks identified in Section 4.20 of the Disclosure Schedule by Vaxis, has not, does not and will not violate or infringe any Intellectual Property Rights or other rights of any other Person, including rights relating to defamation, rights of privacy or publicity and contractual rights, nor requires the payment of any royalty, fees or other payment or the conferral of any other benefit on another Person. Vaxis and its employees have not received any communication alleging that Vaxis, or their employees, agents or contractors, have violated or may violate any Intellectual Property Rights of any other Person.

(j) To the knowledge of Vaxis, no Person has infringed or violated the Intellectual Property Rights of Vaxis.

(k) Vaxis has taken commercially reasonable steps sufficient to safeguard and maintain the secrecy and confidentiality of and Vaxis' proprietary rights in the unpatented know-how, technology, proprietary processes, formulae, and other information that is in the aggregate material to the conduct of Vaxis' business.

(l) Except as disclosed in Section 4.20 of the Disclosure Schedule, there are no royalties, honoraria, fees or other payments payable by Vaxis to any person by reason of the ownership, use, license, sale or disposition of any of Vaxis' Intellectual Property Rights.

(m) The execution, delivery and performance of this Agreement by Vaxis, and the consummation by Vaxis of the transactions contemplated hereby, will not breach, violate or conflict with any agreement governing Vaxis' Intellectual Property Rights, will not cause the forfeiture or termination or give rise to a right of forfeiture or termination of Vaxis' Intellectual Property Right or in any way impair the right of Vaxis to use, sell, license or dispose of, or bring any action for the infringement of, Vaxis' Intellectual Property Rights or portion thereof.

(n) For purposes of this Section 4.20, "use," with respect to Intellectual Property Rights, includes make, have made, offer for sale, import, reproduce, display or perform (publicly or otherwise), prepare derivative works based on, sell, distribute, disclose and otherwise exploit such Intellectual Property Rights and products incorporating or subject to such Intellectual Property Rights.

4.21 Real Property.

(a) Section 4.21(a) of the Disclosure Schedule lists all of the real property owned or currently used by Vaxis in the course of Vaxis' business (the "Real Property"). Section 4.21(a) of the Disclosure Schedule also lists all real property owned or used by Vaxis in the course of Vaxis' business at any time since January 1, 1998, other than the Real Property.

(b) All Real Property is in all material respects suitable and adequate for the uses for which it is currently devoted. Vaxis has good and marketable title in fee simple absolute to Real Property indicated on Section 4.21(a) of the Disclosure Schedule to be owned by it, and to the buildings, structures and improvements thereon, and a valid leasehold interest in all other Real Property, in each case free and clear of all Encumbrances.

(c) All buildings, structures, fixtures and other improvements on Real Property are in good repair, and free of defects (latent or patent), ordinary wear and tear excepted, and fit for the uses to which they are currently devoted. To Vaxis' knowledge, all such buildings, structures, fixtures and improvements on the Real Property conform to all applicable laws.

(d) To Vaxis' knowledge, none of the Real Property is subject to any Other Agreement or other restriction of any nature whatsoever (recorded or unrecorded) preventing or limiting Vaxis' right to use it in the manner such property is currently being used. "Other Agreement" means any agreement or arrangement between two or more persons (or entities) with respect to their relative rights and/or obligations or with respect to a thing done or to be done

(whether or not conditional, executory, express, implied, in writing or meeting the requirements of contract), including, without limitation, contracts, leases, promissory notes, covenants, easements, rights of way, commitments or understanding.

(e) To Vaxis' knowledge, no portion of the Real Property or any building, structure, fixture or improvement thereon is the subject of, or affected by, any expropriation or condemnation or similar proceeding currently instituted or pending or threatened, and Vaxis has no knowledge that any of the foregoing are, or will be, the subject of, or affected by, any such proceeding.

(f) The Real Property has direct and unobstructed access to adequate electric, gas, water, sewer and telephone lines, and public streets, all of which are adequate for the uses to which the Real Property is currently devoted.

4.22 Residence of Vaxis. Vaxis is not a non-resident of Canada for the purposes of the Income Tax Act (Canada).

4.23 Taxable Transaction. Vaxis acknowledges that the transactions contemplated by this Agreement, including the Transaction and the issuance of the Initial Consideration and Earn-Out Consideration, will be taxable transactions under United States and Canadian tax laws.

4.24 Complete Copies of Requested Documents. Vaxis has delivered or made available (through public sources or directly) true and complete copies of each document that has been requested by Cellegy or its counsel in connection with their legal and accounting review of Vaxis.

4.25 Disclosure. No representation or warranty made by Vaxis in this Agreement, nor any document, written information, statement, financial statement, certificate or exhibit prepared and furnished or to be prepared and furnished by Vaxis or its representatives pursuant hereto or in connection with the transactions contemplated hereby, when taken together, contained any untrue statement of a material fact when made, or omitted to state a material fact necessary to make the statements or facts contained herein or therein not misleading in light of the circumstances under which there were furnished.

ARTICLE V
REPRESENTATIONS AND WARRANTIES OF CELLEGY

Cellegy represents and warrants to Vaxis and each Stockholder as follows:

5.1 Organization. Cellegy is a corporation duly organized, validly existing and in good standing under the laws of the State of California and has the corporate power to carry on its business as it is now being conducted. Cellegy is duly qualified as a foreign corporation to do business, and is in good standing (to the extent the concept of good standing exists), in each jurisdiction where the character of its properties owned or held under lease or the nature of its

activities makes such qualification necessary, except where failure to be so qualified would not have a Material Advance Effect on Cellegy.

5.2 Authority Relative to this Agreement. Cellegy has the corporate power to enter into this Agreement and to carry out its obligations hereunder. The execution and delivery of this Agreement and the consummation by Cellegy of the transactions contemplated hereby and thereby have been duly authorized by the Boards of Directors of Cellegy, and no other corporate proceedings on the part of Cellegy are necessary to approve this Agreement or the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by Cellegy and constitutes a valid and binding agreement of Cellegy and is enforceable against Cellegy in accordance with its terms, subject to applicable bankruptcy, insolvency, moratorium or other similar laws relating to creditors' rights and general principles of equity.

5.3 Consents and Approvals; No Violations. Except for applicable requirements of the Securities Act, the Exchange Act, Securities Act (Ontario), the Investment Canada Act or blue sky laws, and if required filing a notice of listing of additional shares with the NASDAQ, no filing with, and no permit, authorization, consent or approval of, any public or governmental body or authority is necessary for the consummation by Cellegy of the transactions contemplated by this Agreement, including, without limitation, the issue of shares of Cellegy Common Stock. Neither the execution and delivery of this Agreement by Cellegy, nor the consummation by Cellegy of the transactions contemplated hereby, nor compliance by Cellegy with any of the provisions hereof, will (a) result in any breach of the Articles of Incorporation or Bylaws of Cellegy, (b) result in a violation or breach of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, cancellation, acceleration or change in the award, grant, vesting or determination) under, or give rise to creation of any lien, charge, security interest or Encumbrance upon, any of the respective properties or assets of Cellegy or any of its subsidiaries under, any agreement or instrument to which Cellegy is a party or by which any of their properties or assets may be bound or (c) violate any order, writ, injunction, decree, statute, rule or regulation applicable to Cellegy or any of its properties or assets, except such as would not in the aggregate have a Material Adverse Effect on Cellegy.

5.4 Cellegy Common Stock. The shares of Cellegy Common Stock that are issuable pursuant to this Agreement will be delivered to the Stockholders free and clear of all Encumbrances other than as set forth herein or from any liens or Encumbrances created by or through, or otherwise resulting from, actions or inactions by the Stockholders or under applicable Law. Upon issuance in accordance with this Agreement, the shares of Cellegy Common Stock that are issuable pursuant to this Agreement will be validly issued, fully paid and non-assessable.

5.5 SEC Filings. Cellegy has filed all forms, reports and documents that are required to be filed by Cellegy with the Securities and Exchange Commission (the "SEC") since December 31, 2000. All such required forms, reports and documents (including such forms, reports and documents that Cellegy may file subsequent to the date hereof) are referred to herein as the "Cellegy SEC Reports." As of their respective dates, to Cellegy's knowledge the Cellegy SEC Reports (i) complied as to form in all material respects with the requirements of the Securities Act or the Securities Exchange Act of 1934, as applicable, and the rules and regulations of the SEC thereunder applicable to such Cellegy SEC Reports, and (ii) did not at the

time they were filed (or if amended or superseded by a filing, then on the date of such filing) contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, except to the extent corrected by a subsequently filed Cellegy SEC Report that was filed before the date of this Agreement.

5.6 Absence of Certain Changes. Except as set forth in the Cellegy SEC Reports, since September 30, 2001, Cellegy has operated its business in the ordinary course consistent with past practice, and since such date there has not occurred with respect to Cellegy: (a) any change, event or condition (whether or not covered by insurance) that has resulted in a Material Adverse Effect on Cellegy; (b) any material change in accounting methods or practices (including any change in depreciation or amortization policies or rates) by Cellegy or any material revaluation by Cellegy of any of its material assets; or (c) any declaration, setting aside or payment of a dividend on, or the making of any other distribution in respect of, the capital stock of Cellegy, or any split, combination or recapitalization of the capital stock of Cellegy or any direct or indirect redemption, purchase or other acquisition of any capital stock of Cellegy or any change in any rights, preferences, privileges or restrictions of any outstanding security of Cellegy.

5.7 Securities Law Compliance Regarding Issuance of Shares; Listing of Shares on Nasdaq. Assuming the accuracy of the representations, warranties and covenants made by the Stockholders in this Agreement, the shares of Cellegy Common Stock to be issued to the Stockholders pursuant to this Agreement, when issued in accordance with the provisions of this Agreement, will be duly authorized, validly issued, fully paid and nonassessable and will be issued in compliance with all applicable material U.S. federal and state securities laws. Before the time that the Stockholders may first sell any such shares in compliance with U.S. and Canadian securities laws, Cellegy will take such actions (including, if required, filing a Notification Form for Listing of Additional Shares) as are necessary to cause the shares of Cellegy Common Stock to be issued to the Stockholders pursuant to this Agreement to be approved for trading on the Nasdaq National Market.

5.8 Rule 144 and Public Sales of Purchased Shares. Subject to compliance with the provisions of Rule 144 and/or Rule 905 of Regulation S under the Securities Act, commencing one year after the Closing Date each of the Stockholders will be eligible to publicly sell their shares of Cellegy Common Stock without restriction in ordinary "brokers' transactions" (as defined in Rule 144) by complying with the provisions of Rule 144. Rule 144 governs, among other things, the sale of "restricted securities." Rule 144 defines "restricted securities" as including, among other things, securities "acquired ... from the issuer...in a transaction or chain of transactions not involving any public offering" as well as "equity securities of domestic issuers acquired in a transaction...subject to the conditions of...Regulation S". Under Rule 144, the amount of "restricted securities" sold for the account of any person who is not an affiliate of the issuer, together with all other sales of restricted securities of the same class for the account of such person within the preceding three months, shall not exceed the greater of (i) one percent of the outstanding shares of Common Stock as shown by the most recent report (such as a quarterly report on Form 10-Q or annual report on Form 10-K) published by the issuer, or (ii) the average weekly reported volume of trading in such securities (in the case of the Company, as reported on

the Nasdaq National Market) during the four calendar weeks preceding the filing of a Form 144 (if a Form 144 is required to be filed). Moreover, if the amount of securities to be sold in reliance on Rule 144 during any three-month period exceeds 500 shares or has an aggregate sale price in excess of $10,000, three copies of a notice on Form 144 must be filed with the SEC, and if the securities are admitted to trading on any national securities exchange, one copy of the Form 144 must also be transmitted to the principal exchange where such securities are so admitted (which in the case of the Company is the Nasdaq National Market). In addition, securities sold pursuant to Rule 144 must be sold in "brokers' transactions" or in transactions directly with a "market maker", as that term is defined in Section 3(a)(38) of the Exchange Act, and the person selling the securities must not (i) solicit or arrange for the solicitation of orders to buy the securities in anticipation of or in connection with such transactions, or (2) make any payment in connection with the offer or sale of the securities to any person other than the broker who executed the order to sell the securities. For this purpose, the term "brokers' transactions" includes transactions by a broker in which the broker

(1) does no more than execute the order or orders to sell the securities as agent for the person for whose account the securities are sold; and receives no more than the usual and customary broker's commission;

(2) neither solicits nor arranges for the solicitation of customers' orders to buy the securities in anticipation of or in connection with the transaction; provided, that the foregoing shall not preclude (i) inquiries by the broker of other brokers or dealers who have indicated an interest in the securities within the preceding 60 days, (ii) inquiries by the broker of his customers who have indicated an unsolicited bona fide interest in the securities within the preceding 10 business days; or (iii) the publication by the broker of bid and ask quotations for the security in an inter-dealer quotation system provided that such quotations are incident to the maintenance of a bona fide inter-dealer market for the security for the broker's own account and that the broker has published bona fide bid and ask quotations for the security in an inter-dealer quotation system on each of at least twelve days within the preceding thirty calendar days with no more than four business days in succession with such two-way quotations; and

(3) after reasonable inquiry is not aware of circumstances indicating that the person for whose account the securities are sold is an underwriter with respect to the securities or that the transaction is a part of a distribution of securities of the issuer. Without limiting the foregoing, the broker shall be deemed to be aware of any facts or statements contained in the Form 144.

The volume limitations, manner of sale and Form 144 requirements of Rule 144 do not apply to restricted securities sold for the account of a person who is not an affiliate of the issuer at the time of the sale and has not been an affiliate during the preceding three months, provided that a period of at least two years has elapsed since the later of the date the securities were acquired from the issuer or from an affiliate of the issuer.

ARTICLE VI
CONDUCT OF BUSINESS

6.1 Conduct of Business by Vaxis Pending the Transaction. During the period from the date of this Agreement and continuing until the Closing, except as set forth in or contemplated by this Agreement, as agreed to in writing by Cellegy, or as set forth in Section 6.1 of the Disclosure Schedule, Vaxis:

(i) shall conduct its operations in the ordinary course consistent with the manner as heretofore conducted;

(ii) shall use commercially reasonable efforts, to preserve intact its business organizations and goodwill, keep available the services of its officers and employees and maintain satisfactory relationships with those persons having business relationships with it;

(iii) shall not amend its Articles of Incorporation or Bylaws or comparable governing instruments;

(iv) shall not (A) acquire or agree to acquire by merging or consolidating with, or by acquiring any equity interest in or purchasing a substantial portion of the assets of, or by any other manner, any business or any corporation, partnership, joint venture, association or other business organization or division thereof, or (B) acquire or agree to acquire assets other than in the ordinary course of business or (C) release or relinquish or agree to release or relinquish any material contract rights;

(v) shall not effect any stock split or otherwise change its capitalization or issue any shares of its capital stock or securities convertible into or exchangeable or exercisable for shares of its capital stock, except upon exercise of options outstanding as of the date hereof to purchase Vaxis Common Shares under the Vaxis Stock Options;

(vi) shall not grant, confer or award any options, warrants, conversion rights or other rights, not existing on the date hereof, to acquire any shares or other securities of Vaxis or amend or otherwise modify any outstanding options or warrants;

(vii) shall not set aside, make or pay any dividend or other distribution, payable in cash, shares, property or otherwise, with respect to any of its capital, or to redeem, purchase or otherwise acquire, directly or indirectly, any of its capital, except for the payment to certain employees of Vaxis cash in lieu of stock options to a maximum of $22,000 in Canadian funds;

(viii) shall not, except in the ordinary course of business consistent with past practice, (x) incur, create, assume or otherwise become liable for borrowed money or assume, guarantee, endorse or otherwise become responsible or liable for the obligations of any other individual, corporation or other entity or (y) make any loans or advances to any other Person;

(ix) shall not (x) make, revoke or change any material election with respect to Taxes unless required by applicable law or (y) settle or compromise any material Tax liability;

(x) shall not authorize capital expenditures which are, in the aggregate, in excess of $50,000;

(xi) shall not, except for the payment of reasonable professional fees relating to the Transaction or otherwise and reasonable fees to financial advisors (which financial advisory fees have heretofore been disclosed or are otherwise acceptable, to Cellegy), pay, discharge or satisfy any Claims, liabilities or obligations (absolute, accrued, asserted or unasserted, contingent or otherwise) in an amount in excess of $50,000 in the aggregate, other than the payments, discharges or satisfactions, in the ordinary course of business and consistent with past practice, of liabilities reflected or reserved against in Balance Sheet (as defined in Section 4.5 hereto) or subsequently incurred in the ordinary course of business and consistent with past practice or collect, or accelerate the collection of, any amounts owed (including accounts receivable) other than collection in the ordinary course;

(xii) shall not, except in the ordinary course of business or as otherwise expressly contemplated hereby, grant or acquire any material licenses to use any Intellectual Property Rights or unpatented inventions set forth in the Disclosure Schedule; provided that the Vaxis shall not grant any material licenses to use any material Intellectual Property Rights or unpatented inventions so set forth without the prior written consent of Cellegy, which consent shall not be unreasonably withheld;

(xiii) shall not allow any insurance policy naming it as a beneficiary or a loss payee to be cancelled, terminated or materially altered, except in the ordinary course of business and consistent with past practice and following written notice to Cellegy (provided that an insurer refusing to renew a policy shall not be deemed a breach of this covenant);

(xiv) shall not enter into any hedging, option, derivative or other similar transaction;

(xv) shall notify Cellegy a reasonable time in advance of, and shall permit a representative of Cellegy to review or participate in, any communications, meetings, or correspondence between Vaxis and the FDA, Health Canada, the European Agency for the Evaluation of Medical Products or similar Canadian or other regulatory agency and in any of the Vaxis' internal planning meetings that cover substantive issues relating to products or strategic partners, except, in each case, as may be inconsistent with applicable law or regulation; and

(xvi) shall not agree, in writing or otherwise, to take any of the foregoing actions.

6.2 Invention Assignment and Confidentiality Agreements. Vaxis will use its best efforts to obtain from each employee, contractor and consultant of Vaxis who has had access to any Vaxis Intellectual Property or to any other confidential or proprietary information of Vaxis, or its clients, an invention assignment and confidentiality agreement in a form reasonably acceptable to Cellegy, duly executed by such employee, contractor or consultant and delivered to Vaxis and/or Cellegy.

6.3 Compensation Plans. During the period from the date of this Agreement and continuing until the Closing Vaxis agrees that it will not, without the prior written consent of Cellegy: (a) enter into, adopt or amend any bonus, profit sharing, compensation, stock option, Pension Plan, retirement, deferred compensation, employment, severance or other Benefit Plan, agreement, trust, plan, fund or other arrangement between Vaxis and one or more of its officers, directors or Employees, in each case so as to materially increase benefits thereunder (collectively, "Compensation Plans"); (b) grant or become obligated to grant any increase in the compensation or fringe benefits of directors, officers or Employees (including any such increase pursuant to any Compensation Plan) or any increase in the compensation payable or to become payable to any officer, except, with respect to Employees other than officers, for increases in compensation in the ordinary course of business consistent with past practice, or enter into any contract, commitment or arrangement to do any of the foregoing; (c) institute any new employee benefit, welfare program or Compensation Plan; (d) make any change in any Compensation Plan or other employee welfare or benefit arrangement or enter into any employment or similar agreement or arrangement with any employee; or (e) enter into or renew any contract, agreement, commitment or arrangement providing for the payment to any director, officer or Employee of compensation or benefits contingent, or the terms of which are materially altered in favor of such individual, upon the occurrence of any of the transactions contemplated by this Agreement.

6.4 Current Information. From the date of this Agreement to the Closing, Vaxis will cause one or more of its designated representatives to confer on a regular and frequent basis (not less than weekly) with representatives of Cellegy and to report the general status of its ongoing operations and to deliver to the other (not less than quarterly) unaudited consolidated balance sheets and related consolidated statements of income, changes in stockholders equity and changes in financial position for the period since the last such report. Vaxis will promptly notify the other of any material change in the normal course of its business or in its properties.

6.5 Legal Conditions to Transaction. Each of Vaxis and Cellegy shall, and shall cause its subsidiaries to, use all reasonable efforts (a) to take, or cause to be taken, all actions necessary to comply promptly with all legal requirements which may be imposed on such party or its subsidiaries with respect to the Transaction and the consummation of the transactions contemplated by this Agreement, and (b) to obtain (and to cooperate with the other party to obtain) any consent, authorization, order or approval of, or any exemption by, any Governmental Authority or any other public or private third party which is required to be obtained or made by such party or any of its subsidiaries in connection with the Transaction and the transactions contemplated by this Agreement. Each of Vaxis and Cellegy will promptly cooperate with and furnish information to the other in connection with any such burden suffered by, or requirement imposed upon, any of them or any of their subsidiaries in connection with the foregoing.

ARTICLE VII
ADDITIONAL AGREEMENTS

7.1 Access and Information.

(a) Vaxis shall afford Cellegy and its financial advisors, legal counsel, accountants, consultants and other representatives reasonable access during normal business hours throughout the period from the date hereof to the Closing to all of its books, records, properties, facilities, personnel commitments and records (including but not limited to Tax Returns) and, during such period, shall furnish promptly to Cellegy all information concerning Vaxis' business, properties and personnel, as Cellegy may reasonably request.

(b) All information furnished by Vaxis to Cellegy or furnished by Cellegy to Vaxis pursuant to this Agreement shall be treated as the sole property of the party furnishing the information until consummation of the Transaction contemplated hereby. The parties will hold any such information which is nonpublic in confidence to the extent required by, and in accordance with the Confidentiality Agreement between Vaxis and Cellegy dated March 22, 2000 ("Confidentiality Agreement") and the Memorandum of Terms dated October 18, 2001 between Cellegy and Vaxis, and such agreements shall survive the termination of this Agreement.

7.2 Acquisition Proposals. From the date hereof until the earlier of termination of this Agreement or the Closing, without the prior written consent of Cellegy Vaxis will not, and shall use best efforts to cause Vaxis' directors, officers, employees, agents, stockholders, advisors, legal counsel, and affiliates ("Representatives") not to, directly or indirectly, (a) solicit, initiate or encourage submission of proposals or offers from any party relating to (i) any acquisition or purchase of substantial assets or any equity interest in Vaxis, any acquisition, consolidation, business combination, tender offer, exchange offer, dissolution or similar transaction with Vaxis or (ii) any other transaction incompatible with the transactions described in this Agreement (including, without limitation, a joint venture or other similar transaction), or (b) participate in any discussions or negotiations regarding, or furnish to any other person any confidential information with respect to, or otherwise cooperate in any way with, or participate in, facilitate or encourage, any effort or attempt by any person related to Vaxis or any other person to do or seek any of the foregoing, and promptly will terminate any such pending discussions and will notify Cellegy promptly if it shall receive any indications of interest or offer or request for information with respect to any of the foregoing.

7.3 Nasdaq National Market. Cellegy shall take all actions that may be required in order to permit the shares of Cellegy Common Stock issuable to the Stockholders to be approved for trading on the NASDAQ National Market.

7.4 Ongoing Operations. Cellegy agrees to use all commercially reasonable efforts to maintain the business of Vaxis at its current location, and to continue to operate the business of Vaxis in a manner consistent in material respects with the historical business of Vaxis, subject to Cellegy's overall right to make decisions with respect to the business of Vaxis consistent with Cellegy's good faith business judgment, for a period of at least 18 months after the Closing Date.

7.5 Certain Employee Benefit Plans Matters.

(a) Cellegy confirms to Vaxis that it is Cellegy's present intention to provide, after the Closing, to continuing Employees employee benefit programs that are not less favourable to such Employees than those being provided by Vaxis immediately before the Closing. Cellegy shall have no obligation to continue employment of any Employee.

(b) Immediately before the Closing, Vaxis shall pay any amounts that may be owed under the terms of any employment, consulting, termination and severance agreements to which Vaxis is a party.

7.6 Stock Options, Warrants; Employee Benefit Plans. Before the Closing, Vaxis shall terminate all Benefit Plans and shall take such actions as are necessary to cause all outstanding options, warrants or other rights to acquire securities of Vaxis to terminate on or before the Closing.

7.7 Public Announcements. The initial press release relating to this Agreement shall be a joint press release. Thereafter, so long as this Agreement is in effect, Vaxis agrees that it will obtain the approval of Cellegy (which shall not be unreasonably withheld) before issuing any press release or any other written communication (including any written communication to employees) relating to the transactions contemplated by this Agreement.

7.8 Expenses. All costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby (whether or not the Transaction is completed) shall be paid by the party incurring such expenses, including each party's respective legal and auditors' fees ("Transaction Expenses"). Notwithstanding the foregoing, Vaxis shall pay for reasonable fees and expenses of a single counsel to the Stockholders, Blake, Cassels & Graydon LLP, in the preparation and review of any transaction documents by its advisors on behalf of the Stockholders but any Stockholder shall pay for any additional fees and expenses of any additional advisor hired by that Stockholder.

7.9 Additional Agreements.

(a) Subject to the terms and conditions herein provided, each of the parties hereto agrees to use all reasonable efforts to take, or cause to be taken, all action and to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to consummate and make effective the transactions contemplated by this Agreement. In case at any time after the Closing any further action is necessary or desirable to carry out the purposes of this Agreement, the proper officers and/or directors of Cellegy and Vaxis shall take all such necessary action.

(b) Cellegy and Vaxis each will cooperate with one another and use all reasonable efforts to prepare all necessary documentation to effect promptly all necessary filings and to obtain all necessary permits, consents, approvals, orders and authorizations of or any

exemptions by, all third parties and Governmental Authorities necessary to consummate the transactions contemplated by this Agreement.

7.10 Holding Period for Cellegy Common Stock. Each Stockholder agrees and covenants with Cellegy and Vaxis that the Stockholder shall not (1) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any shares of Cellegy Common Stock that may be issued as part of the Initial Consideration or (2) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such shares of Cellegy Common Stock, for a period of (i) eighteen (18) months in the case of the Founders, and (ii) twelve (12) months in the case of all other Stockholders (such 12-month period referred to as the "Investor Lock-Up Period"), after the Closing. However, if the trading volume for the Cellegy Common Stock on the Nasdaq Stock Market is greater than 150,000 shares per day for a period of thirty (30) consecutive trading days after the Closing Date and before expiration of the Investor Lock-Up Period, then the Investor Lock-Up Period under clause (ii) of the preceding sentence shall no longer apply.

7.11 Rule 144 Reporting. With a view to making available the benefits of certain rules and regulations of the SEC which may at any time permit the sale of the Cellegy Common Stock to the public without registration, Cellegy agrees to:

(a) use its best efforts to make and keep public information available, as those terms are understood and defined in Rule 144 under the Securities Act;

(b) File with the SEC in a timely manner all reports and other documents required of Cellegy under the Securities Act and the Exchange Act; and

(c) So long as any Stockholder owns any shares of Cellegy Common Stock acquired pursuant to this Agreement, to furnish to the Stockholder forthwith upon request a written statement by Cellegy as to its compliance with the reporting requirements of Rule 144 and a copy of such publicly available reports and documents of Cellegy as a Stockholder may reasonably request in availing itself of any rule or regulation of the SEC allowing a Stockholder to sell any such Cellegy Common Stock without registration.

(d) Cellegy shall have no obligations pursuant to this Section 7.11 after two years from the Closing Date, provided that a Stockholder is eligible to sell such shares of Cellegy Common Stock pursuant to Rule 144(k) under the Securities Act.

7.12 Tax Returns. Cellegy shall cause to be prepared and filed on a timely basis, all Tax Returns for Vaxis for any period which ends on or before the Closing Date and for which Tax Returns have not been filed as of such date. Cellegy shall also cause to be prepared and filed on a timely basis, all Tax Returns of Vaxis for periods beginning before and ending after the Closing. Vaxis, Cellegy and the Stockholders shall cooperate fully with each other and make available to each other in a timely fashion such data and other information as may reasonably be required for the preparation of any Tax Return of Vaxis for a period ending on, prior to or

including the Closing and shall preserve such data and other information until the expiration of any applicable limitation period under any applicable law with respect to Taxes.

ARTICLE VIII
CONDITIONS TO CONSUMMATION OF THE TRANSACTION

8.1 Conditions to Each Party's Obligation to Effect the Transaction. The respective obligations of each party to effect the Transaction shall be subject to the satisfaction at or before the Closing of the following conditions, any one of which may be waived by either or both of Vaxis and Cellegy:

(a) No preliminary or permanent injunction or other order by any federal, state or foreign court of competent jurisdiction which prohibits the consummation of the Transaction shall have been issued and remain in effect. No statute, rule, regulation, executive order, stay, decree, or judgment shall have been enacted, entered, issued, promulgated or enforced by any court or governmental authority which prohibits or restricts the completion of the Transaction. All authorizations, consents, orders or approvals of, or declarations or filings with, and all expirations of waiting periods imposed by, any governmental entity (all of the foregoing, "Consents") which are necessary for the consummation of the Transaction, shall have been filed, occurred or been obtained (all such permits, approvals, filings and consents and the lapse of all such waiting periods being referred to as the "Requisite Regulatory Approvals") and all such Requisite Regulatory Approvals shall be in full force and effect.

(b) Cellegy shall have received all state securities or blue sky permits and other authorizations necessary to issue the shares of Cellegy Common Stock in exchange for the Purchased Shares and to complete the Transaction.

8.2 Conditions to Obligation of Vaxis to Effect the Transaction. The obligation of Vaxis to effect the Transaction shall be further subject to the satisfaction at or before the Closing of the following additional conditions, which may be waived by Vaxis:

(a) Cellegy shall have performed in all material respects its obligations under this Agreement required to be performed by it at or before the Closing and the representations and warranties of Cellegy contained in this Agreement shall be true and correct in all respects at and as of the Closing as if made at and as of such time, except for such breaches as would not result in a Material Adverse Effect on Cellegy, and Vaxis shall have received a certificate of the President or any Vice President of Cellegy as to the satisfaction of this condition.

(b) Cellegy shall have obtained the consent or approval of each Person whose consent or approval shall be required in connection with the transactions contemplated hereby under any loan or credit agreement, note, mortgage, indenture, lease, license or other agreement or instrument, except those for which failure to obtain such consents and approvals would not materially adversely affect the consummation of the transactions contemplated hereby or in the aggregate have a Material Adverse Effect on Cellegy and its subsidiaries taken as a whole.

(c) There shall not have occurred following the date of this Agreement and before the Closing Date any Material Adverse Effect on Cellegy.

8.3 Conditions to Obligations of Cellegy to Effect the Transaction. The obligations of Cellegy to effect the Transaction shall be further subject to the satisfaction at or before the Closing of the following additional conditions, which may be waived by Cellegy:

(a) Vaxis and each Stockholder shall have executed and delivered this Agreement and performed in all material respects its obligations under this Agreement required to be performed and complied with by it at or before the Closing, and the representations and warranties of Vaxis and the Stockholders contained in this Agreement shall be true and correct in all respects at and as of the Closing as if made at and as of such time, except for such breaches as would not result in a Material Adverse Effect on Vaxis, and Cellegy shall have received a Certificate of the President or any Vice President of Vaxis as to the satisfaction of this condition.

(b) Vaxis shall have obtained the consent or approval of each Person whose consent or approval shall be required in connection with the Transaction and under any agreement or instrument required to be described in Section 4.9 of the Disclosure Schedule.

(c) As of the Closing Date, any outstanding options, warrants or other rights to acquire any securities of Vaxis shall have been terminated.

(d) There shall not have occurred following the date of this Agreement and before the Closing Date any Material Adverse Effect on Vaxis.

(e) Parteq Research and Development, Inc. ("Parteq") shall have executed and delivered to Cellegy (i) an agreement relating to assignment of certain intellectual property to Cellegy and granting Cellegy the right to manage such intellectual property, on terms satisfactory to Cellegy, and (ii) an amendment to the License Agreement dated as of October 30, 1998, by and between Parteq and Vaxis, in form and substance satisfactory to Cellegy.

(f) There will not be any issued, enacted or adopted, or threatened in writing by any Governmental Authority, any order, decree, temporary, preliminary or permanent injunction, legislative enactment, statute, regulation, action or proceeding, or any judgment or ruling by any Governmental Authority that prohibits or renders illegal or imposes limitations on: (i) the Transaction or any other material transactions contemplated by this Agreement or (ii) the right of any Cellegy subsidiary to own, retain, use or operate any of Cellegy's products, properties or assets on or after consummation of the Transaction or seeking a disposition or divesture of any such properties or assets. No litigation or proceeding will be threatened in writing or pending for the purpose or with the probable effect of enjoining or preventing the consummation of any of the transactions contemplated by this Agreement, or which could reasonably be expected to have a Material Adverse Effect on Vaxis or Cellegy.

(g) All of the Stockholders shall have delivered certificates representing the Purchased Shares together with such instruments of transfer or assignment as Cellegy shall reasonably request.

(h) Vaxis shall have paid in full all Transaction Expenses incurred by it.

(i) The officers and directors of Vaxis that are specified by Cellegy shall have duly executed and delivered resignations as officers and directors of Vaxis effective as of the Closing.

(j) Each of the Founders and Dr. Charles Graham shall have executed a Non-Competition Agreement.

(k) Any and all outstanding Vaxis preferred shares shall have been converted into Vaxis Common Shares.

(l) Each Stockholder who is a non-resident of the United States shall have executed and delivered to Cellegy a Form W-8.

ARTICLE IX
TERMINATION, AMENDMENT AND WAIVER

9.1 Termination. This Agreement may be terminated and the Transaction contemplated hereby abandoned at any time before the Closing:

(a) by mutual written consent of Cellegy and Vaxis;

(b) by either Cellegy or Vaxis, if the Transaction shall not have been completed on or before December 31, 2001; provided, that the terminating party shall not have breached in any material respect its obligations under this Agreement or contributed substantially to the delay in completion of the Transaction.

(c) by Vaxis if there shall have been any breach of a representation and warranty or covenant of Cellegy hereunder that would result in a Material Adverse Effect on Cellegy and, if such breach is curable, such default shall have not been remedied within ten days after receipt by Cellegy of notice in writing from Vaxis specifying such breach and requesting that it be remedied; provided, that such ten-day period shall be extended for so long as Cellegy shall be making all reasonable attempts to cure such breach, unless the breach is not susceptible of a cure; and provided further, that the right to terminate this Agreement pursuant to this subparagraph shall not be available if the party seeking to terminate the Agreement is at that time in breach of this Agreement;

(d) by Cellegy if there shall have been any breach of a representation and warranty or covenant of Vaxis hereunder that would result in a Material Adverse Effect on Vaxis and, if such breach is curable, such default shall not have been remedied within ten days after receipt by Vaxis of notice in writing from Cellegy specifying such breach and requesting that it be remedied; provided, that such ten-day period shall be extended for so long as Vaxis shall be making all reasonable attempts to cure such breach, unless the breach is not susceptible of a cure;

and provided further, that the right to terminate this Agreement pursuant to this subparagraph shall not be available if the party seeking to terminate the Agreement is at that time in breach of this Agreement; and

(e) by either Cellegy or Vaxis if any court of competent jurisdiction in the United States or Canada or other United States or Canadian Governmental Authority shall have issued an order, decree or ruling or taken any other action restraining, enjoining or otherwise prohibiting the Transaction and such order, decree, ruling or any other action shall have become final and non-appealable; provided, that the party seeking to terminate this Agreement pursuant to this clause (e) shall have used all reasonable efforts to remove such order, decree or ruling.

9.2 Effect of Termination. In the event of termination of this Agreement as provided above, this Agreement shall forthwith become of no further effect and, except for a termination resulting from a breach by a party of this Agreement, there shall be no liability or obligation on the part of either Cellegy or Vaxis or their respective officers or directors. Moreover, nothing herein shall prejudice the ability of the non-breaching party from seeking damages from any other party for any breach of this Agreement, including, without limitation, legal fees and the right to pursue any remedy at law or in equity. Upon request therefor, each party will redeliver or, at the option of the party receiving such request, destroy all documents, work papers and other material of any other party relating to the transactions contemplated hereby, whether obtained before or after the execution hereof, to the party furnishing same.

9.3 Amendment. This Agreement may be amended by means of a written instrument executed by Cellegy and Vaxis at any time before the Closing, or after the Closing by Cellegy, Vaxis and the Representative.

9.4 Extension; Waiver. At any time before the Closing, the parties hereto may (a) extend the time for the performance of any of the obligations or other acts of the other parties hereto, (b) waive any inaccuracies in the representations and warranties contained herein or in any document delivered pursuant hereto, and (c) waive compliance with any of the agreements or conditions contained herein. Any agreement on the part of a party hereto to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party. Such waiver shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure.

ARTICLE X
SURVIVAL OF REPRESENTATIONS, INDEMNIFICATION
AND REMEDIES, CONTINUING COVENANTS

10.1 Survival of Representations. All representations, warranties and covenants of Vaxis and the Stockholders contained in this Agreement and the other agreements, certificates and documents contemplated hereby will remain operative and in full force and effect, regardless of any investigation made by or on behalf of any of the parties to this Agreement, until that date which is the earlier of (a) the termination of this Agreement in accordance with its terms or (b) eighteen (18) months after the Closing Date; provided, however, that the representations and

warranties of Vaxis contained in Sections 4.2, 4.3, 4.4, 4.11, 4.18, 4.19 and 4.20 and the representations and warranties of the Stockholders contained in Sections 11.1-11.5 will remain operative and in full force and effect until that date which is the earlier of (a) the termination of this Agreement in accordance with its terms or (b) forty-eight (48) months after the Closing Date (in each case, such period referred to as the "Survival Period"). All representations, warranties and covenants of Cellegy contained in this Agreement and the other agreements, certificates and documents contemplated hereby (other than covenants which by their terms are required to be performed after the Closing Date, which shall survive for the period of time during which such obligations are required to be performed) will terminate at the earlier of (a) the termination of this Agreement in accordance with its terms or (b) the Closing.

10.2 Agreement to Indemnify.

(a) For the Survival Period, each Stockholder agrees, jointly and severally, and to the extent of the limitation set forth in Section 10.3 hereof, to indemnify and hold harmless Cellegy and Vaxis and their respective officers, directors, agents, representatives, stockholders and employees, and each person, if any, who controls or may control Cellegy or Vaxis within the meaning of the Securities Act or the Exchange Act (each hereinafter referred to individually as a "Cellegy Indemnified Person" and collectively as "Cellegy Indemnified Persons") from and against any and all Claims and expenses including attorneys' fees other professionals' and experts' fees, and court or arbitration costs (hereinafter collectively referred to as "Damages") incurred, paid or accrued (in accordance with U.S. or Canadian GAAP) in connection with or directly or indirectly resulting from or arising out of:

(i) any inaccuracy, misrepresentation, breach of, or default in, any of the representations, warranties or covenants given or made by Vaxis or any Stockholder in this Agreement or in the Disclosure Schedule or in any certificate delivered by or on behalf of Vaxis or any Stockholder pursuant hereto;

(ii) Claims based on fraud, willful misrepresentation or gross negligence in connection with this Agreement; or

(iii) any Damages in connection with the patent interferences, oppositions, and infringement or similar actions, claims or proceedings that may be brought by or against Cellegy or Vaxis relating to the Vaxis patents and patent applications set forth on Section 10.2 of the Disclosure Schedule (excluding any actions, claims or proceedings brought by Cellegy against Vaxis not relating to this Agreement ("Patent Actions").

(b) Any Claim made by a Cellegy Indemnified Person under this Section 10.2 must be raised in a Notice of Claim delivered to the Representative (as later defined) by no later than the applicable Survival Period and, if raised by such date, such claim shall survive the Survival Period until final resolution thereof. Escrow Funds, other than Escrow Funds having a value equal to the amount of Damages asserted in any Claim which has not been resolved

pursuant to the terms hereof prior to the applicable Escrow Release Date, shall be released to the Stockholders on the Escrow Release Date or, in the case of any such withheld Escrow Funds, upon the final resolution of such Claim.

(c) The amount which any party is or may be required to pay to or on behalf of any other person pursuant to Article X shall be reduced (including retroactively) by (i) any amounts received by a Cellegy Indemnified Person from an insurance carrier or paid and resolved by an insurance carrier on behalf of the insured (in a manner which shall result in no further liability to a Cellegy Indemnified Person), in either case net of any applicable premium adjustment, retrospectively rated premium, deductible, retention, cost or reserve paid or held by or for the benefit of the insured ("Insurance Proceeds") or (ii) other amounts actually recovered by or on behalf of such Cellegy Indemnified Person in reduction of the related Damages. For greater certainty, Cellegy agrees that in any case in which it has been successful, in whole or in part, in the defense of any Patent Action brought by a third party against Cellegy or Vaxis, Cellegy shall take reasonable commercial steps to recover the costs and expenses incurred by Cellegy in connection with such defense (including, but not limited to, reasonable attorneys' fees, other professionals' and experts' fees and court or arbitration costs). If a Cellegy Indemnified Person shall have received the payment required by this Agreement from an indemnifying party in respect of Damages and shall subsequently actually receive Insurance Proceeds or other amounts in respect of such Damages as specified above, then such indemnified person shall pay to such indemnifying party a sum equal to the amount of any such double recovery actually received.

10.3 Limitations.

(a) The maximum amount of Damages for which a Stockholder shall be liable pursuant to Section 10.2(a) shall be the amount of Escrowed Funds withheld and deposited into the Escrow pursuant to Section 3.7(a) (the "Indemnity Cap"); provided, however, in the event of Claims based on any breach or inaccuracy of Sections 11.1-11.5 by a Stockholder, the Damages shall first be paid from the amount of Escrowed Funds held for that Stockholder and then, if not satisfied, pro-rata among the remaining Stockholders in proportion to the Escrowed Funds remaining. The value of each share of Cellegy Common Stock held in escrow shall, for such purposes of satisfying claims for Damages, be deemed to equal the Cellegy Average Price determined as of the time the shares are forfeited in satisfaction of an indemnification obligation hereunder. In the event of a capital change after the Closing, the Cellegy Average Price Per Share will, for purposes of this Section, be proportionally and equitably adjusted. For income tax purposes, the use of Cellegy Common Stock to satisfy a Claim shall be treated as a purchase price adjustment.

(b) The indemnification provided for in Section 10.2 shall not apply unless and until the aggregate Damages for which one or more Cellegy Indemnified Persons seeks or has sought indemnification hereunder exceeds a cumulative aggregate of $50,000 (the "Basket"), in which event the Stockholders shall, subject to the other limitations herein, be liable to indemnify the Cellegy Indemnified Persons for all Damages; provided, however, that the Basket shall not apply to any and all Damages incurred, paid or accrued in connection with or directly or

indirectly resulting from or arising out of Claims based on fraud, willful misrepresentation or gross negligence.

(c) With respect to Patent Actions brought in the Survival Period, Cellegy may withhold damages without regard to the Basket, but (i) the aggregate amount of reimbursable Damages under this Article X for Patent Actions with respect to claims, actions or proceedings initiated by Cellegy or Vaxis shall not exceed U.S.$500,000, and (ii) only Escrow Funds that consist of portions of the Earn-Out Consideration shall be subject to the provisions of this subparagraph (c).

10.4 Appointment of Representative. By entering into the Transaction, each of the Stockholders approves the designation of and designates John Molloy, for as long as he is employed by Parteq Research and Development Innovations Inc. or an affiliate thereof ("Parteq") (and if Mr. Molloy is no longer so employed, then Parteq may designate another officer of Parteq to succeed Mr. Molloy), as the representative of the Stockholders and as the attorney-in-fact and agent for and on behalf of each Stockholder (the "Representative") with respect to Claims for indemnification under Article X and any other Claims of or other matters affecting any Stockholder arising out of or relating to this Agreement or the transactions contemplated hereby, including without limitation any disputes concerning the payment of Earn-Out Consideration, and the taking by the Representative of any and all actions and the making of any decisions required or permitted to be taken by the Representative under this Agreement, including the exercise of the power to: (a) authorize the release or delivery to Cellegy of Escrow Funds in satisfaction of indemnity claims by Cellegy or any other Cellegy Indemnified Person pursuant to Article X; (b) agree to, negotiate, enter into settlements and compromises of, and comply with orders of courts and awards of arbitrators with respect to, such Claims; (c) arbitrate, resolve, settle or compromise any claim for indemnity made pursuant to Article 10; and (d) take all actions necessary in the judgment of the Representative for the accomplishment of the foregoing. The Representative will have authority and power to act on behalf of each Stockholder with respect to the disposition, settlement or other handling of all Claims under Article X or otherwise under this Agreement and all rights or obligations arising under Article X or otherwise under this Agreement. The Representative shall, forthwith upon receipt of any correspondence or documentation arising out of or relating to this Agreement, send a copy of such correspondence and documentation to each of the Stockholders. The Representative shall also provide to each of the Stockholders a minimum of five (5) full business days written notice prior to taking any action in the exercise of the powers set forth in clauses (a)-(d) above. The Stockholders will be bound by all actions taken and documents executed by the Representative in connection with Article X or otherwise under this Agreement, and Cellegy will be entitled to rely on any action or decision of the Representative. In performing the functions specified in this Agreement, the Representative will not be liable to any Stockholder in the absence of gross negligence or willful misconduct on the part of the Representative. The Stockholders shall severally indemnify the Representative and hold him harmless against any loss, liability or expense incurred without gross negligence or willful misconduct on the part of the Representative and arising out of or in connection with the acceptance or administration of his or her duties hereunder. Cellegy (or, in Cellegy's discretion, Vaxis) shall pay the Representative, for his services hereunder, an annual fee of $6,000 per year during the Survival Period, with the first such payment due within thirty (30) days after the Closing Date and future payments due before each anniversary of the Closing

Date, and shall also pay any out-of-pocket costs and expenses reasonably incurred by the Representative in connection with actions taken by the Representative pursuant to the terms of Article X (including the hiring of legal counsel and the incurring of legal fees and costs), up to a maximum of $5,000 per year (and Cellegy may request that the Representative submit customary documentation concerning such expenses). However, Cellegy shall be entitled to offset and withhold from any Earn-Out Consideration that would otherwise be payable to the Stockholders hereunder the full amount, in proportion to their respective share of the Earn-Out Consideration, of all such payments pursuant to the preceding sentence.

10.5 Notice of Claim. Cellegy shall give written notice of a Claim executed by an officer of Cellegy (a "Notice of Claim") whether for its own Damages or for Damages incurred by any other Cellegy Indemnified Person. Cellegy may deliver a Notice of Claim at any time Cellegy or any other Cellegy Indemnified Person suffers Damages or is subject to a claim, demand, suit, action, cause of action or other dispute that may give rise to a Claim. In the event that Cellegy delivers a Notice of Claim on its own behalf or is requested to deliver a Notice of Claim on behalf of any other Cellegy Indemnified Person, Cellegy will do so promptly after Cellegy becomes aware of the existence of any Claim by a Cellegy Indemnified Person for indemnity from the Stockholders under Article X. Cellegy shall deliver a Notice of Claim before the expiration of the applicable Survival Period, arising from or relating to:

(a) any inaccuracy, misrepresentation, breach of, or default in, any of the representations, warranties or covenants given or made by Vaxis in this Agreement or in the Disclosure Schedule or in any certificate delivered by Vaxis or an officer of Vaxis pursuant hereto; or

(b) the assertion, whether orally or in writing, against Cellegy or against any other Cellegy Indemnified Person of a Claim, inquiry or proceeding brought by a third party against such Indemnified Person (in each such case, a "Third-Party Claim") that is based upon, or includes assertions that would, if true, constitute any inaccuracy, misrepresentation, breach of, or default in, any of the representations, warranties or covenants given or made by Vaxis in this Agreement or in the Disclosure Schedule or in any certificate delivered by or on behalf of Vaxis or an officer of Vaxis pursuant hereto.

Until the expiration of the applicable Survival Period, no delay on the part of Cellegy in giving the Representative a Notice of Claim will relieve the Representative or any Stockholder from any of its obligations under Article X unless (and then only to the extent) that the Representative or the Stockholders are materially prejudiced thereby.

10.6 Defense of Third-Party Claims.

Cellegy shall defend any Third-Party Claim, and the costs and expenses incurred by Cellegy in connection with such defense (including, but not limited to, reasonable attorneys' fees, other professionals' and experts' fees and court or arbitration costs) shall be included in the Damages for which Cellegy may seek indemnity pursuant to a Claim made by any Cellegy Indemnified Person hereunder.

The Representative shall have the right to receive copies of all pleadings, notices and communications with respect to the Third-Party Claim to the extent that receipt of such documents by the Representative does not affect any privilege relating to the Cellegy Indemnified Person, and may participate in settlement negotiations with respect to the Third-Party Claim. No Cellegy Indemnified Person shall enter into any settlement of a Third-Party Claim without the prior written consent of the Representative (which consent shall not be unreasonably withheld), provided, that if the Representative shall have consented in writing to any such settlement, then the Representative shall have no power or authority to object to any Claim by any Cellegy Indemnified Person for indemnity under Section 10.2 for the amount of such settlement; and the Stockholders will remain responsible to indemnify the Cellegy Indemnified Persons for all Damages they may incur arising out of, resulting from or caused by the Third-Party Claim to the fullest extent provided in Article X.

10.7 Contents of Notice of Claim. Each Notice of Claim by Cellegy given pursuant to Section 10.5 will contain the following information:

(a) that Cellegy has incurred, paid or accrued or, in good faith, believes it will have to incur, pay or accrue, Damages and, if reasonably determinable at the time, a good faith estimate of the aggregate amount of Damages arising from such Claim (which amount may be the amount of damages claimed by a third party in an action brought against any Cellegy Indemnified Person based on alleged facts, which if true, would give rise to liability for Damages to such Cellegy Indemnified Person under Article X); and

(b) a brief description, in reasonable detail (to the extent reasonably available to Cellegy), of the facts, circumstances or events giving rise to the alleged Damages based on Cellegy's good faith belief thereof, including the identity and address of any third-party claimant and copies of any formal demand or complaint, the amount of Damages, the date each such item was incurred, paid or accrued, or the basis for such anticipated liability, and the specific nature of the breach to which such item is related.

10.8 Resolution of Notice of Claim. Each Notice of Claim delivered by Cellegy will be resolved as follows:

(a) Uncontested Claims. In the event that, within ten calendar days after a Notice of Claim is received by the Representative, the Representative does not contest such Notice of Claim in writing to Cellegy as provided in Section 10.8(b) (an "Uncontested Claim"), the Representative will be conclusively deemed to have consented, on behalf of all Stockholders, to the recovery by the Cellegy Indemnified Person of the full amount of Damages specified in the Notice of Claim in accordance with this Article X, and, without further notice, to have stipulated to the entry of a final judgment for damages against the Stockholders for such amount in any court having jurisdiction over the matter.

(b) Contested Claims. In the event that the Representative gives Cellegy written notice contesting all or any portion of a Notice of Claim (a "Contested Claim") within the ten calendar day period specified in Section 10.8(a), then such Contested Claim will be resolved by either (A) a written settlement agreement executed by Cellegy and the Representative or

(B) in the absence of such a written settlement agreement, by the judgment of a court of competent jurisdiction.

10.9 Distribution Upon Termination of Escrow Period. Within ten business days following the applicable Escrow Release Date, Cellegy shall deliver to the Stockholders all of the Escrow Funds in excess of any amount of Escrow Funds that Cellegy determines in good faith may be necessary to satisfy any then unsatisfied, unresolved or contested Claims for Damages specified in any Notice of Claim delivered to the Representative before the Escrow Release Date. As soon as all such Claims have been finally resolved, Cellegy shall deliver to the Stockholders all remaining Escrow Funds not applied to the satisfaction of such Claims.

10.10 Offset of Earn-Out Consideration. Cellegy shall be entitled to offset the amount of any Damages from any Earn-Out Consideration that would otherwise become payable in accordance with the terms of this Agreement for a period of forty-eight (48) months after the Closing Date.

10.11 Limitation of Escrow Agent's Liability.

(a) The Escrow Agent will incur no liability with respect to any action taken or suffered by it in reliance upon any notice, direction, instruction, consent, statement or other document believed by it to be genuine and duly authorized, nor for any other action or inaction, except its own willful misconduct. The Escrow Agent shall have no duty to inquire into or investigate the validity, accuracy or content of any document delivered to it. In all questions arising under this Agreement, the Escrow Agent may rely on the advice or opinion of counsel, and for anything done, omitted or suffered in good faith by the Escrow Agent based on such advice, the Escrow Agent will not be liable to anyone. The Escrow Agent will not be required to take any action hereunder involving any expense unless the payment of such expense is made or provided for in a manner satisfactory to it.

(b) In the event conflicting demands are made or conflicting notices are served upon the Escrow Agent with respect to the Escrow Funds, the Escrow Agent will have the absolute right, at the Escrow Agent's election, to do either or both of the following: (i) resign so a successor can be appointed pursuant to Section 10.12 hereof or (ii) file a suit in interpleader and obtain an order from a court of competent jurisdiction requiring the parties to interplead and litigate in such court their several claims and rights among themselves. In the event such interpleader suit is brought, the Escrow Agent will thereby be fully released and discharged from all further obligations imposed upon it under this Agreement, and Cellegy will pay the Escrow Agent's costs, expenses and attorney's fees expended or incurred by the Escrow Agent pursuant to the exercise of Escrow Agent's rights under this Section 10.11(b). However, Cellegy shall be entitled to reimbursement from the Stockholders (solely out of Escrow Funds) of such fees and expenses of the Escrow Agent in the event Cellegy prevails in such dispute.

(c) The Escrow Agent may execute any of its powers or responsibilities hereunder and exercise any rights hereunder either directly or by or through the Escrow Agent's agents or attorneys. The Escrow Agent shall have no liability for the conduct of any outside attorneys, accountants or other similar professionals it retains. Nothing in this Agreement shall

be deemed to impose upon Escrow Agent any duty to qualify to do business or to act as a fiduciary or otherwise in any jurisdiction.

10.12 Successor Escrow Agent. In the event the Escrow Agent becomes unavailable or unwilling to continue in its capacity herewith, the Escrow Agent may resign and be discharged from its duties or obligations hereunder by giving notice of its resignation to the parties to this Agreement, specifying a date not less than ten days following such notice date of when such resignation will take effect. Cellegy will designate a successor Escrow Agent prior to the expiration of such ten-day period by giving written notice to the Escrow Agent and the Representative. The Escrow Agent will promptly transfer the Escrow Funds to such designated successor.

ARTICLE XI
REPRESENTATIONS, WARRANTIES AND COVENANTS OF THE STOCKHOLDERS

Each of the Stockholders severally and not jointly represents and warrants to Cellegy and Vaxis as follows:

11.1 Binding Obligation. Each Stockholder has the right (and, if a corporation, the power and authority) to enter into this Agreement, to sell the Stockholder's Purchased Shares in the manner contemplated herein and to perform all of the Stockholder's obligations under this Agreement. This Agreement is a legal, valid and binding obligation of each Stockholder, enforceable against each Stockholder in accordance with its terms subject to:

(a) bankruptcy, insolvency, moratorium, reorganization and other laws relating to or affecting the enforcement of creditors' rights generally, and

(b) the fact that equitable remedies, including the remedies of specific performance and injunction, may only be granted in the discretion of a court.

11.2 No Other Purchase Agreements. Except in respect of any rights under agreements which shall be exercised in full or cancelled prior to the Closing, no person has any agreement, option, understanding or commitment or any right or privilege (whether by law, pre-emptive or contractual) capable of becoming an agreement, option or commitment, including convertible securities, warrants or convertible obligations of any nature, for the purchase, subscription, allotment or issuance of, or conversion into, any of the unissued shares in the capital of Vaxis or any securities of Vaxis, except for any such pre-emptive rights which have been waived in writing.

11.2 Ownership. Each Stockholder represents and warrants that such Stockholder is the registered and beneficial owner of the Purchased Shares listed opposite such Stockholder's name in Exhibit 3.1(a) annexed hereto, free and clear of all liens, charges, security interests, Encumbrances and rights of others.

11.3 Authority Relative to this Agreement. Each Stockholder, if a corporation, has the corporate power to enter into this Agreement and to carry out its obligations hereunder. The

execution and delivery of this Agreement by each Stockholder and the consummation by each Stockholder of the Transaction have been duly authorized by any individual, corporate, partnership or other action necessary on the part of each of the Stockholders, if necessary, and no other corporate or stockholder proceedings on the part of any Stockholder are necessary to approve this Agreement or the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by each Stockholder and constitutes the valid and binding agreement of each Stockholder, enforceable against each Stockholder in accordance with its terms, subject to applicable bankruptcy, insolvency or other similar laws relating to creditors' rights and general principles of equity.

11.4 Consents and Approvals; No Violations. Except for applicable requirements of the Securities Act and the Securities Act (Ontario) no filing with, and no permit, authorization, consent or approval of, any public or governmental body or authority is necessary for the consummation by any Stockholder of the Transaction. Neither the execution and delivery of this Agreement by any Stockholder, nor the consummation by any Stockholder of the Transaction, nor compliance by any Stockholder with any of the provisions hereof, will (a) result in any breach of the Articles of Incorporation or Bylaws of any Stockholder (if a corporation), (b) result in a violation or breach of, or constitute (with or without due notice or lapse of time or both) a default (or give rise to any right of termination, cancellation, acceleration or change in the award, grant, vesting or determination) under, require the consent of any third party under, or give rise to creation of any Encumbrance upon any of the respective properties or assets of any Stockholder under, any of the terms, conditions or provisions of any note, bond, mortgage, indenture, deed of trust, license, contract, lease, agreement, arrangement or other instrument or obligation to which any Stockholder is a party or by which any of them or any of their properties or assets may be bound or (c) violate any order, writ, injunction, decree, statute, rule or regulation applicable to any Stockholder or any of their respective properties or assets. No vote of Stockholders is necessary to approve this Agreement and the transactions contemplated hereby.

11.5 Residence of Stockholder. Except for those Stockholders having an address outside of Canada as set forth in Exhibit 3.1(a) of the Disclosure Schedule, each Stockholder is not a non-resident of Canada for the purposes of the Income Tax Act (Canada).

11.6 Investment Representations and Warranties of Stockholder. Each of the Stockholders severally and not jointly represents and warrants to Cellegy and Vaxis as follows:

(a) "Accredited" Investor. Only if a Stockholder so indicates on the signature page to this Agreement, Stockholder is either (A) a natural person and either (x) Stockholder's individual net worth, or joint net worth with Stockholder's spouse, will, at the time of the investment in the Cellegy Common Stock, exceed US$1,000,000 or (y) Stockholder had an individual income in excess of US$200,000 in each of the two most recent years or joint income with Stockholder's spouse in excess of US$300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year, (B) a corporation with total assets in excess of US$5,000,000, not formed for the specific purpose of acquiring the shares of Cellegy Common Stock, or (C) an entity all of the equity owners of which are as specified in (A) or (B) (an "Accredited Stockholder").

(b) Holding For Own Account. Stockholder is acquiring the shares of Cellegy Common Stock for Stockholder's own account, for investment purposes only, and not with a view toward the resale or distribution thereof within the meaning of the Securities Act, except pursuant to effective registrations or qualifications relating thereto under the Securities Act and applicable Canadian and U.S. federal, provincial and state securities or blue sky laws or pursuant to an exemption therefrom.

(c) Stockholder's Business Experience. Stockholder has, alone or together with Stockholder's Stockholder representative, if any, such knowledge and experience in financial and business matters so that Stockholder is capable of evaluating the relative merits and risks of acquiring the shares of Cellegy Common Stock. Stockholder has adequate means of providing for its, his or her current economic needs and possible personal contingencies, has no need for liquidity in its, his or her investment in Cellegy and is able financially to bear the risks of such investment.

(d) Availability of Information. Stockholder acknowledges that all documents, records and books pertaining to the investment in Cellegy resulting from the Transaction that Stockholder or Stockholder's representative, if any, has requested have been made available or delivered to Stockholder, to the extent that Cellegy possesses such information without unreasonable efforts or expense.

(e) Opportunity to Ask Questions. Stockholder or Stockholder's Stockholder representative, if any, has had an opportunity to discuss Cellegy's business, management and financial affairs with Cellegy's management and to ask questions of and receive answers from Cellegy, or a person or persons acting on behalf of Cellegy, concerning the business of Cellegy. Stockholder acknowledges that all such questions, if any, have been answered to the Stockholder's satisfaction and that Stockholder has received all information about Cellegy which Stockholder deems necessary in connection with the Transaction.

(f) Investment Representation Article. Stockholder has carefully read this Article XI and, to the extent Stockholder believes necessary, has discussed with Stockholder's counsel the representations, warranties and agreements that Stockholder makes herein and the applicable limitations upon Stockholder's resale of the Cellegy Common Stock.

(g) Cellegy Information. Stockholder has the opportunity to review and has reviewed each of the following documents: (i) Annual Report of Cellegy on Form 10-K for the fiscal year ended December 31, 2000, (ii) Quarterly Reports of Cellegy on Form 10-Q for the quarterly periods ended March 31, 2001 and June 30, 2001 and September 30, 2001, and (iii) definitive Proxy Statement for Cellegy's Annual Meeting of Stockholders held in 2001. Stockholder is also aware of and acknowledges the following:

(i) that no federal or state agency has made any finding or determination regarding the fairness of this investment, or any recommendation or endorsement of the Cellegy Common Stock;

(ii) that neither the officers, directors, agents, affiliates or employees of Cellegy, nor any other person other than Cellegy, has expressly or by

implication, made any representation or warranty concerning Cellegy other than as set forth in this Agreement; and

(iii) that the past performance or experience of Cellegy or Cellegy's officers, directors, agents or employees will not in any way indicate or predict the results of the ownership of Cellegy Common Stock or of Cellegy's activities.

(h) Unregistered Cellegy Common Stock; Restrictions on Transfer. (a) Stockholder understands that: (A) the Cellegy Common Stock has not been registered under the Securities Act or the securities laws of any state or other jurisdiction in reliance upon exemptions from such registration requirements for non-public offerings; (B) the Cellegy Common Stock may not be sold, pledged or otherwise transferred except pursuant to effective registrations or qualifications relating thereto under the Securities Act and other applicable securities laws or pursuant to an exemption therefrom; and (C) Cellegy is not under any obligation to register or qualify the Cellegy Common Stock under the Securities Act or any other applicable securities laws, or to take any action to make any exemption from any such registration provisions available.

(i) No Public Solicitation. Stockholder represents that at no time was Stockholder presented with or solicited by any general mailing, leaflet, public promotional meeting, newspaper or magazine article, radio or television advertisement, or any other form of general advertising or general solicitation in connection with the Transaction.

(j) Principal Residence or Principal Place of Business. The address shown on the schedule of Stockholders separately delivered by Vaxis to Cellegy before the Closing is Stockholder's principal residence if Stockholder is an individual or Stockholder's principal place of business if it is a corporation.

11.7 Additional Covenants of Stockholders. Each of the Stockholders severally and not jointly covenants to Cellegy and Vaxis as follows:

(a) Lock-Up Period. Stockholder agrees to comply with the transfer restrictions set forth in Section 7.10 above.

(b) Securities Law Restrictions. Stockholder will not sell, assign or transfer any of the Cellegy Common Stock received by Stockholder in connection with the Acquisition Agreement except (i) pursuant to an effective registration statement under the Securities Act, (ii) in conformity with the volume and other limitations of Rule 144 promulgated under the Securities Act, or (iii) in a transaction which, in the opinion of independent counsel to the Stockholder delivered to Cellegy and satisfactory to Cellegy, is not required to be registered under the Act.

Cellegy shall place the following legend (and any other appropriate legend) on each certificate or instrument representing shares of Cellegy Common Stock acquired under this Agreement:

THE SHARES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS

AMENDED (THE "ACT"), OR UNDER THE SECURITIES OR BLUE SKY LAWS OF ANY STATE AND MAY NOT BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT OR IN A TRANSACTION WHICH IS NOT SUBJECT TO THE REGISTRATION REQUIREMENTS OF THE ACT OR ANY APPLICABLE SECURITIES OR BLUE SKY LAWS AND, IN THE CASE OF A TRANSACTION NOT SUBJECT TO SUCH REGISTRATION REQUIREMENTS, UNLESS THE ISSUER HAS RECEIVED AN OPINION OF COUNSEL TO THE HOLDER REASONABLY SATISFACTORY TO IT THAT SUCH TRANSACTION DOES NOT REQUIRE REGISTRATION UNDER THE ACT.

Cellegy agrees that no opinion of counsel shall be required in connection with a request to remove the foregoing legend in connection with routine Rule 144 sale transactions pursuant to customary documentation including a Form 144 and brokers' and sellers' representation letters and will instruct its transfer agent to such effect.

(c) Stop Transfer Instructions; No Requirement to Transfer. Stockholder agrees that, in order to ensure compliance with the restrictions referred to herein, Cellegy may issue appropriate "stop transfer" instructions to its transfer agent. Cellegy shall not be required (i) to transfer or have transferred on its books any Cellegy Common Stock that have been sold or otherwise transferred in violation of any of the this Agreement or (ii) to treat as owner of such Cellegy Common Stock or to accord the right to vote or pay dividends to any Stockholder or other transferee to whom such Cellegy Common Stock shall have been so transferred in violation of any provision of this Agreement.

11.8 Regulation S, Representations and Warranties. Except with respect to the one Stockholder who has been previously identified to Cellegy as being a "U.S. person" (which Stockholder shall not be deemed to make the representations and warranties in this Section 11.8):

(a) Compliance With Laws. Stockholder hereby represents that he or she has satisfied himself or herself as to the full observance of the laws of his or her jurisdiction in connection with the transactions contemplated by this Agreement and the issuance of the Cellegy Common Stock to the Stockholder, including (i) the legal requirements within his or her jurisdiction for the acquisition of the Cellegy Common Stock, (ii) any foreign exchange restrictions applicable to such acquisition, (iii) any governmental or other consents that may need to be obtained, and (iv) the income tax and other tax consequences, if any, that may be relevant to the acquisition, purchase, holding, redemption, sale or other transfer of the Cellegy Common Stock. The Stockholder's initial receipt, and his or her continued beneficial ownership, of the Cellegy Common Stock will not violate any applicable securities or other laws of his or her jurisdiction.

(b) Offshore Transaction. The offer and sale of the Cellegy Common Stock to the Stockholder was made in an offshore transaction (as defined in Rule 902(h) of Regulation S). The offer to Stockholder to acquire the Cellegy Common Stock was not made to any person within the United States (which, for purposes of this Agreement, includes the

territories and possessions of the United States, any State of the United States and the District of Columbia), and, at the time Stockholder voted in favor of the Transaction and acquired the Cellegy Common Stock, Stockholder was outside the United States. Stockholder certifies that it is not a U.S. person and that it is not acquiring the Cellegy Common Stock for the account or benefit of any U.S. person.

(c) Offering Restrictions. Stockholder acknowledges and agrees that the Cellegy Common Stock (i) have not been registered under the Act, will be issued under an exemption from registration under the Securities Act provided for in Regulation S promulgated under the Securities Act ("Regulation S") and (ii) in addition to any other restrictions set forth herein, may not be offered or sold in the United States or to any U.S. person (other then distributors) unless the Cellegy Common Stock are registered under the Securities Act or an exemption from the registration requirements of the Act is available.

(d) Resale Restrictions. Stockholder acknowledges and agrees that hedging transactions involving the Cellegy Common Stock may not be conducted unless in compliance with the Securities Act. Stockholder acknowledges and agrees that during the one year period beginning on the Clsoing Date (the "Restriction Period"): (i) Stockholder may resell the Cellegy Common Stock only in accordance with the provisions of Regulation S, pursuant to registration under the Securities Act or pursuant to an available exemption from the registration requirements of the Securities Act; (ii) Stockholder may not engage in hedging transactions with regard to the Cellegy Common Stock prior to the end of the Restriction Period; and (iii) (A) any offer or sale of the Cellegy Common Stock shall not be to a U.S. person or for the account or benefit of a U.S. person; (B) prior to such purchase, the Stockholder of such Cellegy Common Stock shall certify that (1) it is not a U.S. person and is not acquiring such Cellegy Common Stock for the account or benefit of any U.S. person or (2) it is a U.S. person who purchased such Cellegy Common Stock in a transaction that did not require registration under the Securities Act; (C) prior to such purchase, the Stockholder of such Cellegy Common Stock shall agree to resell during the Restriction Period such Cellegy Common Stock only in accordance with the provisions of Regulation S, pursuant to registration under the Securities or pursuant to an exemption from the registration requirements of the Act; and (D) prior to such purchase, the Stockholder of such Cellegy Common Stock shall agree that hedging transactions including such Cellegy Common Stock may not be conducted unless in compliance with the Securities Act.

(e) No Directed Selling Efforts. No directed selling efforts (as defined in Rule 902(c) of Regulation S) were made in the United States, the Stockholder is not acquiring the Cellegy Common Stock for the account or benefit of any U.S. Person and Stockholder acknowledges and agrees that it is not aware of any activity initiated for the purpose or with the effect of conditioning the market in the United States for the Cellegy Common Stock offered to it.

(f) Stop Transfer Instructions and Legends. Stockholder understands that Cellegy will issue, and Stockholder consents to the issuing of, stop transfer instructions to Cellegy's transfer agent with respect to the Purchased Shares to assure compliance with the Securities Act. Stockholder consents to the placement of such legends on each certificate representing the Cellegy Common Stock as Cellegy may deem reasonably appropriate to reflect the restrictions imposed by Regulation S.

(g) Definition of U.S. Person. A "U.S. person", as used in this Article XI, means (i) any natural person resident in the United States; (ii) any partnership or corporation organized or incorporated under the laws of the United States; (iii) any estate of which any executor or administrator is a U.S. person; (iv) any trust of which any trustee is a U.S. person; (v) any agency or branch of a foreign entity located in the United States; (vi) any non-discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary for the benefit or account of a U.S. person; (vii) any discretionary account or similar account (other than an estate or trust) held by a dealer or other fiduciary organized, incorporated or (if an individual) resident in the United States; and (viii) any partnership or corporation if: (A) organized or incorporated under the laws of any foreign jurisdiction; and (B) formed by a U.S. person principally for the purpose of investing in securities not registered under the Securities Act, unless it is organized or incorporated, and owned, by accredited investors (as defined in Rule 501(a) under the Securities Act) who are not natural persons, estates or trusts.

11.9 Compliance With Laws And Regulations. The issuance and transfer of the Cellegy Common Stock will be subject to and conditioned upon compliance by Vaxis and Stockholder with all applicable U.S., Canadian, provincial, state and federal laws and regulations and with all applicable requirements of any stock exchange or automated quotation system on which Cellegy's Common Stock may be listed or quoted at the time of such issuance or transfer.

ARTICLE XII
GENERAL PROVISIONS

12.1 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original but all of which shall constitute one and the same agreement.

12.2 Brokers.

(a) Vaxis represents and warrants to Cellegy that no broker, finder or financial advisor is entitled to any brokerage, finder's or other fee or commission in connection with the Transaction or the transactions contemplated by this Agreement based upon arrangements made by or on behalf of Vaxis.

(b) Cellegy represents and warrants to Vaxis that no broker, finder or financial advisor is entitled to any brokerage, finder's or other fee or commission in connection with the Transaction or the transactions contemplated by this Agreement based upon arrangements made by or on behalf of Cellegy.

12.3 Notices. All notices, Claims, demands and other communications hereunder shall be in writing and shall be deemed given upon delivery if delivered in person, one Business Day after transmission by telecopier with confirmation of receipt, one business after deposit with a reputable national overnight courier for overnight delivery, or three Business Days after deposit in the mail, certified mail with return receipt requested, to the respective parties at the following addresses (or at such other address for a party as shall be specified by like notice):

(a) If to Cellegy, to:

Cellegy Pharmaceuticals, Inc.
349 Oyster Pt. Boulevard, Suite 200
South San Francisco, CA 94080
Facsimile: (650) 616-2222
Attention: Chief Executive Officer

with a copy to:

Fenwick & West LLP
815 Connecticut Avenue NW, Suite 200
Washington, DC 20006
Facsimile: (650) 494-1417
Attn: Kevin Kelso Esq.

(b) if to Vaxis, to:

Vaxis Therapeutics Corporation
116 Barrie Street, Suite 1606
Kingston, Ontario, Canada K7L 3N6
Facsimile: (613) 545-6853
Attention: James D. Banting

with a copy to:

Blake, Cassels & Graydon LLP
20th Floor, 45 O'Connor Street
Ottawa, Ontario, Canada K1P 1A4
Facsimile: (613) 788-2247
Attention: Eric Elvidge

(c) if to a Stockholder, to the address for such Stockholder that is set forth on Exhibit 3.1(a).

12.4 Interpretation. The headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. When a reference is made in this Agreement to Exhibits or Schedules, such reference shall be to an Exhibit or Schedule to this Agreement unless otherwise indicated. The words "include," "includes" and "including" when used herein shall be deemed in each case to be followed by the words "without limitation." The phrase "made available" in this Agreement shall mean that the information referred to has been made available if requested by the party to whom such information is to be made available. The parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties and no presumption

or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any of the provisions of this Agreement. Any reference to any federal, state, provincial, local, or foreign statute or law shall be deemed also to refer to all rules and regulations promulgated thereunder, unless the context requires otherwise. Nothing in the Disclosure Schedule shall be deemed adequate to disclose an exception to a representation or warranty made herein unless the Disclosure Schedule identifies the exception with particularity and describes the relevant facts in reasonable detail. Without limiting the generality of the foregoing, the mere listing (or inclusion of a copy) of a document or other item shall not be deemed adequate to disclose an exception to a representation or warranty made herein (unless the representation or warranty has to do with the existence of the document or other item itself). The parties intend that each representation, warranty, and covenant contained herein shall have independent significance. If any party has breached any representation, warranty, or covenant contained herein in any respect, the fact that there exists another representation, warranty, or covenant relating to the same subject matter (regardless of the relative levels of specificity) which the party has not breached shall not detract from or mitigate the fact that the party is in breach of the first representation, warranty, or covenant.

12.5 Entire Agreement; Assignment. This Agreement including the Exhibits, and other documents and instruments referred to herein (a) constitutes the entire agreement and supersedes all other prior agreements and understandings, both written and oral, among the parties or any of them, with respect to the subject matter hereof; (b) is not intended to confer upon any other person any rights or remedies hereunder; and (c) shall not be assigned by operation of law or otherwise, provided that Cellegy may assign its rights and obligations hereunder to a direct or indirect subsidiary of Cellegy or to another entity in connection with the acquisition of all or substantially all of Cellegy's business (whether by merger, sale of assets or otherwise), but no such assignment shall relieve Cellegy, as the case may be, of its obligations hereunder. This Agreement shall be binding upon and inure to the benefit of the parties named herein and their respective successors and permitted assigns.

12.6 Governing Law; Consent to Jurisdiction. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware without giving effect to the provisions thereof relating to conflicts of law. Each of the parties submits to the exclusive jurisdiction of any state or federal court sitting in Delaware, in any action or proceeding arising out of or relating to this Agreement and agrees that all Claims in respect of the action or proceeding may be heard and determined in any such court. Each of the parties waives any defense of inconvenient forum to the maintenance of any action or proceeding so brought and waives any bond, surety, or other security that might be required of any other party with respect thereto. Each party agrees that service of process in any such action may be made upon the other party in the manner provided herein for delivery of notices. Nothing in this Section, however, shall affect the right of any party to serve legal process in any other manner permitted by law or in equity. Each party agrees that a final judgment in any action or proceeding so brought shall be conclusive and may be enforced by suit on the judgment or in any other manner provided by law or in equity.

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

12.8 Severability. The provisions of this Agreement are severable and the invalidity of any provision will not affect the validity of any other provision.

12.9 Signatures of Escrow Agent and Representative. By their execution of a counterpart signature page to this Agreement, each of the Representative and the Escrow Agent accept and agree to be bound by the provisions of Articles X and XII of this Agreement, for the benefit of the other parties hereto.

[Remainder of this page intentionally left blank]

IN WITNESS WHEREOF, each of Cellegy, Vaxis and each Stockholder has caused this Agreement to be executed on its behalf by its officers thereunto duly authorized, all as of the date first above written.

VAXIS THERAPEUTICS CORPORATION

By:_____
Name:
Title:

CELLEGY PHARMACEUTICALS, INC.

By:_____
Name:
Title:

STOCKHOLDER

By:_____

Its: _____

Address: _____
_____
_____

Stockholder [check one] is_____ is not _____ an accredited investor as defined in Regulation D (see Section 11.6(a) above)

ESCROW AGENT

By:_____
Name:
Title:

REPRESENTATIVE

_____

Exhibit 3.1 (b)

Vaxis Products

1. The use of an endothelin receptor antagonist in the treatment of sexual dysfunction. (e.g. erectile dysfunction).

2. The use of an nitric oxide mimetic (as defined in the Vaxis Patents) to offset the hyperalgesia associated with prostaglandin administration in the treatment of sexual dysfunction.

3. The use of a nitric oxide mimetic in the treatment of male and female sexual dysfunction.

4. The use of a nitric oxide mimetic in the treatment of Raynaud's disease.

5. The use of a nitric oxide mimetic in the treatment of cancer (e.g. prostate).

6. The use of a nitric oxide mimetic to offset drug resistance related to chemotherapy in the treatment of cancer (e.g. Drug resistance to 5-FU).

7. The use of a nitric oxide mimetic in the treatment of temporary sleep disturbances (e.g. Restless Leg's Syndrome or insomnia).

Vaxis Patents

Please see attached list.

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) and the Registration Statement (Form S-8 No. 333-42840) 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-3 No. 33-11457), the Registration Statement (Form S-3 No. 333-36057), the Registration Statement (Form S-3 No. 333-46087), the Registration Statement (Form S-3 No. 333-86193), the Registration Statement (Form S-3 No. 333-49466) and the Registration Statement (Form S-3 No. 333-64864) of Cellegy Pharmaceuticals, Inc. of our report dated February 9, 2002, with respect to the consolidated financial statements of Cellegy Pharmaceuticals, Inc. included in the Annual Report (Form 10-K) for the year ended December 31, 2001 filed with the Securities and Exchange Commission.

Palo Alto, California
March 7, 2002