Filed pursuant to Rule 424B3 Registration #333-2507

PROSPECTUS

5,000,000 SHARES OF COMMON STOCK
CELLEGY PHARMACEUTICALS, INC.

This prospectus ("Prospectus") covers the resale of certain shares (the "Shares") of Common Stock, no par value per share (the "Common Stock"), of Cellegy Pharmaceuticals, Inc. ("Cellegy" or the "Company") held or acquirable by certain persons ("Selling Shareholders") named in this Prospectus. The Company will not receive any of the proceeds from the sale of the Shares. The Shares covered hereby include shares of Common Stock that are issuable upon conversion of previously-issued shares of Series A Preferred Stock (the "Series A Preferred") held by certain of the Selling Shareholders (the "Series A Holders"), and up to an additional 1,000,000 shares of Common Stock that are held by certain other Selling Shareholders or that are issuable upon exercise of warrants to purchase Common Stock held by certain other Selling Shareholders. See "Selling Shareholders" for information with respect to Shares held or acquirable by the Selling Shareholders.

The number of Shares issuable upon conversion of the Series A Preferred depends on several factors, including a fixed conversion ratio and a variable conversion ratio and the date on which shares are converted. The variable conversion ratio could result in a greater number of Shares being issued than under the fixed conversion ratio. In order to have a sufficient number of Shares registered upon conversion of Series A Preferred, this Prospectus covers a larger number of Shares of Common Stock (4,000,000 Shares) than the Company believes will actually be issued upon conversion of all of the Series A Preferred. Except for the total number of shares to which this Prospectus relates as set forth above, references in this Prospectus to the "number of Shares covered by this Prospectus," or similar statements, and information in this Prospectus regarding the number of Shares issuable to or held by the Series A Holders and percentage information relating to the Shares or the outstanding capital stock of the Company, are based upon the fixed conversion ratio set forth in the instruments establishing the rights of the Series A Preferred and assume that 1,150,251 Shares are issued upon conversion of all shares of Series A Preferred. See "Selling Shareholders," "Plan of Distribution" and "Description of Capital Stock."

The Shares offered hereby represent approximately 36% of the Company's currently outstanding Common Stock (assuming conversion of all shares of Series A Preferred and that the warrants held by the Selling Shareholders are exercised). The Shares are being offered on a continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the "Securities Act"). No underwriting discounts, commissions or expenses are payable or applicable in connection with the sale of such shares by the Selling Shareholders. The Common Stock of Cellegy is quoted on the Nasdaq SmallCap Market under the symbol "CLGY." The Shares offered hereby will be sold from time to time at then prevailing market prices, at prices relating to prevailing market prices or at negotiated prices. On June 24, 1996, the closing price of the Common Stock on the Nasdaq SmallCap Market was $8.25 per share. This Prospectus may be used by the Selling Shareholders or by any broker-dealer who may participate in sales of the Common Stock covered hereby.

SEE "RISK FACTORS" COMMENCING ON PAGE 4 FOR A DISCUSSION OF CERTAIN FACTORS THAT SHOULD BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE COMMON STOCK OFFERED HEREBY.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Company (1)	Proceeds to Selling Shareholders (1)
Per Share	....see text above	none	none	see text above
Total	.....see text above	none	none	see text above

(1) The shares of Common Stock offered hereby will be sold from time to time at the then prevailing market prices, at prices relating to prevailing market prices or at negotiated prices. The Company will pay the expenses of registration estimated at $94,000.

THE DATE OF THIS PROSPECTUS IS JULY 2, 1996.

AVAILABLE INFORMATION

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and, in accordance therewith, files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information filed by the Company can be inspected and copied at the public reference facilities of the Commission located at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, at the

Commission's regional offices at Seven World Trade Center, 13th Floor, New York, New York 10048, and Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511. Copies of such materials can also be obtained from the Public Reference Section of the Commission at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. The Company's Common Stock is listed on the Nasdaq SmallCap Market and reports, proxy statements and other information concerning the Company may be inspected at the offices of the Nasdaq Stock Market, 1735 K Street, N.W., Washington, D.C. 20006-1500.

The Company has filed with the Commission a Registration Statement on Form SB-2 under the Securities Act with respect to the Shares offered hereby. This Prospectus does not contain all of the information set forth in the Registration Statement and the exhibits and schedules thereto. For further information with respect to the Company and the Common Stock offered hereby, reference is made to the Registration Statement and the exhibits filed therewith. Statements contained in this Prospectus as to the contents of any contract or any other document referred to are not necessarily complete, and in each instance reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by such reference. A copy of the Registration Statement may be inspected, without charge, at the offices of the Commission in Washington, D.C., and copies of all or any part of the Registration Statement may be obtained from the Public Reference Section of the Commission at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, upon the payment of the fees prescribed by the Commission.

The Commission maintains a World Wide Web site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the Commission. The address of the Commission's World Wide Web site is: http://www.sec.gov.

THE COMPANY

The principal executive offices of the Company are located at 371 Bel Marin Keys, Suite 210, Novato, California 94949 and its telephone number is (415) 382-6770. In this Prospectus, the term "Cellegy" or "Company" refers to Cellegy Pharmaceuticals, Inc., a California corporation, and subsidiaries, unless the context otherwise requires.

RISK FACTORS

Investors should consider carefully the following factors, in addition to the other information contained in this Prospectus, before purchasing the shares of Common Stock offered hereby. Except for the historical information contained in this Prospectus, this Prospectus contains forward-looking statements which involve risks and uncertainties. The Company's actual results may differ in material respects from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed below. Investors should also refer to the Company's Annual Reports on Form 10-KSB and Quarterly Reports on Form 10-QSB filed with the Commission.

Early Stage of Product Development. Cellegy has not yet completed the development of any products or sought regulatory approval for the marketing of products and, accordingly, has not begun to market or generate revenues from the commercialization of products. Development of products will require significant additional research and development, including process development, extensive clinical testing and market research. All of the Company's product development efforts are based upon technologies and therapeutic approaches that have not been widely tested or used. Moreover, the Company's beliefs regarding the therapeutic and commercial potential for its potential products, including without limitation its drug delivery and skin protectant products, are based on preliminary assays or studies, and later studies may not support the Company's current beliefs. In addition, results of the Company's tests and studies have not been published in medical journals or reviewed by independent third parties (other than the third parties that in some instances conducted the studies on behalf of the Company), and as a result have not been subjected to the same degree of scrutiny as results that have been published or subjected to review by independent parties. To the Company's knowledge, no company has yet completed human clinical trials for the regulatory approval process, or undertaken successfully commercial manufacture, of products that are based on the Company's proprietary technologies, and it is extremely difficult to predict whether or when the Company's products will meet with regulatory approval, can be manufactured successfully, or will be accepted in the marketplace.

As a result, the Company's potential products are subject to the risks of failure inherent in the development of products based on new technologies. These risks include the possibilities that the Company's therapeutic approaches will not be successful, as was the case with an assay study conducted using Glylorin for impetigo; that the results from future clinical trials may not correlate with any safety or effectiveness results from prior clinical studies conducted by the Company or others; that some or all of the Company's potential products will not be successfully developed or will not be found to be safe and effective by the United States Food and Drug Administration (the "FDA"), or otherwise will fail to meet applicable regulatory standards or receive necessary regulatory clearances; that the products, if safe and effective, will be difficult to manufacture in commercial quantities at reasonable costs or will be uneconomical to market; that proprietary rights of third parties will preclude the Company from commercializing such products; or that third parties will market superior or equivalent products. In addition, the failure of the Company's most advanced clinical compound, Glylorin, to successfully complete its current phase III and future clinical testing, including toxicology studies, could have a material adverse effect on the Company. There can be no assurance the Company's research and development activities will result in any commercially viable products.

The timetable for the completion of the various milestone events that must occur in order for the Company's products to be approved and marketed is very uncertain. Pharmaceutical research and development is frequently characterized by scientific and regulatory delays and disappointments. Although the Company may set target dates for the completion of various milestone events, the uncertainties and risks in the Company's product development and testing efforts mean that decisions on whether to invest in the Company should not assume that the targets will be met.

The evaluation of animal and human clinical test results involves making judgments about data and other information that often are not conclusive. Later testing may show those judgments to have been erroneous. For example, the Company's beliefs regarding the potential comparative therapeutic benefits of its products compared to currently marketed products may be erroneous, or the FDA may not agree with the Company's conclusions regarding such matters. Furthermore, due to the independent and blind

nature of certain human clinical testing, there will be extended periods during the testing process when the Company 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.

Shares Eligible for Sale; Possible Effect on Stock Price. The Shares held by or issuable to the Selling Shareholders represent approximately 36% of the outstanding shares of Common Stock, calculated assuming the issuance of 1,150,251 shares of Common Stock upon conversion of all shares of Series A Preferred and that all Shares issuable upon the exercise of warrants have been issued and are outstanding. Especially since the Company's Common Stock has historically had a low trading volume, sale of Shares in the open market could have a material adverse effect on the market price of the Common Stock.

All persons who were shareholders of the Company before its initial public offering in August 1995 ("IPO") and who owned more than 1% of the shares outstanding after the IPO ("Pre-IPO Shareholders"), executed lock-up agreements with the representatives (the "Representatives") of the underwriters in the IPO that restrict the sale or disposition of such shares until August 17, 1996, or such earlier date as the Representatives may agree. Under the terms of the lock-up agreements, shareholders who each hold less than approximately .5% of the outstanding shares are not subject to the lock-up restrictions, as long as sales by all such persons in the aggregate do not exceed approximately 109,000 shares. Moreover, under the terms of the lock-up agreements, up to an additional approximately 543,000 shares held by Pre-IPO Shareholders are not subject to the lock-up restriction. The Representatives may consent to a waiver of the lock-up restriction without prior public notice. Following the expiration of the lock-up agreements, or such earlier date as the Representatives may agree, most of the shares of Common Stock that were outstanding before the IPO will become eligible for sale in the public market subject to compliance with Rule 144 or Rule 701, and subject to any applicable state securities law restrictions on resale. In addition, holders of the warrants issued in connection with the IPO (the "IPO Warrants") will, after August 11, 1996, and subject to the satisfaction of certain conditions, also be able to sell publicly the Common Stock issuable upon exercise of the IPO Warrants.

Competition and Technological Change. The pharmaceutical industry is subject to rapid and significant technological change. Competitors of the Company in the United States and abroad are numerous and include, among others, major pharmaceutical, chemical and biotechnology companies, specialized firms, universities and other research institutions. There can be no assurance that the Company's competitors will not succeed in developing technologies and products that are more effective than any which are being developed by the Company or that would render the Company's technology and potential products obsolete and noncompetitive. Many of these competitors have substantially greater financial and technical resources and production and marketing capabilities than the Company. In addition, many of the Company's competitors have significantly greater experience than the Company in preclinical testing and human clinical trials of pharmaceutical products and in obtaining FDA and other regulatory approvals of products for use in health care. There can be no assurance that the Company's products under development will be able to compete successfully with existing products or products under development by other companies, universities and other institutions or that they will obtain regulatory approval in the United States or elsewhere. See "Business--Competition."

Accumulated Deficit; Anticipated Losses. The Company had an accumulated net loss of $11.0 million at March 31, 1996. The Company incurred net losses for the fiscal years ended December 31, 1994 and 1995, and for the three months ended March 31, 1995 and 1996, of $2,543,000, $2,152,000, $666,000 and $864,000, respectively. The Company expects to incur substantial and increasing net losses for at least the next several years, the amount of which is highly uncertain. There can be no assurance that the Company will ever be able to generate product revenues or achieve or sustain profitability. The Company will be required to conduct significant research, development, testing and regulatory compliance activities that, together with projected general and administrative expenses, are expected to result in significant operating losses for at least the next several years. The Company's ability to achieve profitability depends upon

its ability to successfully complete, either alone or with others, development of its potential products, successfully conduct clinical trials, obtain required regulatory approvals, find appropriate third party manufacturers and market its products or enter into license agreements on acceptable terms. In the event the Company enters into any future license agreements, such license agreements may adversely affect the Company's profit margins on its products.

Future Capital Needs; Uncertainty of Additional Funding. The Company's operations to date have consumed substantial amounts of cash. The Company has no current source of ongoing revenues or capital beyond existing cash. In order to complete the research and development and other activities necessary to commercialize its products, additional financing may be required. The Company's capital requirements depend on numerous factors, including without limitation the progress of its research and development programs, the progress of preclinical and clinical testing, the time and costs involved in obtaining regulatory approvals, the costs of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights, competing technological and market developments, changes in the Company's existing research relationships, the ability of the Company to establish collaborative arrangements, the development of commercialization activities and arrangements, and the purchase of capital equipment.

In April 1996, the Company completed a private placement of 750 shares of Series A Preferred Stock resulting in net proceeds of approximately $6.9 million. The Company believes that its existing resources will satisfy its cash requirements for at least 24 months from the date of this Prospectus, based upon the Company's current plan. At some future date thereafter, however, the Company may require substantial additional capital to fund its operations, continue research and development programs and preclinical and clinical testing of its potential products and conduct its business. The Company may seek any required additional funding through equity offerings, private financings and collaborative or other arrangements with third parties. There can be no assurance that additional funds will be available on acceptable terms. If additional funds are raised by issuing equity securities, further substantial dilution to existing shareholders may result. If adequate funds are not available, the Company may be required to delay, scale back or eliminate one or more of its research and development programs, or to obtain funds through entering into arrangements with third parties that may require the Company to relinquish rights to certain of its technologies or potential products that the Company would not otherwise relinquish.

Limits on Secondary Trading; Liquidity of Trading Market. Under the blue sky laws of most states, public sales of Common Stock and IPO Warrants by persons other than the Company in "nonissuer transactions" must either be qualified under applicable blue sky laws, or exempt from such qualification requirements. Blue sky authorities in California or other states may impose other restrictions on the secondary trading of Common Stock or IPO Warrants in those states. In many states, secondary trading of the Common Stock or IPO Warrants is permitted only by virtue of an exemption so long as information about the Company is published in a recognized manual such as manuals published by Moody's Investor Service or Standard & Poor's Corporation. As a result of these or other restrictions that might be imposed, shareholders may be restricted or prohibited from selling Common Stock or IPO Warrants in particular states as a result of applicable blue sky laws. These restrictions may have the effect of reducing the liquidity of the Common Stock or IPO Warrants and could adversely affect the market price of the Common Stock or IPO Warrants.

The Common Stock and the IPO Warrants are listed on the Nasdaq SmallCap Market. If the Company should be unable to maintain the standards for continued quotation on the Nasdaq SmallCap Market, the Common Stock and the IPO Warrants could be subject to removal from the Nasdaq SmallCap Market. Trading, if any, in the Common Stock and the IPO Warrants would therefore be conducted in the over-the-counter market on an electronic bulletin board established for securities that do not meet the Nasdaq SmallCap Market listing requirements or in what are commonly referred to as the "pink sheets." As a result, an investor would find it more difficult to dispose of, or to obtain accurate quotations as to the price of, the Company's securities. In addition, depending on several factors including the future market price of the Common Stock, the Company's securities could become subject to the so-called "penny stock" rules that impose additional sales practice and market making requirements on

broker-dealers who sell and/or make a market in such securities, which could affect the ability or willingness of broker-dealers to sell and/or make a market in the Company's securities and the ability of purchasers of the Company's securities to sell their securities in the secondary market.

Government Regulation and Product Approvals. The research, testing, manufacture, labeling, distribution, marketing and advertising of products such as the Company's products and its ongoing research and development activities are subject to extensive regulation by governmental regulatory authorities in the United States and other countries. The rigorous preclinical and clinical testing requirements and regulatory approval process of the FDA in the United States and of certain foreign regulatory authorities can take five to ten years or more and require the expenditure of substantial resources. There can be no assurance that the Company will be able to obtain the necessary approvals for clinical testing or for the marketing of products. Moreover, additional government regulations may be established that could prevent or delay regulatory approval of the Company's products. Delays in obtaining regulatory approvals could have a material adverse effect on the Company. Even if regulatory approval of a product is granted, such approval may include significant limitations on the indicated uses of the product or the manner in which or conditions under which the product may be marketed. For example, even if the Company seeks FDA approval of a non-cosmetic product for non-prescription consumer sales, the FDA could instead require that the product be distributed by means of a prescription before considering approval for distribution as a non-prescription product. Prescription only approval, which the Company believes is common where a company seeks approval for a product involving a new compound or a compound previously approved for other uses, could delay for several years, or indefinitely, distribution through the consumer (non-prescription) channel of the Company's consumer products which are subject to premarket review and approval by the FDA. Moreover, failure to comply with regulatory requirements could subject the Company to regulatory or judicial enforcement actions, including, but not limited to, product recalls or seizures, injunctions, civil penalties, criminal prosecution, refusals to approve new products and withdrawal of existing approvals, as well as potentially enhanced product liability exposure. Sales of the Company's products outside the United States will be subject to regulatory requirements governing clinical trials and marketing approval. These requirements vary widely from country to country and could delay introduction of the Company's products in those countries.

Patents and Proprietary Technology. The Company's success depends, in part, on its ability to obtain patent protection for its products and methods, both in the United States and in other countries. Several of the Company's products are based on existing compounds with a history of use in humans but which are being developed by the Company for new therapeutic use for skin diseases unrelated to the systemic diseases for which the compounds were previously approved. The Company cannot obtain composition patent claims on all formulations that include these compounds, and will instead need to rely on patent claims, if any, directed to use of the compound to treat certain conditions. The Company will not be able to prevent a competitor from using that formulation or compound for a different purpose. No assurance can be given that any additional patents will be issued to the Company, 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. There is a substantial backlog of patent applications at the United States Patent and Trademark Office ("USPTP").

The patent position of companies engaged in businesses such as the Company's business generally is uncertain and involves complex legal and factual questions. 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 the Company'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 a competitive advantage to the Company. In addition, other 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 the Company. These rights may prevent the Company from commercializing technology, or may require the Company to obtain a license from the entity to practice the technology. There can be no assurance that the Company 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 U.S. patents as extensively as those rights are protected in the United States. As with other companies in the pharmaceutical industry, the Company is subject to the risk that persons located in such countries will engage in development, marketing or sales activities of products that would infringe the Company's patent rights if such activities were in the United States.

The agreement pursuant to which the Company has exclusive license rights to certain barrier repair and drug delivery technology contains certain development and performance milestones which the Company must satisfy in order to retain such rights. The Company has been granted an extension on certain milestone dates. See "Business--Principal License Agreements." While the Company currently believes it will satisfy the milestones or be able to negotiate satisfactory extensions, a loss of exclusive rights to such technology could have a material adverse effect on the Company.

Limited Staff; Third Party Relationship. In view of the early stage of the Company and its research and development programs, the Company has restricted hiring to research and development scientists and a small administrative staff and has made limited investments in marketing, product sales and regulatory compliance resources. The Company has certain key academic collaborations relating to the research, development and commercialization of its potential products. Therefore, the Company may be dependent upon the subsequent success of these outside parties in performing their responsibilities. In addition, the Company may enter into additional arrangements with corporate and academic collaborators and others to research, develop or commercialize potential products. There can be no assurance that the Company will be able to establish any such arrangements or that they will be successful. Failure to enter into any such arrangements that in the future might be necessary could have a material adverse effect on the Company's business.

Risk of Product Liability; Limited Product Liability Insurance; Environmental Matters. The testing, marketing and sale of human health care products entails an inherent risk of allegations of product liability, and there can be no assurance that substantial product liability claims will not be asserted against the Company. The Company has obtained limited amounts of insurance relating to its clinical trials. There can be no assurance that the Company will be able to obtain or maintain insurance on acceptable terms for its clinical and commercial activities or that any insurance obtained will provide adequate protection against potential liabilities. Moreover, the Company is subject to federal, state and local laws and regulations governing the use, generation, manufacture, storage, handling and disposal of certain materials and wastes. The Company's research and development processes involve the limited, controlled use of hazardous and radioactive materials. The Company believes its safety procedures for handling and disposing of such materials comply with the standards prescribed by such laws and regulations, but the risk of accidental contamination or injury to the Company's employees or others from these materials cannot be eliminated. In the event of such an accident, the Company could be held liable for any damages that result, and any such liability could exceed the resources of the Company. Although the Company believes it is in compliance in all material respects with applicable environmental laws and regulations and currently does not expect to make material capital expenditures for environmental control facilities in the near-term, there can be no assurance that the Company will not be required to incur significant costs to comply with environmental laws and regulations in the future, or that the operations, business or assets of the Company may not be materially adversely affected by current or future environmental laws or regulations.

Dependence Upon Key Employees and Consultants. The success of the Company is dependent upon the efforts of its senior management team and key consultants, including William E. Bliss, the Company's President and Chief Executive Officer, Dr. Carl R. Thornfeldt, Vice President of Research and Development, Medical Director and Chairman of the Board of Directors of the Company, and Dr. Peter M. Elias, a director of and consultant to the Company and Co-Chairman of the Company's Scientific Advisory Board. A change in the association of one or more of these individuals with the Company could adversely affect the Company if suitable replacement personnel could not be employed. The Company does not currently maintain key man or (except with respect to Dr. Elias) life insurance policies covering any of its personnel. The success of the Company also depends upon its ability to continue to attract and retain qualified scientific and technical personnel. There is intense competition for qualified personnel in the areas of the Company's activities, and there can be no assurance that the Company will be able to

continue to attract and retain the qualified personnel necessary for the development or expansion of its business. The failure to attract and retain such personnel could adversely affect the Company's business. In addition, certain members of the Company's management team, including Dr. Thornfeldt, are not full-time employees of the Company. The Company believes that the time commitments of the members of its management team have been appropriate given the Company's developmental stage.

Anti-Takeover Provisions. Certain provisions of the Company's Amended and Restated Articles of Incorporation, as well as the California General Corporation Law, could discourage a third party from attempting to acquire, or make it more difficult for a third party to acquire, control of the Company without approval of the Company's Board of Directors. Such provisions could also limit the price that certain investors might be willing to pay in the future for shares of the Common Stock. Certain of such provisions allow the Board of Directors to authorize the issuance of preferred stock with rights superior to those of the Common Stock. The Company is also subject to the provisions of Section 1203 of the California General Corporation Law which requires that a fairness opinion be provided to the Company's shareholders in connection with their consideration of any proposed "interested party" reorganization transaction.

Volatility of Stock Price. The stock market has from time to time experienced significant price and volume fluctuations that may be unrelated to the operating performance of particular companies. In addition, the market price of the Common Stock and the IPO Warrants, like the stock prices of many publicly-traded pharmaceutical, chemical and biotechnology companies, may prove to be highly volatile. Announcements of technological innovations or new commercial products by the Company or its competitors, developments or disputes concerning patent or proprietary rights, publicity regarding actual or potential medical results relating to products under development by the Company or its competitors, regulatory developments in both the United States and foreign countries, public concern as to the safety of pharmaceutical products, sales of a large number of shares of Common Stock in the market, and economic and other external factors, as well as period-to-period fluctuations in financial results, among other factors, may have a significant impact on the market price of the Common Stock and the IPO Warrants.

SELLING SHAREHOLDERS

The Selling Shareholders consist of (i) the Series A Holders, (ii) the Selling Shareholders who acquired warrants (the "Bridge Warrants") in a bridge financing transaction in February 1995 (the "Bridge Financing"), and (iii) certain other holders of outstanding shares of Common Stock or warrants to purchase Common Stock (the "Other Shareholders").

The registration statement of which this Prospectus is a part is being filed, and the Shares offered hereby are included herein, pursuant to various registration rights agreements entered into at various dates between the Company and the Series A Holders, Bridge Investors, and Other Selling Shareholders (collectively, the "Registration Rights Agreements"). Due to (i) the ability of the Selling Shareholders to determine individually when and whether they will sell any Shares under this Prospectus and (ii) the uncertainty as to how many of the Bridge Warrants will be exercised and how many shares of Common Stock will be issued upon conversion of shares of Series A Preferred, the Company is unable to determine the exact number of Shares that will actually be sold pursuant to this Prospectus.

THE SERIES A HOLDERS

The Selling Shareholders identified in the table below as "Series A Holders" acquired an aggregate of 750 shares of Series A Preferred in a private placement transaction (the "Series A Transaction") pursuant to Securities Subscription Agreements dated as of April 18 and 19, 1996 (collectively, the "Subscription Agreements"). Commencing July 3, 1996, the Series A Preferred is convertible into Common Stock at the option of the Series A Holder. The number of shares of Common Stock into which shares of Series A Preferred are convertible depends on several factors, including the date on which the shares are converted and the market price of the Common Stock at the time of conversion. See "Description of Capital Stock--Series A Preferred." The figures in the table below representing the number

of shares of Common Stock beneficially owned and offered by the Series A Holders make a number of assumptions concerning the applicable conversion ratio and the date on which shares of Series A Preferred are converted. As described in greater detail under "Description of Capital Stock--Series A Preferred," the number of shares of Common Stock issuable upon conversion of Series A Preferred is calculated in part on the basis of the lower of a fixed conversion price or a variable conversion price. The variable conversion price depends primarily on the market price of the Common Stock on the date of conversion. The fixed conversion price is $6.6275 per share. Since the Series A Holders paid $10,000 per share of Series A Preferred, each share of Series A Preferred is, in general, convertible into a number of shares determined by dividing $10,000 by the applicable conversion price (plus the premium, as described below). If the variable conversion price on the date of conversion is lower than the fixed conversion price, then a greater number of shares will be issued. In addition, a conversion premium of 8% per annum accrues from April 19, 1996 until the date of conversion and will result in issuance of a certain number of additional shares of Common Stock upon conversion of shares of Series A Preferred.

For the above reasons, it is not possible to set forth in the table the maximum number of shares that could be acquired by the Series A Holders upon conversion of Shares of Series A Preferred. The number of shares set forth in the table is based on conversion of the Series A Preferred at the fixed conversion price, with the 8% premium calculated assuming conversion of all shares of Series A Preferred on July 3, 1996. Several factors, including whether the market price of the Common Stock is lower than the fixed conversion price of $6.6275 per share, could result in a greater number of shares being issued to the Series A Holders than are reflected in the table below.

In connection with the Series A Transaction, the Company entered into a registration rights agreement with the Series A Holders granting the Series A Holders certain demand and piggyback registration rights. The registration statement of which this Prospectus is a part is being filed pursuant to the registration rights agreement with the Series A Holders.

THE BRIDGE INVESTORS

The Bridge Investors acquired the Bridge Warrants in the Bridge Financing in February 1995. The Bridge Warrants include a warrant (the "Initial Warrant") with an exercise price of $0.01 one cent per warrant. Upon exercise of an Initial Warrant, a Bridge Investor is entitled to receive one share of Common Stock and a warrant (the "Unit Warrant") to purchase one share of Common Stock at an exercise price of $7.81 per share (in some cases, $5.19 per share). The number of shares of Common Stock shown as beneficially owned and offered by Bridge Investors in the table below assumes exercise of both the Initial Warrants and the Unit Warrants.

Larry J. Wells, one of the Bridge Investors, is a director of the Company and is the Chairman of the entity that acts as the manager of Sundance Venture Partners, L.P., a shareholder of the Company. See "Principal Shareholders." Mr. Wells is also a partner of Anacapa Venture Partners, one of the Bridge Investors.

As a result of restrictions on transfers of the Shares held by the Bridge Investors which were imposed by the California Department of Corporations as a condition of granting a permit qualifying the issuance of securities in the Bridge Financing transaction in February 1995, even though the Shares issuable to the Bridge Investors are covered by this Prospectus, public resale of the Shares by the Bridge Investors may be limited and subject to regulation by the California Department of Corporations.

OTHER SELLING SHAREHOLDERS

The Other Selling Shareholders include Neutrogena Corporation, Broadmark Capital Corporation ("Broadmark") and Swartz Investments, LLC ("Swartz"). Neutrogena, which is a subsidiary of Johnson & Johnson, is a party with the Company to (i) a License Option Agreement dated April 16, 1992, (ii) a Metabolic Moisturizer OTC License Agreement dated April 16, 1992 and (iii) a Patent License Agreement effective June 1, 1994. In connection with the Company's IPO, Neutrogena executed a lock-up agreement with the Company and the Representatives of the Underwriters in the IPO, with terms substantially similar to the terms of lock-up agreements executed by other shareholders of the Company.

Neutrogena agreed not to sell shares of Common Stock without the consent of the Representatives, until August 17, 1996, subject to certain exceptions (including the shares registered hereby).

Broadmark Capital Corporation acted as placement agent in connection with the Bridge Financing and received a placement agent's fee and warrants to purchase 35,497 shares of Common Stock in consideration of its services. At various times before May 1, 1992, Broadmark also purchased shares of Common Stock and has received warrants to purchase shares of Common Stock in consideration of financial services provided to the Company.

In connection with it services as placement agent for the Series A Transaction, Swartz received warrants to purchase up to 86,006 shares of Common Stock at an exercise price of $7.23 per share, and received a placement agent's fee of $570,000.

The following table and accompanying footnotes identify each Selling Shareholder based upon information provided to the Company, set forth as of May 1, 1996, with respect to the Shares beneficially held by or acquirable by, as the case may be, each Selling Shareholder and the shares of Common Stock beneficially owned by the Selling Shareholders which are not covered by this Prospectus. Except as described above, based on information supplied to the Company, no Selling Shareholder has had any position, office or other material relationship with the Company within the past three years. The percentage figures reflected in the table assume conversion of all shares of Series A Preferred into 1,150,251 shares of Common Stock, and exercise of all Bridge Warrants held by the Bridge Investors into 774,416 shares of Common Stock.

	SHARES BENEFICIALLY OWNED PRIOR TO OFFERING		NUMBER OF SHARES BEING	SHARES BENEFICIALLY OWNED AFTER OFFERING	
NAME	NUMBER	PERCENT(1)	OFFERED	NUMBER	PERCENT(1)
SERIES A PREFERRED HOLDERS					
AG Super Fund International Partners, L.P.	23,005	*	23,005	0	*
Banque Scandinave En Suisse	115,025	1.9	115,025	0	*
Cameron Capital Ltd	76,683	1.3	76,683	0	*
Darissco Diversified Investments, Inc	23,005	*	23,005	0	*
Everest Capital International, Ltd	154,900	2.6	154,900	0	*
Everest Capital Investments, Ltd.	75,150	1.3	75,150	0	*
GAM Arbitrage, Inc.	46,010	*	46,010	0	*
GRACECHURCH and Co.	76,683	1.3	76,683	0	*
KA Investments, LDC	15,337	*	15,337	0	*
LAKE Management LDC	61,348	1.0	61,348	0	*
Leonardo, L.P.	191,708	3.2	191,708	0	*
Raphael, L.P.	46,010	*	46,010	0	*
Richcourt $ Strategies, Inc.	38,342	*	38,342	0	*
The Gifford Fund, Ltd.	76,683	1.3	76,683	0	*
The Tail Wind Fund, Ltd.	38,342	*	38,342	0	*
The OTATO Limited Partnership	38,342	*	38,342	0	*
Trustees' IFM Pension Plan Limited.	15,337	*	15,337	0	*
West Merchant Bank Nominees, Ltd.	38,341	*	38,341	0	*
BRIDGE INVESTORS					
A. B. Laffer, Canto & Associates	6,400	*	6,400	0	*
Larry Adler, CPA	16,000	*	16,000	0	*
Anacapa Venture Partners	16,000	*	16,000	0	*
Alan & Lois Bauer	7,200	*	5,540	1,660	*
J. Thomas Bentley	32,000	*	32,000	0	*
Peter Block	7,680	*	7,680	0	*
Dr. & Mrs. Robert Cancro	8,000	*	8,000	0	*
Ken Chamberlin	32,000	*	32,000	0	*
Paul Escobosa	3,200	*	3,200	0	*

NAME	SHARES BENEFICIALLY OWNED PRIOR TO OFFERING NUMBER	PERCENT(1)	NUMBER OF SHARES BEING OFFERED	SHARES BENEFICIALLY OWNED AFTER OFFERING NUMBER	PERCENT(1)
Davis Fox	12,000	*	12,000	0	*
James Freitag	3,200	*	3,200	0	*
G & G Diagnostics LPI	12,000	*	12,000	0	*
Michael Hubbard	7,200	*	7,200	0	*
Intervivos Charitable Remainder Unitrust for the Stock's	8,000	*	8,000	0	*
Bernard Keiser	32,000	*	24,670	7,330	*
Anita Laken	16,000	*	16,000	0	*
Glenn Laken	16,000	*	16,000	0	*
Priscilla J. Ledbetter RevocableTrust	4,000	*	3,079	921	*
Chai Mann	12,000	*	12,000	0	*
Robert Paget	12,000	*	12,000	0	*
Paradigm Venture Investors, LLC	160,000	2.7	160,000	0	*
Herbert L. Pruzan	8,000	*	8,000	0	*
Barry Reder	3,200	*	3,200	0	*
Dr. David R. Rosencrantz	9,600	*	7,395	2,205	*
Steven Safran	12,000	*	12,000	0	*
Seligmann, Dreiling, Beckerman Pension Plan FBO Thomas R. Dreiling	6,000	*	6,000	0	*
Dr. James C. Shaw	12,000	*	12,000	0	*
Donald and Lucy Stoner	24,000	*	24,000	0	*
Timothy Stoner	9,600	*	9,600	0	*
Dr. William M. Tucker	16,000	*	16,000	0	*
United Mizrahi Bank	160,000	2.7	160,000	0	*
Rory Veal	7,200	*	7,200	0	*
Westminster Associates Limited	64,000	1.1	64,000	0	*
Jon D. Wheeler	12,000	*	12,000	0	*
Frank D. Woodard	3,200	*	3,200	0	*
Larry J. Wells	594,946(1)	10.0	4,736	590,210(1)	10.0
OTHER SELLING SHAREHOLDERS					
Neutrogena Corporation	475,560	8.0	102,203	373,757	6.3
Broadmark Capital Corporation	60,780	1.0	35,497	25,283	*
Swartz Investments, LLC.	86,006	1.5	86,006	0	*

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* Less than 1%.

(1) Includes 569,617 shares and warrants to purchase 13,865 shares held by Sundance Venture Partners, LP. Mr. Wells is Chairman of the entity that acts as manager of Sundance.

PLAN OF DISTRIBUTION

The registration statement of which this Prospectus forms a part has been filed pursuant to the Registration Rights Agreements. To the Company's knowledge, as of the date hereof, no Selling Stockholder has entered into any agreement, arrangement or understanding with any particular broker or market maker with respect to the shares offered hereby, nor does the Company know the identity of the brokers or market makers which will participate in the offering.

The Shares covered hereby may be offered and sold from time to time by the Selling Shareholders. The Selling Shareholders will act independently of the Company in making decisions with respect to the timing, manner and size of each sale. Such sales may be made on the Nasdaq SmallCap Market or

otherwise, at prices and on terms then prevailing or at prices related to the then market price, or in negotiated transactions. The Shares may be sold by one or more of the following methods: (a) a block trade in which the broker-dealer engaged by the Selling Stockholder will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction; (b) purchases by the broker-dealer as principal and resale by such broker or dealer for its account pursuant to this Prospectus; and (c) ordinary brokerage transactions and transactions in which the broker solicits purchasers. To the Company's knowledge, the Selling Shareholders have not, as of the date hereof, entered into any arrangement with a broker-dealer for the sale of shares through a block trade, special offering, or secondary distribution of a purchase by a broker-dealer. In effecting sales, broker-dealers engaged by the Selling Shareholders may arrange for other broker-dealers to participate. Broker-dealers will receive commissions or discounts from the Selling Shareholders in amounts to be negotiated.

In offering the Shares, the Selling Shareholders and any broker-dealers who execute sales for the Selling Shareholders may be deemed to be "underwriters" within the meaning of the Securities Act in connection with such sales, and any profits realized by the Selling Shareholders and the compensation of such broker-dealer may be deemed to be underwriting discounts and commissions.

Rule 10b-6 under the Exchange Act prohibits participants in a distribution from bidding for or purchasing for an account in which the participant has a beneficial interest, any of the securities that are the subject of the distribution. Rule 10b-7 under the Exchange Act governs bids and purchases made to stabilize the price of a security in connection with a distribution of the security.

This offering will terminate as to each Selling Shareholder on the earlier of (a) the date on which such Selling Shareholder's shares may be resold pursuant to Rule 144 under the Securities Act; or (b) the date on which all Shares offered hereby have been sold by the Selling Shareholders. There can be no assurance that any of the Selling Shareholders will sell any or all of the shares of Common Stock offered hereby.

DIVIDEND POLICY

The Company has never declared or paid any cash dividends on its Common Stock. The Company currently anticipates that it will retain all future earnings for use in its business and does not anticipate paying any cash dividends in the foreseeable future. Future cash dividends, if any, will be determined by the Board of Directors, and will be based upon the Company's earnings, capital, research and development requirements, financial condition and other factors deemed relevant by the Board of Directors.

PRICE RANGE OF COMMON STOCK

The Common Stock has been traded on the Nasdaq SmallCap Market under the Nasdaq symbol "CLGY" since the Company's initial public offering in August 1995. Prior to August 1995, there was no established public trading market for the Common Stock. The following table shows the high and low closing sales prices set as reported on the Nasdaq SmallCap Market for the periods indicated.

	1995	
	HIGH	LOW
Third Quarter*	7 1/4	4 7/8
Fourth Quarter	6 1/4	4

	1996	
	HIGH	LOW
First Quarter	7 1/8	5
Second Quarter (through June 26, 1996)	9 1/8	5 1/2

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* Commencing August 17, 1995.

As of April 18, 1995, there were approximately 960 beneficial shareholders of record.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company commenced operations in 1989 to engage in the research, development and commercialization of proprietary products for the skin including drug delivery products using the skin as the portal of entry, prescription therapeutic products for skin disorders, and non-prescription over-the-counter consumer products to repair and protect damaged skin. Since its inception, the Company has engaged entirely in research and development, and pre-clinical and clinical testing activities, and the Company intends to continue such activities for the foreseeable future.

RESULTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 1994 AND 1995

Revenues. The Company had licensing revenues from an affiliate in 1995 of $1.0 million, but had no such revenues for 1994. Revenues in 1995 of $1.0 million were associated with the expiration in May 1995 of a Cellegy option to reacquire rights to azelaic acid for prescription products that were originally purchased by Neutrogena Corporation in 1994. See "Business--Principal License Agreements." The Company does not currently generate any revenues from operations, and there can be no assurances regarding when, or if, such revenues will occur. The Company pursues corporate development agreements as opportunities arise, which may involve contract revenues in the form of development funding or milestone payments.

Research and Development Expenses. Research and development expenses decreased by $286,000, from $1,511,000 in 1994 to $1,225,000 in 1995, due primarily to a reduction in formulating (or product preparation) activity associated with products entering the clinical phase. The Company expects that its drug delivery research during 1996 will focus on the identification and preclinical testing of two compounds using the Company's drug delivery methods. Optimization and testing of a skin protectant product and an anti-wrinkling product are also expected to continue during 1996 and 1997. The Company may further develop its dodecylamine product, depending in part on whether a pending research grant proposal is approved and funded. The Company's research and development expenses are expected to increase significantly in the future as preclinical and clinical trial activity increases.

General and Administrative Expenses. General and administrative expenses increased by $279,000 from 1994 to 1995, due primarily to increased salaries and financing costs. The Company's general and administrative expenses are expected to increase in future periods due to costs associated with operating a public company and to support potential product development into and through clinical trials. The rate of increase is expected to be lower than for its research and development spending.

Interest Expense. Interest expense of $752,000 for 1995 reflects the interest and amortization of the discount on the notes issued in connection with the Bridge Financing, see "Selling Shareholders," which were repaid in August 1995. Interest expense was not significant in 1994.

THREE MONTHS ENDED MARCH 31, 1995 AND 1996

Revenues

The Company had contract development revenues of $15,000 for the three months ended March 31, 1996 attributable to its license agreement with Neutrogena Corporation. There were no revenues for the three months ended March 31, 1995. The Company does not anticipate receiving any significant revenues for, at least, the next several quarters, and there can be no assurances regarding when, if ever, the Company will receive any significant licensing or other revenues.

Research and Development Expenses

Research and development expenses were $275,000 and $596,000 for the three months ended March 31, 1995 and 1996, respectively. The increase for the first three months of 1996 was due primarily to an increase in clinical trials related to Glylorin. In January 1996, the Company commenced a Phase III study to evaluate the efficacy and safety of Glylorin in the topical treatment of ichthyosiform erthroderma. The Company expects that the study will be expanded to approximately 20 medical centers across the U.S. over the next year. The Company's research and development expenses are expected to

increase in the future as Glylorin clinical trial activities increase and as expenses associated with preclinical research on the Company's drug delivery and consumer products increase.

General and Administrative Expenses

General and administrative expenses were $351,000 and $255,000 for the three months ended March 31, 1996 and 1995, respectively. The increase for the first three months of 1996 was primarily due to increased personnel and related costs. The Company's general and administrative expenses are expected to increase over the next several quarters in support of research and development, and the Company's corporate partnering efforts.

Interest Income and Expense

The Company recognized $68,000 in interest income for the three months ended March 31, 1996 compared to $7,000 in interest income for the same period in 1995. The interest earned in the first quarter of 1996 was associated with the investment of proceeds from the IPO. Interest income will increase during the second quarter of 1996 with additional net proceeds from the Series A Transaction. The Company incurred no interest expense for the three months ended March 31, 1996 compared with $143,000 for the same period in 1995. The interest expense in the first quarter of 1995 was associated with bridge notes previously issued in the Bridge Financing.

LIQUIDITY AND CAPITAL RESOURCES

The Company has experienced net losses and negative cash flow from operations each year since its inception. Through March 31, 1996, the Company had incurred a cumulative net loss of approximately $11.0 million and had consumed cash from operations of approximately $9.9 million. The Company has financed its operations through March 31, 1996 to date primarily from sales of debt and equity securities.

The Company's cash, cash equivalents and short-term investments were approximately $0.4 million, $3.8 million and $2.7 million at December 31, 1994, December 31, 1995 and March 31, 1996. The increase during 1995 of $3.4 million was due primarily to the closing of the Company's initial public offering with net proceeds of approximately $6.4 million in August 1995. The approximately $1.1 million decrease during the first three months of 1996 was primarily due to net cash used in operating activities.

The Company's future expenditures and capital requirements will depend on numerous factors, primarily the progress of its research and development programs, its preclinical and clinical testing, and the ability of the Company to establish collaborative arrangements. The Company's cash needs are expected to continue to increase significantly over at least the next two years to meet the additional expenses the Company will incur as it expands its current research and development programs, particularly in drug delivery, and increases clinical trial activities relating primarily to Glylorin.

In the course of its development activities, the Company has incurred significant losses and expects to incur substantial additional development costs. As a result, the Company will require substantial additional funds to fund operations, and the Company may seek private or public equity investments, and possible future collaborative arrangements with third parties to meet such needs. There is no assurance that such additional funds will be available for the Company to finance its operations on acceptable terms, if at all. Insufficient funding may require the Company to delay, reduce, or eliminate some or all of its research and development activities, planned clinical trials, and administrative programs. The Company believes that its existing resources will satisfy its cash requirements for at least 24 months from the date of this Prospectus based upon the Company's current plan.

As of December 31, 1995 the Company had federal and state income tax net operating loss carryforwards of approximately $9.5 million and $4.7 million, respectively, which expire between 2004 and 2010, and 1996 and 2000, respectively. The Company also had federal and state research tax credit carryforwards of approximately $197,000 and $92,000, respectively. The federal credits expire between 2006 and 2010; the state credits do not expire.

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.

BUSINESS

This Prospectus contains forward-looking statements which involve risks and uncertainties. The Company's business involves many risks and uncertainties which could affect the Company's future financial position or results of operations. The Company's actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in "Risk Factors" and in the Company's Annual Reports on Form 10-KSB and Quarterly Reports on Form 10-QSB.

Cellegy is a pharmaceutical company which is engaged in the development of proprietary drug delivery products and consumer and prescription products for the skin. The Company was incorporated in California in 1989. In April 1992, the Company entered into an agreement with Neutrogena Corporation pursuant to which Neutrogena made a $5 million equity investment in the Company and licensed certain of the Company's products, principally for consumer applications. Neutrogena also acquired the rights to the Company's azelaic acid product for $1 million in 1994. In 1993, Dr. Carl Thornfeldt, co-founder and Chairman of the Board of the Company, recruited Dr. Peter Elias to collaborate with Cellegy. Dr. Elias is the Vice-Chairman of the Department of Dermatology at University of California, San Francisco School of Medicine, and a director of the Company and Co-Chairman of the Company's Scientific Advisory Board. In October 1993, the Company entered into a license agreement with the University of California providing for a license for skin barrier repair formulations developed by Dr. Elias. In March 1994, the Company entered into a second license agreement for technology relating to drug delivery by skin barrier disruption.

PRODUCT OPPORTUNITIES

Drug Delivery

Of all the prescription drugs in the United States, only seven are currently approved by the FDA for transdermal delivery. A primary reason for the relatively limited number of drugs approved by the FDA for transdermal delivery is that current drug delivery systems have the inherent limitation of requiring small molecular sized drugs to be delivered across the skin barrier and the high potential of inducing varying degrees of skin inflammation.

Cellegy, in conjunction with the University of California, San Francisco School of Medicine, is engaged in developing a technology that is intended to overcome these inherent limitations. This technology selectively modulates the skin's barrier, with the goals of opening the skin barrier wider and keeping it open for a longer period of time (which may allow for the transdermal and topical delivery of larger and/or water soluble therapeutic, nutritional and cosmetic molecules), and reducing the potential for inducing skin inflammation, which sometimes accompanies use of certain traditional drug delivery technologies.

The Company believes that there are a number of independent, market driven factors which may expand the worldwide transdermal drug delivery market. The Company believes that transdermal drug products can improve the level of a patient's compliance with instructions for taking medication, since transdermal drug delivery offers a convenient, less frequent dosing regimen and a less painful method of delivering the drug in comparison with injections and certain other delivery methods. In addition, the Company believes that patent expirations on currently marketed drugs have increased the interest of certain pharmaceutical companies in developing transdermal drug delivery product forms for their proprietary drugs.

Prescription Products

Cellegy seeks to capitalize on the premise that the skin changes accompanying several of the most serious and most common skin diseases result from three or all four of the following abnormal signs: scaling, skin infection, inflammation and excessive cell multiplication (hyperproliferation). It has been documented that the three largest dermatologic therapeutic classes of drugs based on sales (corticosteroids, antimicrobials and retinoids) reverse only one or two of these abnormal signs. This is one

principal reason why many patients experience "rapid rebound" or recurrence of disease symptoms in a relatively short period of time after termination of, or even during, treatment.

In order to effectively treat diseased skin resulting from the abnormal signs described above, the patients often require use of a combination of drugs. Such combination therapy may result in significant inconvenience to the patient, causing a decreased level of patient compliance that may be inadequate to successfully treat the disease. There is also a concurrent increased risk of side effects and increased costs. In contrast, a goal of the Company is to develop multiple function therapeutic products to treat skin diseases by reversing most or all of the abnormal signs. If the Company is successful in these efforts, the Company believes its products may decrease or eliminate the need for the current combination therapies in certain instances, thus potentially providing a cost advantage in today's managed care environment.

Consumer Products

Cellegy researchers are developing two consumer products based on another premise underlying its core technology, that repairing the skin barrier may improve the skin's ability to protect against environmental and occupational insults and thus may help prevent skin diseases and help alleviate conditions such as photoaging and wrinkling.

CORE TECHNOLOGY--ALTERNATIVE UNDERSTANDING OF THE SKIN

Cellegy's core technology is based on two underlying premises: (1) the outermost layer of the epidermis, the stratum corneum where the permeability barrier resides, is metabolically active and plays a vital role in the skin's response to insults and injuries; and (2) a single medication with multiple mechanisms of action may result in improved and prolonged therapeutic response in diseased skin manifesting multiple clinical symptoms of abnormality.

Until approximately 15 years ago, the stratum corneum was viewed as a dead layer that played a passive role in skin functions and diseases. Thus, the prior understanding was that skin diseases are initiated by signals (biologic response modifiers) below the stratum corneum which lead to inflammation, hyperproliferation and scaling. In this view, signals from an insult which produced the abnormal signs of diseased skin either arrive to the dermis via the blood or are generated in the dermis or pass through the stratum corneum and epidermis without interacting with these layers. This view is an "inside-out" perspective of the skin diseases.

Cellegy's products are based on research findings initially developed at the Dermatology Research Unit ("DRU") at the University of California, San Francisco that skin diseases can be triggered by external stimuli that damage the stratum corneum barrier, releasing biologic response modifiers. These findings support an alternative view, in which modifiers migrate internally to activate those abnormal signs deeper in the epidermis and dermis. Cellegy's "outside-in" perspective provides an alternative explanation to the traditional "inside-out" view relating to the cause of skin diseases, such as psoriasis and atopic dermatitis.

CELLEGY DRUG DELIVERY PRODUCTS--TECHNOLOGY AND DEVELOPMENT STATUS

Technology

In the process of seeking approaches to effectively repairing the skin barrier, Cellegy scientists discovered a "biochemical enhancer technology." This technology, utilizing the skin as a portal for entry, comprises a variety of methods which manipulate the three key barrier lipids of the stratum corneum membranes: cholesterol, ceramides and free fatty acids. The Company believes that normal barrier function requires a specific critical ratio of all three lipids, and that variations from this ratio result in predictable alterations in barrier permeability.

Cellegy's technology utilizes several methods that are intended to deliver, or enhance delivery of, therapeutic compounds into the skin (topical delivery) or through the skin into the bloodstream (transdermal delivery). With the Company's drug delivery methods, both water soluble or large lipid soluble compounds, which are currently undeliverable by biophysical delivery methods, may potentially be delivered to or through the skin rather than given by injection, intravenous infusion, or by suppository.

This technology may allow the Company to design a delivery system utilizing several methods tailored specifically for therapeutic compounds or nutrients of different chemical size, structure, solubility and behavior. Thus, the Company believes that its methods may be capable of delivering into or through the skin several compounds which are currently being developed by pharmaceutical, biotechnology and cosmetic companies.

Cellegy has developed research data, including animal assays, on its drug delivery technology including the testing of the following drugs: vasopressin, luteinizing hormone releasing hormone (LHRH), thymidine dinucleotide, lidocaine, cimetidine, hydrocortisone, and caffeine. The Company has not conducted any human trials or studies regarding its drug delivery technology, and there can be no assurance that research data, trials or studies relating to animals are predictive of success in humans or that any human trials will be successful.

Development Status of Cellegy's Drug Delivery Program

The Company is currently focusing its research on three FDA-approved systemic drugs for formulation with the Company's drug delivery methods. Evaluation of these compounds is still in the early stages, and patent applications have not been filed with respect to these products. One product candidate, D500 (testosterone combined with Cellegy's transdermal drug delivery system), includes a compound used in hormone replacement therapy to reverse anemia and treat certain cancers. This compound is currently available in two commercial patches.

CELLEGY THERAPEUTIC AND CONSUMER PRODUCTS--TECHNOLOGY AND DEVELOPMENT STATUS

Therapeutic Products in Development

Glylorin(TM)(T100). Data from preclinical and clinical studies conducted to date suggest that this compound may inhibit the abnormal signs, as well as itching and other symptoms, of ichthyosis, and may have the potential to:

- reverse stratum corneum barrier disruption and scaling by replenishing key barrier membrane lipids;
- reverse inflammation by inhibiting function of the white blood cells which invade the skin, causing inflammation;
- inhibit hyperproliferating epidermal cells themselves;
- kill a wide spectrum of bacteria, yeasts, and fungi that invade through scaly skin and activate inflammation and hyperproliferation; and
- relieve itching and burning by reforming the barrier over exposed nerves.

If Glylorin successfully inhibits these multiple signs and symptoms, ichthyosis is expected to clear faster and more completely and stay clear longer.

In January 1996, the Company commenced a Phase III study with Glylorin after concluding three double-blind Phase II/III human studies on the use of Glylorin to treat two types of congenital ichthyoses: congenital ichthyosiform erythroderma and neutral lipid storage disease. Each of the three studies appeared to show that Glylorin reduced the signs of the disease more than the placebo, and that the differences between the active and placebo were statistically significant. Ichthyoses is a family of related, debilitating skin diseases characterized by a thick surface layer of scales that frequently affects the entire body. Phase III is the last clinical testing of this product before the submission of a new drug application ("NDA") to the FDA, assuming acceptable results.

The FDA has granted orphan drug designation for Glylorin for congenital primary ichthyoses, for which there is no approved prescription drug.

Dr. Thornfeldt has conducted open label clinical studies on patients who did not respond to standard therapies regarding the use of Glylorin to treat both seborrheic and atopic dermatitis, two of the most

common types of dermatitis. An anti-microbiological assay tested on humans studying Glylorin's ability to eradicate the bacteria which cause impetigo was not sufficiently positive to pursue further clinical studies on impetigo.

Therapeutic Products in Research

Potentiated Dodecylamine (T220). The Company believes that this compound may have the potential to be a new therapeutic compound for topical treatment of acne. The Company has also conducted animal studies regarding the use of this compound to treat impetigo. This compound has been formulated for additional pharmacology and toxicology studies. In December 1995, the Company applied for a Small Business Innovative Research grant for this product.

Topical Cyclosporine A (T300). Cyclosporine A is an FDA-approved systemic immunosuppressant chemotherapeutic compound which is being formulated using Cellegy's topical drug delivery technology. Several published studies suggest that Cyclosporine A has the potential to treat several of the most common skin diseases, including psoriasis, lichen planias and atopic dermatitis. Cyclosporine A is known to be poorly absorbed into the skin when applied topically. The Company believes a topically applied product delivered with more effective drug delivery technology could reduce the incidence of adverse side effects that occur when this compound is administered internally.

Consumer Products in Development

Cellegy's research to date, which is preliminary in nature, suggests that moisturizing products utilizing Cellegy's barrier repair technology may not only moisturize, but also may accelerate repair of the barrier, whether it is disrupted by chemical or physical injury, skin disease or photoaging. The rejuvenated barrier may tolerate a greater degree of environmental insults and physical injuries, diminish the risk of allergic and irritant induced skin inflammation and skin infections, and lessen the skin changes of photoaging. In addition, Cellegy believes that if successful products are developed and are regularly used as a preventive measure, they may decrease the frequency, extent, and severity of psoriasis, dermatites, and related skin diseases, although there can be no assurances that this will be the case.

Skin Protectant (C20). The Company is developing a new product that is presently in late-phase development. This product comprises a specific formulation of six different lipids. All six lipids are GRAS (generally regarded as safe) ingredients, and function optimally at a specific ratio. Experimental data in animal and in humans suggests that C20 may provide an early barrier re-formation. To date, based on test data from in-house assays, C20 appears to outperform certain commercial skin care products investigated in certain designated measures such as moisturizing ability.

One class of compounds studied by the Company has demonstrated potential in reversing wrinkles and reducing atrophy, fragility and irregular pigmentation associated with the photoaging of skin. Based on the in vitro and in vivo pharmacological properties of these compounds, C30 has been selected as the lead candidate. Formulation activity focusing on incorporating C30 into a vehicle which supplements the missing stratum corneum lipids observed in the aging skin has been commenced.

MARKETING STRATEGY

Cellegy intends to collaborate with major pharmaceutical companies and consumer companies utilizing licensing and joint venture agreements. Through these agreements, Cellegy believes it may receive funding for research and development as well as royalty streams from product sales.

If Cellegy successfully develops commercial products, it expects that most such products will be sold into major market segments, which would require large sales forces and significant marketing support. Cellegy intends to have discussions with third parties that can provide the necessary support and marketing resources. In the future, Cellegy may consider marketing some of its products directly to targeted markets.

PATENTS AND TRADE SECRETS

The Company has nine granted U.S. patents, several issued foreign patents and many foreign patent applications for the use of certain compounds to treat the most common and/or severe inflammatory dermatologic diseases including dermatitis, psoriasis, rosacea and acne, as well as disorders such as various ichthyoses, wrinkling and skin aging and premalignant actinic keratoses. Three pending patent applications relate to technology or products licensed from the University of California, San Francisco. At least two more patent applications are being prepared for filing but are currently protected by disclosure documents. Corresponding patent applications for most of the Company's issued U.S. patents have been filed in many countries of importance to the Company located in major world markets, including certain countries in Europe, Australia, South Korea, Japan, Mexico and Canada.

The Company's policy is to protect its technology by, among other things, filing patent applications for technology that it considers important to the development of its business. The Company intends to file additional patent applications, when appropriate, relating to its technology, improvements to its technology and to specific products that it develops. There can be no assurance that any additional patents will be issued, or, if issued, that they will be of commercial benefit to the Company. In addition, there can be no assurance that any patents issued to the Company or licensors to the Company will not be infringed or circumvented by others. It is impossible to anticipate the breadth or degree of protection that any such patents will afford, or whether the Company can meaningfully protect its rights to its unpatented trade secrets.

It is the Company's policy to require its employees and consultants to execute a confidentiality agreement upon the commencement of employment by or consultancy to the Company. 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 and that all inventions conceived by the employee or consultant shall be the exclusive property of the Company. In addition, it is the Company's policy to require the collaborators and potential collaborators to enter into confidentiality agreements. There can be no assurance, however, that these agreements will provide meaningful protection for the company's trade secrets.

PRINCIPAL LICENSE AGREEMENTS

The Company entered into a License Option Agreement dated April 16, 1992 (the "License Option Agreement") with Neutrogena as part of Neutrogena's purchase of shares of the Company's Series C Preferred Stock (which converted into Common Stock in connection with the IPO) on June 12, 1992. Also as part of that stock purchase transaction, the Company entered into an Azelaic Acid OTC License Agreement (the "Azelaic Acid Agreement") and a Metabolic Moisturizer OTC License Agreement (the "Metabolic Moisturizer Agreement"), each dated April 16, 1992, with Neutrogena.

The License Option Agreement requires the Company to notify Neutrogena about potential consumer or prescription products about which it becomes aware and about potential consumer products for which the Company has applied to switch from prescription to consumer status. Certain products and technologies, including the Company's drug delivery products and technologies, Glylorin, and products to be sold in the Japanese market, are excluded from the scope of the License Option Agreement. The royalty-bearing agreement for consumer products provides for a royalty of three percent of net sales for the first two years and five percent of net sales thereafter, and for prescription products provides for a royalty of five percent of net sales with a minimum royalty of $25,000. For both consumer products and prescription products Neutrogena pays out-of-pocket evaluation, development and marketing costs. As of the date of this Prospectus, Neutrogena had not exercised its option to license any consumer or prescription products about which it had been notified by the Company. The term of the agreement is 15 years for consumer products and 10 years for prescription products.

The Metabolic Moisturizer Agreement, which includes barrier repair technology, and the Azelaic Acid Agreement each granted to Neutrogena an exclusive, worldwide royalty-bearing license. The Metabolic Moisturizer Agreement relates to the Company's barrier repair technology and contains the same

royalty and other material terms as the standard royalty-bearing license agreement described above for consumer products. The Azelaic Acid Agreement was terminated and replaced by a Patent License Agreement effective June 1, 1994 (the agreement as amended, the "Neutrogena Agreement") between the Company and Neutrogena. Pursuant to the Neutrogena Agreement, Neutrogena paid the Company $1.0 million for an exclusive, worldwide, royalty-free license for azelaic acid for both prescription and consumer products. The Metabolic Moisturizer Agreement and Neutrogena Agreement will terminate upon the earlier of (a) mutual consent by the Company and Neutrogena or (b) material breach by a party, provided the breaching party is given written notice of the breach and does not cure within thirty days.

On October 26, 1993, the Company entered into a license agreement with the University of California (the "Licensor") providing for an exclusive, world-wide, royalty bearing license, subject to customary government rights, for two use patents for Barrier Repair Formulations, the rights to which are jointly held by the Licensor and the Company, in consideration of the issuance to the Licensor of 9,513 shares of preferred stock (which converted into an equal number of shares of Common Stock in connection with the IPO) and the payment by the Company of an additional $20,000 licensing fee. The license agreement requires the Company to pay royalties on net product sales equal to the greater of $25,000 annually or 2% of net sales of consumer products, and 5% of net sales of prescription products with a minimum of $25,000 annually. The Company has the right to grant sublicenses to third parties. Pursuant to the license agreement, the Company is required to submit progress reports related to development and testing of all licensed products. If the Company fails to perform any of the following, then the Licensor has the right to terminate the license agreement upon 60 days written notice: (i) submit an application for regulatory approval of a licensed product that is intended for sale only pursuant to prescription or pharmacist's approval to the FDA or the equivalent foreign regulatory authority of any three of Japan, Germany, France or the United Kingdom within two years of the date of the agreement; (ii) by October 26, 1995, secure a marketing partner or channel for national introduction of a licensed product; (iii) commence commercial marketing of a licensed product within 12 months of receiving approval of such licensed product in any county; or (iv) reasonably fill the market demand for a licensed product in each country following commencement of marketing in such country. The license agreement's term is until the longer of (i) the expiration of the last to expire patent or (ii) 20 years from the date of the agreement.

On March 4, 1994, the Company entered into a second exclusive, worldwide, royalty bearing license agreement with the Licensor for two patents, the rights to which are jointly held by the Licensor and Cellegy, for "Drug Delivery By Skin Barrier Disruption," in consideration of the payment by the Company of a $15,000 license fee, and a $10,000 annual maintenance fee payable each year until the Company is commercially selling a licensed product. The license requires the Company to pay royalties equal to 1% of net sales of licensed consumer products and 2.5% of net sales of licensed prescription products, with a minimum of $25,000 annually. The Company has the right to grant sublicenses to third parties. The Company is required to provide written progress reports related to development and testing of licensed products. If the Company fails to perform any of the following, the Licensor has the right to terminate the license agreement upon 60 days written notice: (i) within two years of the date of the agreement, secure a marketing partner or channel for national introduction of a licensed product to consumer markets; (ii) within three years of the date of the agreement, submit an application for marketing approval of a licensed product that is intended for sale only pursuant to prescription or pharmacist's approval to the FDA or the equivalent foreign regulatory authority of any three of Japan, Germany, France or the United Kingdom, in which case the FDA application shall be made within five years; (iii) commence commercial marketing of a licensed product within two years of receiving approval of such licensed product in any country; (iv) market an OTC licensed product within three years of the date of the agreement; or (v) reasonably fill the market demand for a licensed product in each country following commencement of marketing in such country. The license agreement's term is until the longer of (i) the expiration of the last to expire patent or (ii) 20 years from the date of the agreement.

The Company has negotiated an extension of certain terms, including the performance criteria discussed above, through September 30, 1996, relating to both of the above agreements. The Company believes that if further extensions are required in order to satisfy one or more of these requirements, it

will be able to negotiate an extension with the Licensor on satisfactory terms. However, there can be no assurances that this will be the case. Failure to negotiate satisfactory extensions, if required, could have a material adverse affect on the Company.

In connection with the Bridge Financing transaction, see "Selling Shareholders," the Company entered into exclusive marketing and distribution agreements with three investors in the Bridge Financing who are otherwise unaffiliated with the Company. The agreements grant the distributors the exclusive right to sell, market and distribute Glylorin in (i) Australia, (ii) Argentina, and (iii) Bolivia, Chile, Colombia, Ecuador, Peru, Paraguay, Uruguay and Venezuela, respectively, for the maximum duration permitted by law. Each distributor bears its own costs and expenses incurred in marketing, promoting, and obtaining regulatory approvals for Glylorin.

In March 1996, the Company signed a Research Agreement with Yamanouchi Europe B.V. relating to two of its skin protectant formulations, targeting the prevention of occupationally-induced contact dermatitis. Under terms of the agreement, Cellegy will supply Yamanouchi with study materials and Yamanouchi will conduct tests in Europe, which are expected to be conducted during the second quarter of 1996. After receipt of the final report from the study conducted in Europe, Yamanouchi may exercise a right of first refusal to enter into an agreement with Cellegy for the exclusive license of the products in all European countries in which Yamanouchi markets its products.

In April 1996, the Company entered into a Research Agreement with Bausch & Lomb, Inc. The Agreement involves laboratory and possibly human testing of two of the Company's skin protectant formulations. This collaboration may result in a licensing agreement, if results from initial research are successful.

COMPETITION

In the development and marketing of dermatologic drugs, skin care products and delivery systems, Cellegy faces intense competition from large pharmaceutical companies with established dermatology divisions, such as Glaxo Wellcome plc, Ortho Pharmaceutical, Inc., a subsidiary of Johnson & Johnson, Schering-Plough, Rhone-Poulenc Rorer Corp., Pharmacia & Upjohn, Inc. and Westwood Pharmaceuticals, a subsidiary of Bristol-Myers Squibb Company. These and other companies have substantially greater financial, technical, production, marketing and regulatory experience and resources than Cellegy in developing and commercializing drug and skin care products. The Company also competes with universities developing drug delivery technologies and with several companies which have been formed to develop unique delivery systems such as ALZA Pharmaceuticals, Cygnus, Inc., Noven, Inc., Penederm, Inc., Macrochem, Inc., and Theratech. In addition, these companies and academic and research institutions compete with Cellegy in recruiting and retaining highly qualified scientific and management personnel. Competition in the dermatology market is generally based on performance characteristics and, to a lesser extent, price. There can be no assurance that the Company's products under development will be able to compete successfully with existing or new commercial products.

GOVERNMENT REGULATION

Overview of FDA Drug Approval Process. The following discussion summarizes certain aspects of the process of developing, testing and seeking FDA approval of a topical dermatologic drug. This overview should be read in connection with the more detailed discussion appearing below.

The development path for a topical dermatologic drug involves formulation, preclinical and clinical testing, and establishing a manufacturing source for the product that satisfies the FDA's current good manufacturing practice ("GMP") requirements. Preclinical testing involves studies in the laboratory and in animal model systems to gain preliminary information on the drug's pharmacology and toxicology and to identify any potential safety problems that would preclude testing in people. Phase I protocols are then prepared to test the irritancy, sensitization and/or phototoxicity potential of the product in humans. These proposed protocols are submitted to the FDA along with the results of preclinical evaluations, and chemistry and manufacturing information. The information is submitted to the FDA in the form of an Investigational New Drug Application ("IND"), which involves a 30-day waiting period before Phase I clinical studies may begin unless the FDA approves the IND before then.

If Phase I studies establish a reasonable safety profile, a Phase II clinical study is conducted to evaluate effectiveness and to find the optimal routes, dose and treatment schedule of the drug for the targeted disease. If the outcome of the Phase II program is positive, Phase III clinical trials are conducted in a larger patient population in an effort to definitely determine safety and effectiveness. If the Phase III data warrant proceeding further, an NDA containing comprehensive chemistry, manufacturing, formulation, preclinical and clinical data, is submitted to the FDA for review and approval. The FDA may require submission of additional information and resubmission of the NDA.

FDA Requirements for Drug Compounds. The preclinical and clinical testing, manufacture, distribution, marketing and advertising of pharmaceutical compounds are extensively and intensely regulated by government agencies, primarily the FDA under the Federal Food, Drug and Cosmetic Act. The packaging and labeling of all drug compounds are also subject to extensive FDA regulations.

Investigational New Drug Applications. During the initial product development stage an IND for each drug is filed with the FDA in order to begin human testing. An IND must include preclinical data showing the toxicity of the product, from which the FDA makes a determination of the product's safety for human testing. Preclinical studies can take several years to complete, and there is no assurance that an IND based on such studies will ever become effective so as to permit clinical testing to begin. A 30-day waiting period after the receipt of each IND is required by the FDA prior to the commencement of initial clinical testing, unless the FDA approves the IND before then. If the FDA has not commented on or questioned the IND within this 30-day period, initial clinical studies may begin, although companies often obtain affirmative FDA approval before beginning such studies. If the FDA has comments or questions, it places the studies on clinical hold and the questions must be answered to the satisfaction of the FDA before initial clinical testing can begin. In addition, the FDA may, at any time, impose a clinical hold on ongoing clinical trials. If the FDA imposes a clinical hold, clinical trials cannot recommence without prior FDA authorization and then only under terms authorized by the FDA. In some instances the IND process can result in substantial delay and expense.

Clinical trials to support NDAs are typically conducted in three sequential phases, but the phases may overlap. In Phase I, the initial introduction of the drug into healthy human subjects, the drug is tested for safety, dosage tolerance, metabolism, distribution, excretion and pharmacodynamics (clinical pharmacology). Phase II involves studies in a limited patient population to (i) evaluate the effectiveness of the drug for specific, targeted indications, (ii) determine dosage tolerance and optimal dosage and (iii) identify possible short term adverse effects and safety risks. When a compound is found to have an effect and to have an acceptable safety profile in Phase II evaluations, Phase III trials are undertaken to further evaluate clinical effectiveness and to further test for safety within an expanded patient population at geographically dispersed clinical study sites. Phase III trials are usually designed to provide the substantial evidence of effectiveness and the evidence of safety required to obtain FDA approval for marketing. There can be no assurance that Phase I, Phase II or Phase III testing will be completed successfully within any specified time period, if at all, with respect to any of the Company's products subject to such testing. The FDA closely monitors all three phases of clinical testing and may, at its discretion, re-evaluate, alter, suspend (place on clinical hold), or terminate the testing based on the data that have been accumulated to that point and its assessment of the risk/benefit ratio to the patient.

New and Abbreviated New Drug Applications. After successful completion of the required clinical testing, generally an NDA is submitted to the FDA (assuming acceptable test results). FDA approval of the NDA (or, in the alternative an Abbreviated New Drug Application ("ANDA"), as described below) is required before marketing may begin in the United States. The NDA must include the results of extensive clinical and other testing and the compilation of data relating to the product's chemistry, pharmacology and manufacture, the cost of all of which is substantial. The FDA reviews all NDAs submitted before it accepts them for filing and may request additional information rather than filing an NDA. In such an event, the NDA must be resubmitted with the additional information and, again, is subject to review before filing. Once the FDA accepts the NDA for filing, it is required to review the NDA within 180 days of the filing. In the process of reviewing applications the FDA again may request that additional information be submitted. The 180-day post-filing review period begins anew when additional

requested information is submitted. The effect of such request and subsequent submission can significantly extend the time for the NDA review process.

Several of the Company's mid and late term products utilize its drug delivery technology formulated with an active drug ingredient already approved by the FDA. In connection with obtaining FDA approval of such product, which requires an NDA, it is possible in certain instances that clinical and preclinical testing requirements may not be as extensive. Limited additional data about the safety or effectiveness of the proposed new drug formulation, along with chemistry and manufacturing information and public information about the active ingredient, may be satisfactory for product approval.

Once patent and other statutory protections covering a drug approved under an NDA have expired or have been demonstrated not to apply, a generic equivalent to that drug may be approved under an ANDA. An ANDA is ordinarily based upon bioequivalence data that demonstrate that the rate and extent of absorption of the active drug ingredient of the generic drug, usually measured in the blood stream, is equivalent to that of the drug approved under an NDA. The demonstration of bioequivalence and, therefore, ANDA approval, generally requires less time than safety and efficacy studies and NDA approval.

Until an NDA or ANDA is actually approved, there can be no assurance that the information requested and submitted will be considered adequate by the FDA to justify approval. It is impossible to anticipate the amount of time that will be required to obtain approval from the FDA to market any product.

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, and other enforcement actions. The FDA may also require postmarketing testing and surveillance programs to continuously monitor the drug's usage and effects. Side effects resulting from the use of drug products may prevent or limit the further marketing of products.

OTC Monograph. Most over-the-counter drugs are marketed in the United States without FDA prior approval under FDA regulations that permit such OTC marketing if the FDA has issued an OTC monograph with respect to that drug (including its indication(s)), and the product and its labeling comply with that OTC monograph.

The Company believes that whether a particular skin protectant product is covered by the FDA "skin protectant" OTC monograph will depend primarily on the active ingredients, the kinds of claims made about the product and compliance with applicable labeling requirements. The Company believes that its barrier repair products and other potential consumer products described in this Prospectus (other than potentially the skin protectant products) are not covered by OTC monographs and therefore will be subject to prior review and approval by the FDA as new drugs before they can be marketed. In addition, even if the Company seeks FDA approval of a product for non-prescription consumer sales, the FDA could instead require that the product be distributed first only by means of a prescription. Such approval, which the Company believes is common where a company seeks approval for a product involving a new compound or a compound previously approved for other uses, could delay for several years, or indefinitely, distribution of the Company's consumer products through the consumer (non-prescription) channel.

Manufacturing. All manufacturing facilities, methods and controls used for the manufacturing, processing, packing or holding of products for clinical use or for sale must be operated in conformity with FDA's current good manufacturing practice requirements. The Company intends to use contract manufacturers that operate in conformance with these requirements to produce its compounds and finished products in commercial quantities.

Foreign Regulation of Drug Compounds. Whether or not FDA approval has been obtained, approval of a product by comparable regulatory authorities may be necessary in foreign countries prior to the commencement of marketing of the product in such countries. The approval procedure varies 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. The Company expects to rely on corporate partners and licensees, along with Company expertise, to obtain governmental approval in foreign countries of drug formulations utilizing its compounds.

Cosmetics. Cosmetics do not require approval by the FDA for marketing in the United States.

Orphan Drug Designation. Under the Orphan Drug Act, the FDA may grant orphan drug designation to drugs intended to treat a "rare disease or condition," which generally is a disease or condition that affects populations of fewer than 200,000 individuals in the United States. Orphan drug designation must be requested before submitting an NDA, and after the FDA grants orphan drug designation, the generic identity of the therapeutic agent and its potential orphans use are publicized by the FDA. Under current law, orphan drug designation confers upon the first company to receive FDA approval to market such designated drug United States marketing exclusivity for the designated drug and indication for a period of seven years following approval of the NDA, subject to certain limitations. Orphan drug designation does not convey any advantage in, or shorten the duration of, the regulatory approval process. Although obtaining FDA approval to market a product with an orphan drug designation can be advantageous, there can be no assurance that the scope of protection or the level of marketing exclusivity that is currently afforded by orphan drug designation and marketing approval will remain in effect in the future.

Other Government Regulation. The Company is subject to regulation under federal and state law regarding, among other things, occupational safety, the use and handling of radioisotopes, environmental protection, hazardous substance control. In connection with its research and development activities and any manufacturing of clinical trial materials in which the Company may engage, the Company is subject to federal, state and local laws, rules, regulations and policies governing the use, generation, manufacture, storage, air emission, effluent discharge, handling and disposal of certain materials and wastes. Although the Company believes that it has complied with these laws and regulations in all material respects and has not been required to take any action to correct any noncompliance, there can be no assurance that the Company will not be required to incur significant costs to comply with environmental and health and safety regulations in the future. The Company's research and development involves the controlled use of hazardous materials, chemicals, and various radioactive compounds. Although the Company believes that its 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, the Company could be held liable for any damages that result and any such liability could exceed the resources of the Company.

EMPLOYEES

As of March 31, 1996, the Company had nine full-time and three part-time personnel. None of the Company's employees is represented by a labor union. The Company has experienced no work stoppages and believes that its employee relations are good.

FACILITIES

The Company's principal administrative facilities are located in Novato, California, approximately 20 miles north of San Francisco, and consist of approximately 5,390 square feet. The Company occupies this space under a lease expiring May 31, 1997. The annual base rent payment (not including operating expenses, insurance, property taxes and assessments) was initially set at approximately $5,390 per month, and escalates over the term of the lease to approximately $6,845 per month. The Company has the right to extend the term of the lease for one additional five-year period, subject to certain terms and conditions. The Company currently subleases approximately 1,360 square feet of its facility in Novato.

The Company occupies 5,620 square feet of laboratory space in San Carlos, California, for which it pays $8,992 monthly. Approximately 1,400 square feet has been sublet to a third party. The Company has

no plans to acquire the equipment or facilities necessary for manufacturing its products. The Company has had minimal capital equipment purchases in the past year. Laboratory equipment purchases, if material, over the next two years will be funded by a capital lease agreement completed in April 1996. The Company will be relocating its offices to a leased facility location closer to its laboratories in San Carlos in the near term. The Company believes suitable leased space will be available and can be acquired as needed. See Note 5 to the Financial Statements appearing at the end of this Prospectus for further information regarding the Company's lease obligations.

LITIGATION

The Company is currently not a party to any litigation.

MANAGEMENT

The executive officers, directors and other significant employees of the Company are as follows:

NAME	AGE	POSITIONS
William E. Bliss	59	President; Chief Executive Officer; and Director
Carl R. Thornfeldt, M.D.	44	Vice President, Research and Development; Medical Director; and Chairman of the Board
A. Richard Juelis	48	Vice President, Finance and Chief Financial Officer
Lionel N. Simon, Ph.D	62	Vice President, Corporate Development
Michael L. Francoeur, Ph.D	44	Vice President, Research and Development
Vivien H.W. Mak, Ph.D.(2)	39	Vice President, Cutaneous Research
Denis R. Burger, Ph.D.(2)(3)	52	Director
Peter M. Elias, M.D.	54	Director
Tobi B. Klar, M.D. (2)	41	Director
Larry J. Wells (3)	52	Director
SIGNIFICANT EMPLOYEES		
Cynthia Selfridge	50	Director of Clinical Affairs

(1) Not an Executive Officer.
(2) Member of the Compensation Committee.
(3) Member of the Audit Committee.

Directors hold office until the next annual meeting of shareholders and until their respective successors have been elected and qualified. Executive officers are chosen by and serve at the discretion of the Board of Directors, subject to any written employment agreements with the Company. Outside directors are reimbursed for their travel expenses related to Board meetings and for a portion of 1995 and for 1996 were entitled to receive $500 for each Board meeting attended. This amount will be increased to $1,000 beginning in June 1996.

William E. Bliss. Mr. Bliss joined the Company in December 1995 as President, Chief Executive Officer, and a director of the Company. From 1991 to 1995, he was President and Chief Operating Officer at Genta Incorporated, a pharmaceutical company specializing in anti-sense drug delivery and dermatology. From 1970 to 1990, he held executive positions with Rhone-Poulenc Rorer, including Vice President, Business Development and President, Dermik Laboratories, a leading dermatology company. Mr. Bliss received a B.S. from Penn State University.

Carl R. Thornfeldt, M.D. Dr. Thornfeldt is a co-founder and chairman of the Board of the Company, and is a physician, board certified in dermatology. He has been Medical Director of the Company since inception and in addition became Vice President, Research and Development in October 1994. Since 1983 Dr. Thornfeldt has maintained a private dermatology practice and is an Assistant Clinical Professor in Dermatology at the University of Oregon Health Sciences Center. Dr. Thornfeldt received an M.D. from the University of Oregon and a B.S. from Oregon State University.

A. Richard Juelis. Mr. Juelis became Vice President, Finance and Chief Financial Officer in March 1996. He has worked with the Company since November 1994 as a financial consultant on a part-time basis. He also worked with other health care and telecommunications companies during that period. From 1993 to 1994 he was Vice President, Finance and Chief Financial Officer for VIVUS, Inc., a drug delivery company. From 1990 to 1992 he was Vice President, Finance and Chief Financial Officer at XOMA Corporation, a biotechnology company. He received a B.S. in Chemistry from Fordham University and an M.B.A. from Columbia University.

Lionel N. Simon, Ph.D. Dr. Simon joined the Company as Vice President, Corporate Development, in April 1996. From 1989 to 1996, he was Vice President, Licensing and Technology Acquisitions, at Genta Incorporated. He holds a B.S. degree in Pharmacy and an M.S. and a Ph.D. degree in biochemistry from the University of Illinois.

Michael L. Francoeur, Ph.D. Dr. Francoeur became Vice President, Research and Development, in May 1996, after joining the Company as a research consultant in January 1996. From March 1994 until December 1995 he was Chairman of DeNovo, Inc., a dermatology and biopharmaceutical company. From November 1992 until March 1994 he was Senior Vice President at Pharmetrix Corporation, a drug delivery company. From 1983 to 1992 he held various scientific and management positions at Pfizer, Inc. Dr. Francoeur received a B.S. degree in Pharmacy, and M.S. and Ph.D. degrees in Pharmaceutical Chemistry from the University of Kansas.

Vivien H.W. Mak, Ph.D. Dr. Mak became Vice President, Cutaneous Research in January 1996, after joining the Company as a research consultant in October 1995. During 1994 and 1995 she was Vice President, Research for DeNovo, Inc., a dermatology and biopharmaceutical company. During 1993 she was Director of Biopharmacuetical Sciences at Pharmetrix Corporation, a developer of drug delivery systems. From 1989 to 1992 she held research scientist positions in The Dermal Therapeutics Group of Pfizer, Inc. Dr. Mak received B.S. and M.S. degrees in chemistry from Chun-Yuan University, Taiwan, and Baylor University, respectively. She holds a Ph.D. in medicinal chemistry from Purdue University.

Denis R. Burger, Ph.D. Dr. Burger became a director in October 1995. Currently, he is President and Chief Executive Officer of Antivirals Inc. and a general partner of Sovereign Partners LLC. He is a director of the following companies: SuperGen Inc., Cell Robotics International and Trinity Biotech, plc. He was a co-founder of Epitope Inc. and was its chairman from 1981 to 1990. Dr. Burger was also a research scientist and a professor of microbiology and immunology at the Oregon Health Sciences University in Portland. He holds an M.S. and a Ph.D. from the University of Arizona.

Peter M. Elias, M.D. Dr. Elias, a director and the Co-Chairman of the Scientific Advisory Board, became a director in April 1995. He is currently the Chief of both the Dermatology Service and the Dermatology Research Unit at the Veteran's Administration Medical Center, and the Vice-Chairman, Department of Dermatology, University of California, San Francisco. Dr. Elias received an M.D. from University of California, San Francisco, and completed his residency at Harvard University Medical Center.

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

Larry J. Wells. Mr. Wells became a director of the Company in March 1989. For the past five years, he has been a venture capitalist. He is the founder of Sundance Venture Partners, L.P. ("Sundance"), a venture capital fund, and is the Chairman of the entity that acts as the manager of Sundance. Mr. Wells is a director of Identix, Inc. and Gateway Data Sciences.

SCIENTIFIC ADVISORY BOARD

The Company has established relationships with a group of scientific advisors with expertise in the fields of dermatology, drug delivery and skin care. The Company's scientific advisors consult with management and key scientific employees of the Company to assist the Company in identifying scientific and product development opportunities, to review the progress of the Company's specific projects, and to recruit and evaluate the Company's scientific staff. The nature, scope and frequency of consultations between the Company and each scientific advisor varies depending upon the Company's current activities, the need for specific assistance and the individual scientific advisor. Although the Company expects to receive guidance from its scientific advisors, all of the advisors have substantial commitments to third parties and are able to devote only a small portion of their time to the business of the Company.

The Company pays certain of its scientific advisors consulting fees or salaries and provides reimbursement for expenses incurred in connection with service to the Company. In fiscal 1995, the Company paid consulting fees to Dr. Elias of approximately $107,500 and granted options to purchase an aggregate of 14,920 shares of Common Stock for their services. The options have a weighted average exercise price of $3.07 per share and became exercisable on the grant date.

The Company's scientific advisors and consultants include the following persons:

Carl R. Thornfeldt, M.D. Dr. Thornfeldt is Co-Chairman of the Scientific Advisory Board.

Peter M. Elias, M.D. Dr. Elias is Co-Chairman of the Scientific Advisory Board.

Kenneth R. Feingold, M.D. Dr. Feingold is a physician at the VAMC, San Francisco and is also a professor of Medicine and Dermatology at the UCSF School of Medicine.

Roslyn Rivkah Isseroff, M.D. Dr. Isseroff is currently a professor and has served as Chairman of the Department of Dermatology at the University of California, Davis School of Medicine.

Joseph McGuire, M.D. Dr. McGuire is currently a professor of Dermatology and Pediatrics at Stanford University Medical Center and a member of the Dermatologic Drugs Advisory Committee of the Food and Drug Administration.

Mary L. Williams, M.D. Dr. Williams is currently an associate Professor at the UCSF School of Medicine in the fields of dermatology and pediatrics.

Bruce U. Wintroub, M.D. Dr. Wintroub is currently Chairman of the Department of Dermatology at the UCSF School of Medicine. He is also Associate Dean at Mount Zion Medical Center of the UCSF School of Medicine.

Mitchell S. Wortzman, Ph.D. Dr. Wortzman is President of Neutrogena Corporation's Dermatologics division and is responsible for all of Neutrogena's sales, marketing and professional relations efforts directed towards the dermatologic and medical community.

EXECUTIVE COMPENSATION

The following table sets forth all compensation awarded to, earned by, or paid for services rendered to the Company in all capacities during the year ended December 31, 1995 by (i) each person who served as the Company's chief executive officer during 1995, (ii) any other executive officers who were serving as executive officers at the end of that year and whose total annual salary and bonus in such year exceeded $100,000, of which there were none, and (iii) any person who was an executive officer during a portion of 1995 whose total annual salary and bonus exceeded $100,000, of which there were none (together, the "Named Persons").

SUMMARY COMPENSATION TABLE

		ANNUAL COMPENSATION			LONG TERM COMPENSATION	
NAME AND PRINCIPAL POSITION	YEAR	SALARY ($)	BONUS ($)	OTHER ANNUAL COMPENSATION ($)	AWARDS SECURITIES UNDERLYING OPTIONS (#)	ALL OTHER COMPENSATION ($)
William E. Bliss .. President and Chief Executive Officer	1995	21,242		100,000(1)	226,333	--
	1994	--	--	--	--	--
Gerald T. Simmons .. President and Chief Executive Officer	1995	151,848	--	--	74,600	75,000(2)
	1994	141,000	--	--	1,108	--

- ----------

(1) Consists of Mr. Bliss' relocation compensation paid or accrued when he joined the Company in December 1995.

(2) Consists of Mr. Simmons' accrued compensation at December 31, 1995. Mr. Simmons was President and Chief Executive Officer of the Company through November 1995, and is no longer an employee of the Company.

The following table sets forth further information regarding option grants pursuant to the Company's 1995 Equity Incentive Plan (the "1995 Plan") during 1995 to each of the Named Persons.

OPTION GRANTS IN 1995

	INDIVIDUAL GRANTS			
NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED(1)	PERCENTAGE OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL 1995	EXERCISE PRICE PER SHARE ($)	EXPIRATION DATE
William E. Bliss(2)	226,333	49.6%	$4.38	December 8, 2005
Gerald T. Simmons .	74,600	16.4%	$2.09	February 6, 2005

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(1) Options granted under the 1995 Plan in 1995 have generally been incentive stock options that were granted at fair market value and that generally vest over a four-year period so long as the individual is employed by the Company. Options expire ten years from the date of grant.

(2) Of the shares subject to this option, 37,722 were exercisable at grant, and 75,444 will become exercisable at the earlier of the accomplishment of certain milestones or after five years from the date of grant. The option becomes exercisable with respect to the remaining 113,167 shares over four years from the grant date if there has been no Employment Termination. The option becomes exercisable in full upon an acquisition of the Company.

The following table sets forth information with respect to the options exercised during fiscal 1995 by the Named Persons.

AGGREGATE OPTION EXERCISES IN 1995 AND FISCAL YEAR-END VALUES

			NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS/SARS AT DECEMBER 31, 1995		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT DECEMBER 31, 1995 ($)(1)	
NAME	SHARES ACQUIRED ON EXERCISE(#)	VALUE REALIZED ($)	EXERCISABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
William E. Bliss	0	0	37,722	188,611	$ 28,292	$141,458
Gerald T. Simmons	0	0	33,745	33,745	$102,585	$102,585

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(1) Based on the difference between the fair market value of the Common Stock at December 31, 1995 ($5.13 per share) and the exercise price of options shown in the table.

EMPLOYMENT AND CONSULTING AGREEMENTS

Mr. Bliss, President and Chief Executive Officer and the Company entered into an employment agreement dated December 8, 1995. The agreement provides for a base compensation of $265,000 per year. Either the Company or Mr. Bliss may terminate the agreement at any time upon notice to the other party. The agreement provides that, upon termination without cause, Mr. Bliss will be paid twelve months severance and continuation of benefits during the period severance payments are made. The agreement provides for payments of up to $100,000 to Mr. Bliss for relocation costs. The agreement provides for granting of stock options to acquire 226,333 shares of Common Stock.

Dr. Thornfeldt entered into an employment agreement, on January 22, 1996. The agreement provides for payments of $9,000 per month as long as Dr. Thornfeldt is devoting at least five business days per month to the affairs of the Company. If, at any time, Dr. Thornfeldt devotes less than five business days per month to the Company for two consecutive months, then commencing with the next month his salary would be reduced to $6,000 per month. Reinstatement of the $9,000 per month salary will then occur only after Dr. Thornfeldt has recommended devoting five business days per month to the affairs of the

Company. The agreement provides for the assignment to the Company, subject to certain exclusions, of inventions of Dr. Thornfeldt during the term of the agreement. The agreement provides that he may not engage in any activity that is competitive with the business of the Company, including without limitation acting as a consultant to any business that competes, directly or indirectly, with the business of the Company. The agreement may be terminated before expiration of its term upon certain events, including Dr. Thornfeldt's death, a material breach of the agreement by the other party, or by Dr. Thornfeldt upon prior notice in connection with a "reorganization" of the Company. Dr. Thornfeldt continues to maintain a separate active dermatologic practice.

Dr. Peter M. Elias, a director and Co-Chairman of the Scientific Advisory Board, entered into a consulting agreement with the Company dated April 2, 1992, pursuant to which Dr. Elias agreed to provide consulting services in the fields of dermatology, skin pharmacology and drug development not less than two days per week. The agreement provides for consulting fees of approximately $150,000 per year. In September 1995 the agreement was amended to reduce the rate to $75,000 per year. The agreement will expire in April 1997.

Mr. A. Richard Juelis became Vice President, Finance, Chief Financial Officer and Secretary in March 1996 after consulting with the Company on a part-time basis since November 1994. His agreement with the Company provides for a base compensation of $150,000 per year, and for certain stock option grants.

Dr. Lionel N. Simon joined the Company as Vice President, Corporate Development in April, 1996. His agreement with the Company provides for a base compensation of $175,000 per year and for certain stock option grants.

Dr. Michael L. Francoeur joined the Company as Vice President, Research and Development in April 1996. His agreement with the Company provides for a base compensation of $175,000 per year and for certain stock option grants.

Dr. Vivien H.W. Mak became Vice President, Cutaneous Research in January 1996 after joining the Company initially as a consultant in October 1995. Her agreement provides for a base compensation of $100,000 per year and for certain stock option grants.

STOCK OPTION PLANS

On June 26, 1995 the Board of Directors adopted the 1995 Equity Incentive Plan (the "1995 Plan") and 1995 Directors Stock Option Plan (the "Directors Plan") to replace the Company's 1992 Stock Option Plan (the "1992 Plan").

The number of shares of Common Stock reserved for issuance under the 1995 Plan consists of 1,000,000 less any shares issued or issuable upon the exercise of options under the 1992 Plan, including any shares covered by options that terminate or expire without being exercised under the 1992 Plan. A total of 308,242 shares of Common Stock are issuable upon the exercise of outstanding options under the 1992 Plan as of March 31, 1996. No more options will be granted under the 1992 Plan.

The 1995 Plan provides for the award of options, which may either be incentive stock options ("ISOs") within the meaning of Section 422A of the Internal Revenue Code of 1986 (the "Code") or non-qualified options ("NQOs") which are not subject to special tax treatment under the Code. The 1995 Plan also provides for the award of stock bonuses and restricted stock. The 1995 Plan is administered by the Board or a committee appointed by the Board (the "Administrator"). Directors, officers and employees of, and consultants to, the Company or any parent or subsidiary corporation selected by the Administrator are eligible to receive options under the 1995 Plan.

The exercise price for ISOs cannot be less than the fair market value of the stock subject to the option on the grant date and the exercise price of a NQO may not be less than 85% of such value. Unless the Administrator determines otherwise, options generally have a 10-year term (or five years in the case of ISOs granted to a participant owning more than 10% of the total voting power of the Company's stock). Unless the Administrator provides otherwise, options terminate upon the termination of a participant's employment, except that the participant may exercise an option to the extent it was exercisable on the date of termination for a certain period of time after termination.

Generally, awards must be exercised by cash payment to the Company of the exercise price. However, the Administrator may allow a participant to pay all or a portion of the exercise price by means of a promissory note, stock or other lawful consideration. The 1995 Plan also allows the Administrator to provide for withholding and employment taxes payable by a participant to the Company upon exercise of an award by delivery of a promissory note or already-owned Common Stock, or by withholding shares acquired upon exercise of the award. Additionally, the Company may make cash grants or loans to participants relating to the participant's withholding and employment tax obligations and the income tax liability incurred by a participant upon exercise of an award.

Non-employee directors of the Company are eligible to participate in the Directors Plan. A total of 100,000 shares of Common Stock are reserved for issuance to eligible directors pursuant to the Directors Plan. The plan is administered by the Administrator. On the date on which an eligible director is elected a director (or, with respect to eligible directors on the date the plan was adopted by the Board, the date of such adoption), the director is granted a ten year non-qualified stock option (an "Initial Option") to acquire 20,000 shares. Thereafter, on the first business day after the Company's annual meeting of shareholders, an eligible director will be granted a ten year option (an "Annual Option") to acquire 1,000 shares. The exercise price of all such options is the fair market value of the shares on the grant date. Initial Options generally are exercisable immediately with respect to 25% of the shares subject to the option, and become exercisable with respect to the remaining shares subject to the option upon the first, second, third and fourth anniversaries of the grant date; Initial Options granted before the closing of this offering will become exercisable with respect to 25% of the shares subject to the option upon the closing of this offering, and with respect to the remaining shares subject to the option on each of the first, second, third and fourth anniversaries of the grant date. Annual Options become exercisable with respect to 25% of the shares subject to the option on each of the first, second, third and fourth anniversaries of the grant date.

LIMITATION OF LIABILITY AND INDEMNIFICATION MATTERS

The Company's Restated Articles provide that the liability of the Company's directors shall be eliminated to the fullest extent permissible under California law. In addition, the Company's charter documents permit the Company to provide indemnification to the fullest extent permitted by law for expenses, judgments, fines, settlements and other amounts actually and reasonably incurred in connection with any proceeding arising by reason of the fact that any person is or was a director or officer of the Company, and the Company's bylaws contain additional provisions regarding the circumstances under which such indemnification may be provided.

The Company has entered into indemnification agreements with its officers and directors containing provisions that are in some respects broader than the specific indemnification provisions contained in the California Corporations Code. The indemnification agreements may require the Company, among other things, to indemnify such officers and directors against certain liabilities that may arise by reason of their status or service as directors or officers (other than liabilities arising from willful misconduct of a culpable nature), to advance their expenses incurred as a result of any proceeding against them as to which they could be indemnified, and to obtain directors' and officers' insurance if available on reasonable terms. At present, the Company is not aware of any pending or threatened litigation or proceeding involving a director, officer, employee or agent of the Company in which indemnification would be required or permitted.

CERTAIN TRANSACTIONS

Upon the hiring of Mr. Bliss, Mr. Simmons, who was President and Chief Executive Officer of the Company, entered into an agreement with the Company dated December 8, 1995, which provides for six months salary and continuation of benefits. Mr. Simmons' stock options continued to vest through February 7, 1996, and will be exercisable through November 31, 1996. Mr. Simmons will remain a consultant to the Company through August 31, 1996, and a director through June 8, 1996.

Mr. Tavolacci, a former director of the Company, entered a loan agreement with the Company in March 1996. The terms of the agreement include a non-interest bearing loan of $80,000, payable to the Company on June 30, 1996. The loan is secured by a pledge of 30,000 shares of Common Stock. Mr. Tavolacci repaid the loan in full before its due date.

See also "Business--Employment and Consulting Agreements."

PRINCIPAL SHAREHOLDERS

The following table sets forth, as of March 31, 1996, certain information regarding the ownership of shares of Common Stock by (i) each person known to the Company to be a beneficial owner of more than 5% of the outstanding shares of Common Stock, (ii) each director, (iii) each of the Named Persons; and (iv) all directors and executive officers as a group.

NAME	SHARES BENEFICIALLY OWNED(1) NUMBER	PERCENT
Sundance Venture Partners, L.P. ..... 10600 N. DeAnza Boulevard, Suite 215 Cupertino, California 95014	583,482(2)	15.1%
Carl R. Thornfeldt, M.D. ..... 371 Bel Marin Keys Boulevard, Suite 210 Novato, California 94949	490,860(3)	12.5
Neutrogena Corporation ..... (Subsidiary of Johnson & Johnson) 5760 West 96th Street Los Angeles, California 90045	475,560	12.3
Don Tavolacci ..... Sonoma Trading Company 19666 Eight Street East Sonoma, CA 95476	352,452(4)	9.1
Gerald T. Simmons ..... Emerging Company Resource 837 4th Avenue Salt Lake City, UT 84103	192,872(5)	5.0
Peter M. Elias, M.D.	105,644(6)	2.7
Larry J. Wells ..... 10600 N. DeAnza Boulevard, Suite 215 Cupertino, California 95014	590,010(7)	15.2
William E. Bliss	56,583(8)	1.4
A. Richard Juelis	34,689(9)	*
Denis R. Burger, Ph.D.	5,000(10)	*
Tobi Klar, M.D.	3,730(11)	*
All directors and executive officers as a group (8 persons).....	1,479,988(12)	36.1

* Less than one percent.

(1) Based upon information supplied by officers, directors and principal shareholders. Beneficial ownership is determined in accordance with rules of the Securities Exchange Commission that deem shares to be beneficially owned by any person who has or shares voting or investment power with respect to such shares. Unless otherwise indicated, the persons named in this table have sole voting and sole investing power with respect to all shares shown as beneficially owned, subject to community property laws where applicable. Unlike the table under the heading "Selling Shareholders," the percentage figures shown in the above table do not treat as outstanding any shares of Common Stock that may be issued upon conversion of shares of Series A Preferred or upon exercise of outstanding options or warrants, except as described in the next sentence. Shares of Common Stock subject to an option that is currently exercisable or exercisable within 60 days of March 31, 1996 are deemed to be outstanding and to be beneficially owned by the person holding such option for the purpose of computing the percentage ownership of such person but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

(2) Includes 13,865 shares issuable upon exercise of presently exercisable common stock purchase warrants.

(3) Excludes 34,223 and 34,126 shares, respectively, held in trust for two relatives of Dr. Thornfeldt and a total of 14,174 shares held by other relatives with respect to which Dr. Thornfeldt has no voting

control. Includes 60,105 shares subject to stock options exercisable before May 31, 1996. Includes 30,000 shares held by a third party, over which Dr. Thornfeldt has voting control.

(4) Includes 5,827 shares subject to stock options which become exercisable before May 31, 1996. Excludes 30,000 subject to voting and investment control by another party.

(5) Includes 15,387 shares subject to stock options exercisable before May 31, 1996.

(6) Includes 8,582 shares subject to stock options exercisable before May 31, 1996.

(7) Includes 569,617 shares and warrants to purchase 13,865 shares held by Sundance. Mr. Wells is Chairman of the entity that acts as manager of Sundance. Includes 4,936 shares issuable upon exercise of presently exercisable common stock purchase warrants. Includes 6,528 shares subject to stock options which become exercisable before May 31, 1996.

(8) Includes 56,583 shares subject to stock options exercisable before May 31, 1996.

(9) Includes 34,689 shares subject to stock options exercisable before May 31, 1996.

(10) Includes 5,000 shares subject to options exercisable before May 31, 1996.

(11) Includes 3,730 shares subject to stock options which become exercisable before May 31, 1996.

(12) Includes 217,172 shares subject to stock options exercisable before May 31, 1996. Includes 583,482 shares and warrants held by Sundance, of which Mr. Wells may be deemed a beneficial owner. Includes 4,936 shares issuable upon exercise of presently exercisable common stock purchase warrants.

DESCRIPTION OF CAPITAL STOCK

The authorized capital stock of the Company consists of 20,000,000 shares of Common Stock and 5,000,000 shares of Preferred Stock. As of May 1, 1996, there were outstanding approximately 3,871,174 shares of Common Stock held of record by approximately 960 shareholders, 1,100 authorized shares of Series A Preferred, of which 750 shares were issued and outstanding (and convertible into a minimum of 1,150,251 shares of Common Stock), and no other outstanding shares of Preferred Stock. In the Company's IPO in August 1995, the Company sold 661,250 units ("Units"), each Unit consisting of two shares of Common Stock and one warrant to purchase one share of Common Stock (the "IPO Warrants"). The Units separated immediately and only the Common Stock and IPO Warrants trade on the Nasdaq SmallCap Market.

COMMON STOCK

Subject to any preferences that may apply to any outstanding Preferred Stock, the holders of outstanding shares of Common Stock are entitled to receive dividends out of assets legally available therefor at such times and in such amounts as the Board may, from time to time, determine. Each shareholder is entitled to one vote for each share of Common Stock held of record on all matters submitted to a vote of shareholders. The Company's bylaws provide that so long as the Company is a "listed company" as defined by applicable California law, there will not be cumulative voting in connection with the election of directors. The Company is not a listed company as so defined, and therefore cumulative voting continues to apply in connection with the election of directors. Holders of Common Stock have no preemptive rights or rights to convert their Common Stock into any other securities under the Company's charter documents. There are no redemption or sinking fund provisions applicable to the Common Stock. Upon liquidation, dissolution or winding up of the Company, the assets legally available for distribution to shareholders are distributable ratably among the holders of the Common Stock outstanding at that time after payment of liquidation preferences, if any, on any outstanding Preferred Stock and payment of claims of creditors. All outstanding shares of Common stock are fully paid and nonassessable.

PREFERRED STOCK

GENERAL

The Company's Amended and Restated Articles of Incorporation, as amended (the "Restated Articles") provide that the Company may issue shares of Preferred Stock in one or more series. The Board of Directors is authorized to establish from time to time the number of shares to be included in, and the designation of, any such series, 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 (but not below the number of shares of such series then outstanding) without any further vote or action by the shareholders. The issuance of Preferred Stock may have the effect of delaying, deferring or preventing a change in control of the Company without further action by the shareholders. The issuance of Preferred Stock with voting and conversion rights may adversely affect the voting power or other rights of the holders of Common Stock. The Company has no present plans as of the date of the Prospectus to issue any additional shares of Preferred Stock.

Series A Preferred

A total of 1,100 shares of Series A Preferred are authorized by the Certificate of Determination (the "Certificate of Determination") establishing the rights, preferences, privileges and restrictions granted to or imposed upon the Series A Preferred. The following is a description of some of the material terms of the Series A Preferred.

Voting. The holders of Series A Preferred have no voting power, except as required by applicable California law, and no holder of Series A Preferred is entitled to notification of any meeting of shareholders, except any meeting regarding any major corporate events affecting the Company. In addition, the Company must provide holders of Series A Preferred with prior notice of record dates relating to certain kinds of corporate actions. To the extent that under California law the holders of Series A Preferred are entitled to vote on a matter with holders of Common Stock, voting together as one class, each share of Series A Preferred is entitled to a number of votes equal to the number of shares of Common Stock into which it is then convertible.

Dividends. The Series A Preferred is not entitled to any dividends.

Liquidation Preference. In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, each holder of Series A Preferred is entitled to receive, immediately after any distributions to securities identified as "Senior Securities" (if any) required by the Company's charter documents, and in preference to any distribution to securities identified as "Junior Securities" (which includes the Common Stock), an amount per share equal to the sum of (i) the original Series A issue price ($10,000 per share) for each outstanding share of Series A Preferred held by such holder and (ii) an amount (such amount referred to as the "Premium") equal to 8% of the original Series A issue price per annum for the period that has passed since the date (the "Funds Delivery Date") that, in connection with the consummation of the purchase of such shares of Series A Preferred from the Company by the original holder of such shares, the escrow agent appointed in connection with such purchase first had in its possession funds representing full payment for such shares of Series A Preferred. If, after payment in full of the preferential amount with respect to Senior Securities, the assets and funds available to be distributed among the holders of Series A Preferred and holders of securities identified as "Parity Securities" are insufficient to permit the payment to such holders of the full preferential amounts, then the entire assets and funds of the Company legally available for distribution shall be distributed among the holders of the Series A Preferred and the Parity Securities, pro rata. All remaining assets of the Company will then be distributed to holders of Junior Securities. A sale, conveyance or disposition of all or substantially all of the assets of the Company, or a transaction or series of related transactions in which more than 50% of the voting power of the Company is disposed of, is not treated as a liquidation.

Conversion. Each holder of Series A Preferred is entitled, at any time beginning July 3, 1995, to convert shares of Series A Preferred into that number of shares of Common Stock calculated in accordance with the following formula (the "Conversion Rate"), unless the holder elects to convert shares of Series A Preferred held by such holder at the times and at the conversion rates set forth in the Subscription Agreements:

$$\frac{(.08)\,(N/365)\,(10{,}000) + 10{,}000}{\text{Conversion Price}}$$

where,

- o N = the number of days between (i) the Funds Delivery Date for the shares of Series A Preferred for which conversion is being elected, and (ii) the applicable date of conversion, and

- o Conversion Price = the lesser of (x) $6.6275 (the "Fixed Conversion Price"), or (y) 85% times the average Closing Bid Price, as that term is defined below, of the Common Stock for the five trading days immediately preceding the Date of Conversion, as defined below (the "Variable Conversion Price").

Any such conversion is subject to the Company's right of redemption described below. The term "Closing Bid Price" means the closing bid price for the Common Stock on the Nasdaq SmallCap Market, or if no longer traded on the Nasdaq SmallCap Market, the closing bid price on the principal national securities exchange or the National Market System on which the Common Stock is so traded, and if not available, the mean of the high and low prices on the principal national securities exchange or the National System on which the Common Stock is so traded. The term "Last Closing Date" means April 19, 1996. If a holder of Series A Preferred converts more than certain specified numbers of shares before certain defined time periods, which end 135 days after the Last Closing Date, then a lower number of shares of Common Stock are issuable under the variable conversion price formula.

All Series A Preferred that has not previously been converted will convert into Common Stock on April 19, 1998.

Right of First Refusal. The Series A Holders have a right of first refusal to purchase the holder's pro rata share (based on the proportion that the number of shares of Series A Preferred held by the holder bears to the number of shares of Series A Preferred initially issued) with respect to certain future offerings of Company securities for a period of 240 days after the Last Closing Date.

Anti-Dilution Provisions. The conversion price of the Series A Preferred is subject to proportionate adjustments upon the occurrence of stock splits, reverse stock splits, dividends, or similar transactions.

Adjustment Due to Merger, Consolidation, Etc. If, prior to the conversion of all Series A Preferred, there shall be any merger, consolidation, exchange of shares, recapitalization, reorganization, or other similar event, as a result of which shares of Common Stock are changed into the same or a different number of shares of the same or another class or classes of stock or securities of the Company or another entity, then the holders of Series A Preferred shall thereafter have the right to receive upon conversion of Series A Preferred, in lieu of the shares of Common Stock issuable upon conversion, such stock and/or securities which the holder would have been entitled to receive in such transaction, had the Series A Preferred been converted immediately prior to such transaction. Appropriate provisions will be made with respect to the rights and interests of the holders of the Series A Preferred to the end that the provisions of the Certificate of Determination (including, without limitation, provisions for the adjustment of the Conversion Price and of the number of shares issuable upon conversion of the Series A Preferred) shall thereafter be applicable, as nearly as may be practicable, in relation to any securities thereafter deliverable. The Company shall not effect any such transaction unless (a) it first gives to the holders prior notice of the transaction, and (b) the resulting successor or acquiring entity (if not the Company) assumes by written instrument these obligations.

Redemption by the Company. Upon receipt of a Notice of Conversion, the Company may, in it sole discretion, redeem in whole or in part any Series A Preferred submitted for conversion, immediately prior to and in lieu of conversion ("Redemption Upon Receipt of Notice of Conversion"). If the Company elects to redeem some, but not all, of the Series A Preferred submitted for conversion, the Company shall

redeem from among the Series A Preferred submitted by the various shareholders for conversion on the applicable date, a pro rata amount from each such holder so submitting Series A Preferred for conversion.

The redemption price per share of Series A Preferred is calculated in accordance with the following formula ("Redemption Rate"): [[(.08)(N/365)(10,000)] + 10,000] x Closing Price on Date of Conversion, divided by the Conversion Price; where "N," "Date of Conversion" and "Conversion Price" have the meanings described above. "Closing Price" means the closing price on the Nasdaq Small Cap Market, the closing price on the principal national securities exchange or the National Market System on which the Common Stock is so traded and if not available, the mean of the high and low prices on the principal national securities exchange or the National Market System on which the Common Stock is so traded.

At any time, commencing nine months and one day after the Last Closing Date, the Company has the right, in its sole discretion, to redeem ("Redemption at Company's Election"), from time to time, any or all of the Series A Preferred; provided that (i) the Company shall first provide 30 days' advance written notice (which can be given beginning 30 days prior to the date which is nine months and one day after the Last Closing Date), and (ii) that the Company may only redeem Series A Preferred in increments having an aggregate Stated Value (as defined below) of at least $1.5 million. If the Company elects to redeem some, but not all, of the Series A Preferred, the Company shall redeem a pro rata amount from each holder of the Series A Preferred.

The "Redemption Price at Company's Election" shall be calculated as a percentage of Stated Value, as that term is defined below, of the Series A Preferred redeemed, which percentage shall vary depending on the date of Redemption at Company's Election, and shall be determined as follows:

Date of Redemption at Company's Election	% of Stated Value
9 months and 1 day to 12 months following Last Closing Date	140%
12 months and 1 day to 18 months following Last Closing Date	130%
18 months and 1 day to 24 months following Last Closing Date	125%

"Stated Value" means the Original Series A Issue Price of the shares of Series A Preferred being redeemed, together with the accrued Premium.

Protective Provisions

So long as any shares of Series A Preferred are outstanding, the Company shall not, without first obtaining the approval of the holders of a majority of the then outstanding shares of Series A Preferred:

(a) alter or change the rights, preferences or privileges of the Series A Preferred or any Senior Securities so as to materially and adversely affect the Series A Preferred;

(b) create any new class or series of stock having a preference over the Series A Preferred with respect to distributions, or increase the authorized number of shares of Series A Preferred; or

(c) do any act or thing not authorized or contemplated by the Certificate of Determination or in the agreements relating to the Series A Transaction which would result in taxation of the holders of Series A Preferred under Section 305 of the Code.

If holders of a majority of the then outstanding shares of Series A Preferred agree to allow the Company to alter or change the rights, preferences or privileges of the shares of the Series A Preferred so as to affect the Series A Preferred, then the Company will deliver notice of such approved change to the holders of Series A Preferred that did not agree to such alteration or change (the "Dissenting Holders"). The Dissenting Holders shall have the right, for a period of thirty (30) days after receipt of such notice, to convert, pursuant to the terms of the Certificate of Determination as they exist prior to such alteration or change, or continue to hold, their shares of Series A Preferred.

REGISTRATION RIGHTS

After the effectiveness of the registration statement of which this Prospectus is a part, the holders of approximately 1,618,286 shares of Common Stock (the "Registrable Shares") will have certain rights

with respect to registration under the Act pursuant to the Company's Amended and Restated Registration Rights Agreement dated as of April 16, 1992, as amended (the "1992 Registration Agreement"). Under the terms of the 1992 Registration Agreement, subject to certain exceptions, including the right of the Company to defer a demand registration for a period of 120 days, the holders of at least 35% of the Registrable Shares may require on two occasions that the Company use its best efforts to register for public resale all Registrable Shares requested to be registered so long as at least 15% of the Registrable Shares are requested to be registered. Subject to certain limitations in the 1992 Registration Agreement, the holders of at least 35% of the outstanding Registrable Shares may require, on a unlimited number of occasions, that the Company use its best efforts to register on Form S-3 for public resale all Registrable Shares requested to registered as long as the aggregate offering price to the public exceeds $500,000. In addition, in the event the Company elects to register any of its Common Stock under the Act, either for its own account or for the account of any other shareholders, the Company is, subject to certain marketing and other limitations, required to include in such registration the Registrable Shares of holders requesting registration. The Company is required to bear all registration expenses, other than underwriting discounts and selling commissions, incurred in connection with the registration of Registrable Shares in one demand registration, one Form S-3 registration and all Company registrations. All underwriting discounts and selling commissions are to be borne by the holders of the securities being registered. Subject to certain limitations, registration rights may be transferred to an assignee or transferee of Registrable Shares. The 1992 Registration Agreement may be amended only with the written consent of the Company and the holders of two-thirds of the then outstanding Registrable Shares.

The Representatives' Warrants provide certain rights with respect to the registration under Securities Act of the 172,500 shares issuable upon exercise thereof (including the warrants included therein). The Company has agreed that not later than 45 days after the first anniversary after the date of the IPO it will register the issuance of such shares upon the exercise of the Representatives' Warrants (and, if necessary, their resale) so as to permit their public resale without restriction.

These registration rights could result in substantial future expense to the Company and could adversely affect the Company's ability to complete future equity or debt financing. Furthermore, the registration and sale of Common Stock of the Company held by or issuable to the holders of registration rights, or even the potential of such sales, could have an adverse effect on the market price of the securities offered hereby.

TRANSFER AGENT AND REGISTRAR

The Transfer Agent and Registrar for the Company's Common Stock is First Interstate Bank of California.

LEGAL MATTERS

The validity of the issuance of the shares of Common Stock offered hereby will be passed upon for the Company by Fenwick & West LLP, Two Palo Alto Square, Suite 800, Palo Alto, California 94306.

EXPERTS

The consolidated financial statements of Cellegy Pharmaceuticals, Inc. at December 31, 1995 and 1994, and for each of years in the two year period ended December 31, 1995 and for the period from June 26, 1989 (inception) through December 31, 1995 appearing in this Prospectus and Registration Statement have been audited by Ernst & Young, LLP, independent auditors, as set forth in their report thereon and appearing elsewhere herein, and are included in reliance upon such report given upon the authority of such firm as experts in accounting and auditing.

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
Cellegy Pharmaceuticals, Inc.

We have audited the accompanying balance sheets of Cellegy Pharmaceuticals, Inc. (a development stage company) as of December 31, 1995 and 1994, and the related statements of operations, shareholders' equity (deficit) and cash flows for the years then ended, and for the period from June 26, 1989 (inception) through December 31, 1995. 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 generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cellegy Pharmaceuticals, Inc. at December 31, 1995 and 1994 and the results of its operations and its cash flows for the years then ended, and for the period from June 26, 1989 (inception) through December 31, 1995, in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP

Walnut Creek California
March 11, 1996

CELLEGY PHARMACEUTICALS, INC.
(A DEVELOPMENT STAGE COMPANY)

BALANCE SHEETS

	DECEMBER 31	
	1995	1994
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,320,130	$ 380,422
Short-term investments	1,500,000	21,681
Other current assets	149,040	10,229
Total current assets	3,969,170	412,332
Property and equipment, net	58,665	67,321
Deferred financing costs	--	75,415
	$ 4,027,835	$ 555,068
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable and accrued liabilities	$ 192,232	$ 342,045
Accrued compensation and related expenses	187,266	50,712
Deferred revenue	--	1,000,000
Notes payable	--	536,000
Total current liabilities	379,498	1,928,757
Shareholders' equity (deficit):		
Convertible preferred stock, no par value; 5,000,000 shares authorized:		
Series A convertible preferred stock; no shares issued and outstanding in 1995; 702,854 shares issued and outstanding in 1994	--	1,421,234
Series B convertible preferred stock; no shares issued and outstanding in 1995; 12,750 issued and outstanding in 1994	--	114,000
Series C convertible preferred stock; no shares issued and outstanding in 1995; 477,081 shares issued and outstanding in 1994	--	4,978,505
Common stock, no par value; 20,000,000 shares authorized; 3,777,075 shares issued and outstanding in 1995; 1,198,449 shares issued and outstanding in 1994	13,803,793	116,151
Deficit accumulated during the development stage	(10,155,456)	(8,003,579)
Total shareholders' equity (deficit)	3,648,337	(1,373,689)
	$ 4,027,835	$ 555,068

See accompanying notes.

CELLEGY PHARMACEUTICALS, INC.
(A DEVELOPMENT STAGE COMPANY)

STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31		PERIOD FROM JUNE 26, 1989 (INCEPTION) THROUGH DECEMBER 31,
	1995	1994	1995
Revenues:			
Licensing revenue from affiliate	$ 1,000,000	$ --	$ 1,000,000
Contract revenue from affiliate	--	--	130,373
Total revenues	1,000,000	--	1,130,373
Operating expenses:			
Research and development	1,224,841	1,510,478	6,410,221
General and administrative	1,310,144	1,031,599	4,548,313
Total operating expenses	2,534,985	2,542,077	10,958,534
Operating loss	(1,534,985)	(2,542,077)	(9,828,161)
Interest expense	(752,391)	(4,755)	(863,740)
Interest income and other, net	135,499	3,333	536,445
Net loss	$ (2,151,877)	$(2,543,499)	$(10,155,456)
Pro forma net loss per share	$ (0.67)	$ (0.76)	
Shares used in calculation of pro forma net loss per share	3,205,696	3,344,328	

See accompanying notes.

CELLEGY PHARMACEUTICALS, INC.
(A DEVELOPMENT STAGE COMPANY)

STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)

	SERIES A CONVERTIBLE PREFERRED STOCK		SERIES B CONVERTIBLE PREFERRED STOCK		SERIES C CONVERTIBLE PREFERRED STOCK		COMMON STOCK		DEFICIT ACCUMULATED DURING THE DEVELOPMENT STAGE	TOTAL SHAREHOLDERS EQUITY (DEFICIT)
	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT	SHARES	AMOUNT		
Issuance of common stock for cash, through December 31, 1993	--	$ --	--	$ --	--	$ --	834,893	81,725	$ --	81,725
Issuance of common stock for services rendered through December 31, 1993	--	--	--	--	--	--	269,116	24,261	--	24,261
Issuance of common stock in connection with merger with Pacific Pharmaceuticals, Inc. in April 1992	--	--	--	--	--	--	97,062	8,750	--	8,750
Issuance of Series A convertible preferred stock for cash through December 31, 1993	26,899	48,500	--	--	--	--	--	--	--	48,500
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, net of issuance costs of $21,500, through December 31, 1993	625,845	1,199,536	--	--	--	--	--	--	--	1,199,536
Issuance of Series A convertible preferred stock for services rendered through December 31, 1993	40,597	73,198	--	--	--	--	--	--	--	73,198
Issuance of Series A convertible preferred stock in exchange for license agreement	9,513	100,000	--	--	--	--	--	--	--	100,000
Issuance of Series B convertible preferred stock in exchange for convertible promissory notes, net of issuance costs of $1,000 in 1992	--	--	12,750	114,000	--	--	--	--	--	114,000
Issuance of Series C convertible preferred stock for cash, net of issuance costs of $37,500 through December 31, 1993	--	--	--	--	477,081	4,978,505	--	--	--	4,978,505
Repurchase of common shares in 1992	--	--	--	--	--	--	(3,586)	(324)	--	(324)
Net loss for the period June 26, 1989 (inception) through December 31, 1993	--	--	--	--	--	--	--	--	(5,460,080)	(5,460,080)
Balances, December 31, 1993	702,854	1,421,234	12,750	114,000	477,081	4,978,505	1,197,485	114,412	(5,460,080)	1,168,071

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CELLEGY PHARMACEUTICALS, INC.
(A DEVELOPMENT STAGE COMPANY)

STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT) -- (CONTINUED)

	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
Exercise of options to purchase common stock	--	--	--	--	--	--	964	1,739
Net loss--1994	--	--	--	--	--	--	--	--
Balances, December 31, 1994	702,854	1,421,234	12,750	114,000	477,081	4,978,505	1,198,449	116,151
Exercise of options to purchase common stock	--	--	--	--	--	--	20,481	34,285
Issuance of warrants in connection with notes payable financing	--	--	--	--	--	--	--	487,333
Conversion of preferred stock to common stock in connection with initial public offering	(702,854)	(1,421,234)	(12,750)	(114,000)	(477,081)	(4,978,505)	1,192,685	6,513,739
Issuance of common stock in connection with initial public offering, net of issuance costs.	--	--	--	--	--	--	1,322,500	6,383,785
Issuance of common stock in exchange for notes payable	--	--	--	--	--	--	42,960	268,500
Net loss -- 1995	--	--	--	--	--	--	--	--
Balances, December 31, 1995	--	--	--	--	--	--	3,777,075	13,803,793

	DEFICIT ACCUMULATED DURING THE DEVELOPMENT STAGE	TOTAL SHAREHOLDERS' EQUITY (DEFICIT)
Exercise of options to purchase common stock	--	1,739
Net loss--1994	(2,543,499)	(2,543,499)
Balances, December 31, 1994	(8,003,579)	(1,373,689)
Exercise of options to purchase common stock	--	34,285
Issuance of warrants in connection with notes payable financing	--	487,333
Conversion of preferred stock to common stock in connection with initial public offering	--	--
Issuance of common stock in connection with initial public offering, net of issuance costs	--	6,383,785
Issuance of common stock in exchange for notes payable	--	268,500
Net loss -- 1995	(2,151,877)	(2,151,877)
Balances, December 31, 1995	(10,155,456)	$ 3,648,337

See accompanying notes.

CELLEGY PHARMACEUTICALS, INC.
(A DEVELOPMENT STAGE COMPANY)

STATEMENTS OF CASH FLOWS

	DECEMBER 31		PERIOD FROM JUNE 26, 1989 (INCEPTION) THROUGH DECEMBER 31,
	1995	1994	1995
OPERATING ACTIVITIES			
Net loss	$(2,151,877)	$ (2,543,499)	$(10,155,456)
Adjustments to reconcile net loss to net cash used in operation activities:			
Depreciation and amortization	27,726	28,418	211,254
Loss on sale of property and equipment	3,724	--	3,724
Amortization of discount on notes payable and deferred financing costs	562,748	4,755	567,503
Issuance of common shares for services	--	--	24,261
Issuance of Series A convertible preferred stock for services rendered	--	--	73,198
Issuance of Series A convertible preferred stock for interest	--	--	67,720
Issuance of Series A convertible preferred stock for license agreement	--	--	100,000
Changes in operating assets and liabilities:			
Affiliate receivable	--	29,264	--
Other current assets	(138,811)	45,401	(149,040)
Accounts payable and accrued liabilities	(149,813)	245,136	192,232
Accrued compensation and related expenses	136,554	36,039	187,266
Deferred revenue	(1,000,000)	1,000,000	--
Net cash used in operating activities	(2,709,749)	(1,154,486)	(8,877,338)
INVESTING ACTIVITIES			
Purchase of property and equipment	(22,794)	--	(164,893)
Purchases of short-term investments	(1,500,000)	--	(7,046,520)
Sales of short-term investments	21,681	1,049,861	5,546,520
Net cash provided by (used in) investing activities	(1,501,113)	1,049,861	(1,664,893)

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CELLEGY PHARMACEUTICALS, INC.
(A DEVELOPMENT STAGE COMPANY)

STATEMENTS OF CASH FLOWS -- (CONTINUED)

	DECEMBER 31		PERIOD FROM JUNE 26, 1989 (INCEPTION) THROUGH DECEMBER 31,
	1995	1994	1995
FINANCING ACTIVITIES			
Proceeds from notes payable	$ 1,749,800	$ 536,000	$ 3,547,424
Repayment of notes payable	(2,017,300)	--	(2,110,608)
Net proceeds from issuance of common stock	6,418,070	1,739	6,501,534
Repurchase of common stock	--	--	(324)
Issuance of Series A convertible preferred stock, net of issuance costs	--	--	27,000
Series B convertible preferred stock issuance costs	--	--	(1,000)
Issuance of Series C convertible preferred stock, net of issuance costs	--	--	4,978,505
Deferred financing costs	--	(80,170)	(80,170)
Net cash provided by financing activities	6,150,570	457,569	12,862,361
Net increase in cash	1,939,708	352,944	2,320,130
Cash, beginning of period	380,422	27,478	--
Cash, end of period	$ 2,320,130	$ 380,422	$ 2,320,130
Supplemental disclosure of noncash transactions:			
Conversion of preferred stock to common stock	$ 6,513,739	$ --	$ 6,513,739
Issuance of common stock for notes payable	$ 268,500	$ --	$ 268,500
Issuance of warrants in connection with notes payable financing	$ 487,333	$ --	$ 487,333
Issuance of Series A convertible preferred stock, for notes payable	$ --	$ --	$ 1,153,316
Issuance of Series B convertible preferred stock, for notes payable	$ --	$ --	$ 115,000
Issuance of common stock for Pacific Pharmaceuticals, Inc.	$ --	$ --	$ 8,750

See accompanying notes.

CELLEGY PHARMACEUTICALS, INC.
(A DEVELOPMENT STAGE COMPANY)

NOTES TO FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS

The Company commenced operations in 1989 to engage in the research, development, and commercialization of proprietary products for the skin including transdermal drug delivery products, prescription therapeutic products for skin disorders, and non-prescription over-the-counter consumer products to repair and protect damaged skin. The Company is in the development stage. In 1992, the Company's name was changed from Dermatologic Research Corporation to Cellegy Pharmaceuticals, Inc.

BASIS OF PRESENTATION

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

USE OF ESTIMATES

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

CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

Cash equivalents consist of short-term, highly liquid financial instruments with maturities of three months or less from the date of purchase.

Effective January 1, 1994, the Company adopted Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (FAS 115). Under FAS 115, investments in marketable equity securities and debt securities are reported at fair value. There was no significant cumulative effect as of January 1, 1994 of adopting FAS 115.

DEFERRED FINANCING COSTS

Deferred financing costs relate to the notes payable financing discussed in Note 4. Costs associated with the notes payable financing were amortized over the maturity of the debt, using the interest method.

PROPERTY AND EQUIPMENT

Property and equipment is stated at cost, less accumulated depreciation. Depreciation is provided over the estimated useful life of five years, using the straight-line method.

STOCK-BASED COMPENSATION

The Company accounts for its stock option grants in accordance with APB Opinion No 25, "Accounting for Stock Issued to Employees."

NET LOSS PER SHARE

Net loss per share is computed using the weighted average number of shares of common stock outstanding. Common equivalent shares are excluded from the computation as their effect is anti-dilutive, except that, pursuant to Securities and Exchange Commission Staff Accounting Bulletins, common and

common equivalent shares issued (or stock option and warrant grants) at prices below the public offering price during the twelve month period prior to the initial public offering have been included in the calculation as if they were outstanding for all periods through March 31, 1995, using the treasury stock method. The net loss per share was $(0.86) and $(1.18) for the years ended December 31, 1995 and 1994, respectively. Shares used in the net loss per share calculation were 2,509,963 and 2,151,643 for the years ended December 31, 1995 and 1994, respectively.

The pro forma net loss per share presented in the statements of operations is computed as described above and also gives effect for all periods presented to the conversion of all outstanding shares of convertible preferred stock into common stock upon the closing of the Company's initial public offering.

2. SHORT-TERM INVESTMENTS

At December 31, 1995, short-term investments consist of a U.S. government obligation which matures in May 1996. At December 31, 1994, short-term investments consist of investments in mutual funds which invest in short-term debt securities. Short-term investments are recorded at amounts which approximate fair market value. The gross realized gain and losses and the gross unrealized gains and losses of these available for sale securities for the years ended December 31, 1995 and 1994 were not material.

3. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	DECEMBER 31	
	1995	1994
Furniture and fixtures	$ 41,702	$ 41,702
Office equipment	39,142	43,453
Laboratory equipment	65,310	53,334
Leasehold improvements	3,610	3,610
	149,764	142,099
Less accumulated depreciation	(91,099)	(74,778)
	$ 58,665	$ 67,321

4. NOTES PAYABLE

In a December 1994 private placement, the Company issued $536,000 principal amount of 10% convertible subordinated debentures and warrants to acquire 107,200 shares of common stock at an exercise price of $7.81. The value ascribed to the warrants for financial statement purposes was not material.

In a February 1995 and June 1995 private placement, the Company issued $1,749,800 principal amount of 10% convertible secured debentures ("Notes") and warrants ("Warrants") to acquire units ("Units"), each Unit consisting of one share of common stock and one common stock purchase warrant ("Unit Warrant"). In connection with the February 1995 transaction, all investors who acquired notes and warrants in December 1994 exchanged the securities acquired in December 1994 for an equal principal amount of Notes and Warrants on the same terms as the other investors. The Warrants were valued by an outside valuation firm for financial statement purposes at approximately $487,000 which amount was recorded as an addition to common stock with a corresponding discount on the notes payable. The discount was amortized using the interest method. The Notes were convertible at the option of the noteholder into Units consisting of one share of common stock and one warrant ("Conversion Warrant") to purchase one share of common stock. The exercise price of the Warrants is $.01 per unit. The exercise price of the Unit Warrants is $7.81 per share.

On August 18, 1995, in connection with the close of the initial public offering, the Company repaid Notes totaling approximately $2,017,000 and accrued interest totaling approximately $100,000. Notes totaling $268,500 were converted into 42,960 shares of common stock and warrants to acquire 42,960 shares of common stock. The warrants are exercisable beginning February 1996 at an exercise price of $5.19 per share and shall expire December 31, 1999.

5. LEASE COMMITMENTS

The Company leases its facilities under noncancelable operating leases. The leases expire in May 1997. Future minimum lease payments, are as follows:

1996	$150,971
1997	86,032
	$237,003

Rent expense was $67,959 and $72,764 for the years ended December 31, 1995 and 1994, respectively.

6. SHAREHOLDERS' EQUITY (DEFICIT)

INITIAL PUBLIC OFFERING

In August 1995, the Company completed an initial public offering of 661,250 units, with each unit consisting of two shares of common stock and one common stock purchase warrant with an exercise price of $9.375 per share. The Company received net proceeds of approximately $6.4 million. In connection with the initial public offering, Series A, B, and C preferred stock converted into 1,192,685 shares of common stock.

In July 1995, the Company's Board of Directors also approved a .746-for-one reverse stock split of issued and outstanding common and preferred shares and commensurate adjustments of outstanding options and warrants (including purchase prices and exercise prices). All share amounts in the accompanying financial statements have been retroactively adjusted to reflect this reverse stock split.

The Company's authorized capital consists of 5,000,000 shares of undesignated preferred stock and 20,000,000 shares of common stock.

WARRANTS

The Company has the following warrants outstanding to purchase common stock at December 31, 1995:

NUMBER OF SHARES	EXERCISE PRICE PER SHARE	DATE ISSUED	EXERCISE PERIOD
28,056	$ 1.81	4/92-6/92	Through August 20, 1996
35,496	4.51	10/94	Through December 31, 1999
365,728	.01	2/95	February 1996-December 31, 1999
365,728	7.81	2/95	February 1996-December 31, 1999
44,604	9.02	3/95	Through December 31, 1999
42,960	5.19	8/95	February 1996-December 31, 1999
115,000	10.31	8/95	August 1996-August 2000
57,500	15.47	8/95	August 1996-August 2000
661,250	9.375	8/95	August 1996-August 2000
1,716,322			

Included above is warrants to acquire 661,250 shares of common stock at a price of $9.375 per share which were issued in connection with the Company's initial public offering. The warrants are exercisable at any time, unless previously redeemed, from August 1996 to August 2000. The Company may redeem the warrants until August 1996 only with the consent of the Representatives of the Underwriters. Thereafter, the Company may redeem the warrants, in whole or in part, at any time upon at least thirty days prior written notice to the warrant holders at a price of $.05 per warrant, provided that the closing price of the common stock has been at least $12.50 for at least 10 consecutive trading days ending on a date within 30 days before the date of the notice of redemption. No warrants have been redeemed through December 31, 1995.

STOCK OPTION PLAN

The Company has a Stock Option Plan (the "Plan") that provides for the issuance of incentive stock options and non-statutory stock options. The Plan provides for the granting of options for the purchase of up to 700,000 shares of the Company's common stock. Under the Plan, incentive stock options may be granted at a price per share not less than the fair market value of common stock on the date of grant. Nonqualified options may be granted at a price per share not less than 85% of fair market value on the date of grant. Options are exercisable to the extent vested. Vesting, as established by the Board of Directors, generally occurs at a rate of 25% per year over four years from the date of grant.

Activity under the Plan is summarized as follows:

	SHARES UNDER OPTION	PRICE RANGE PER SHARE
Balance at December 31, 1993	131,942	$ 1.81
Granted	66,743	.45-4.50
Canceled	(61,426)	1.81
Exercised	(964)	1.81
Balance at December 31, 1994	136,295	.45-4.50
Granted	619,382	2.09-6.66
Canceled	(84,511)	1.81-4.50
Exercised	(20,481)	0.50-1.81
Balance at December 31, 1995	650,685	$.45-6.66

At December 31, 1995, options to purchase 220,792 shares of common stock were vested and exercisable at exercise prices ranging from $0.45 to $6.66 per share. At December 31, 1995 options to purchase 26,181 shares of common stock were available for future option grants under the Plan. At December 31, 1995, options to purchase 75,444 shares of common stock at an exercise price of $4.38 per share, vest in December 2000, but are subject to earlier vesting if certain performance criteria are met.

DIRECTORS STOCK OPTION PLAN

In February 1995, the Company adopted the Directors' Stock Option Plan (the "Plan"). The Company has reserved 100,000 shares of common stock for issuance under the Plan. The Plan provides for the automatic annual grant of an option to acquire 1,000 shares of common stock, to each non-employee then serving as a director, at an exercise price equal to the fair value of the common stock on the date of grant, commencing in 1996. The Plan also provides for the automatic annual grant of an initial option ("Initial Option") to acquire 20,000 shares of common stock, to each current and future non-employee director of the Company, at an exercise price equal to the fair value of the common stock on the date of grant. Vesting, as established by the Board of Directors, generally occurs over four years from the date of grant, except that 25% of the shares subject to the Initial Option generally become exercisable on the grant date. Pursuant to the Plan, in October 1995, one non-employee director was granted an option to purchase 20,000 shares of common stock at an exercise price of $5.00 per share.

7. LICENSE AGREEMENTS

The Company entered into a License Option Agreement date April 16, 1992 (the "License Option Agreement"), with Neutrogena Corporation ("Neutrogena") as part of Neutrogena's purchase of 475,560 shares of the Company's Series C preferred stock for $5.0 million on June 12, 1992. Also as part of that stock purchase transaction, the Company entered into an Azelaic Acid OTC License Agreement (the "Azelaic Acid Agreement") and a Metabolic Moisturizer OTC License Agreement (the "Metabolic Moisturizer Agreement"), each dated April 16, 1992, with Neutrogena.

The License Option Agreement requires the Company to notify Neutrogena about potential consumer or prescription products about which it becomes aware and about potential consumer products for which the Company has applied to switch from prescription to consumer status. Certain products and technologies, including the Company's drug delivery products and technologies, Glylorin and products sold in the Japanese market, are excluded from the scope of the License Option Agreement. After

notification, Neutrogena has a license option period and an "Evaluation License" to investigate the potential product to determine whether to enter into an agreed-upon form of royalty-bearing exclusive worldwide license with the Company for the product. The royalty-bearing license for consumer products provides for a royalty of 3% of net sales of the first two years and 5% of net sales thereafter with a minimum annual royalty of $25,000. The royalty-bearing license for prescription products provides for a royalty of 5% of net sales with a minimum annual royalty of $25,000. Both royalty-bearing license agreements for consumer products and prescription products provide for Neutrogena to pay out-of-pocket evaluation, development and marketing costs for a product. Revenues related to expenses eligible for reimbursement totaled $130,373 for the period from inception to December 31, 1995. Neutrogena has not exercised its option to license any consumer or prescription products about which it has been notified by the Company. The terms of the agreement is 15 years for consumer products and 10 years for prescription products.

The Metabolic Moisturizer Agreement and the Azelaic Acid Agreement each granted to Neutrogena and an exclusive, worldwide royalty-bearing license. The Metabolic Moisturizer Agreement relates to the Company's barrier repair technology and contains the same royalty and other material terms as the standard royalty-bearing license agreement described above for consumer products.

The Azelaic Acid Agreement was terminated and replaced by a Patent License Agreement effective June 1, 1994 (the "Neutrogena Agreement") between the Company and Neutrogena. Pursuant to the Neutrogena Agreement, Neutrogena paid the Company $1.0 million for an exclusive, worldwide, royalty- free license for Azelaic Acid for both prescription and consumer products. The Company had an option to limit this license to consumer products, and effectively reacquire rights to prescription Azelaic Acid products by paying Neutrogena $1.0 million. The $1.0 million paid by Neutrogena was recorded as deferred revenue and concurrent with the option expiration, the Company recognized $1 million of license revenue in the year ended December 31, 1995. The Neutrogena Agreement requires Neutrogena to pay all out-of-pocket evaluation, development and marketing costs, including Azelaic Acid patent prosecution costs, for consumer and prescription Azelaic Acid products. Neutrogena was acquired by Johnson and Johnson in 1994.

On March 4, 1994, the Company entered into a second exclusive, world-wide, royalty-bearing license agreement with the Licensor for two patents for "Drug Delivery By Skin Barrier Disruption", in consideration of the payment by the Company of a $15,000 license fee, and a $10,000 annual maintenance fee payable each year until the Company is commercially selling a licensed product. The license requires the Company to pay royalties equal to 1% of net sales of licensed consumer products and 2.5% of net sales of licensed prescription products, with a minimum of $25,000 annually. The Company has the right to grant sublicenses to third-parties. The Company is required to provide written progress reports related to development and testing of licensed products. The license is subject to termination by the Licensor if certain performance criteria are not achieved.

8. RELATED PARTY TRANSACTIONS

The Company entered into consulting agreements with certain shareholders of the Company. The total consulting fees paid to these shareholders was $129,000 and $201,000 for the years ended December 31, 1995 and 1994, respectively. One of these consulting agreements requires a shareholder to provide consulting services through April 1997 in exchange for monthly payments of approximately $3,500. The agreement also provides that the Company reserve up to 97,062 shares of common stock which may be issued to this individual, or other third parties aiding in such consulting, at the sole discretion of the Company's Board of Directors. Through December 31, 1995, no such shares have been granted.

9. INCOME TAXES

At December 31, 1995, the Company has net operating loss carryforwards of approximately $9,461,000 and $4,716,000 for federal and state purposes, respectively. The federal net operating loss carryforwards expire between the years 2004 and 2010. The state net operating loss carryforwards expire between the years 1996 and 2000. At December 31, 1995, the Company also has research and development credit carryforwards of approximately $197,000 and $92,000 for federal and state purposes, respectively. The federal credits expire between the years 2006 and 2010. The state credits do not expire.

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,	
	1994	1995
Deferred tax assets:		
Net operating loss carryforwards	$ 2,236,000	$ 3,500,000
Deferred revenue	401,000	--
Credit carryforwards	247,000	258,000
Capitalized research and development costs	--	139,000
Capital loss carryforwards	36,000	39,000
Capitalized license fee	48,000	50,000
Other	(38,000)	33,000
Total deferred tax assets	3,006,000	4,019,000
Valuation allowance	(3,006,000)	(3,980,000)
Net deferred tax assets	--	39,000
Deferred tax liabilities		
Other	--	39,000
Net deferred tax assets/(liabilities)	$ --	$ --

CELLEGY PHARMACEUTICALS, INC.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED BALANCE SHEETS
(UNAUDITED)
(AMOUNTS IN THOUSANDS)

	MARCH 31, 1996	DEC. 31, 1995
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,217	$ 2,320
Short-term investments	1,500	1,500
Other current assets	220	149
Total current assets	2,937	3,969
Property and equipment, net	93	59
Total assets	$ 3,030	$ 4,028
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 138	$ 192
Accrued compensation & related expenses	72	188
Total current liabilities	210	380
SHAREHOLDERS' EQUITY:		
Common stock, no par value; 20,000,000 shares authorized; 3,865,628 shares issued and outstanding at March 31, 1996 and 3,777,075 shares issued and outstanding at December 31, 1995	13,840	13,804
Deficit accumulated during the development stage	(11,020)	(10,156)
Total shareholders' equity	2,820	3,648
Total liabilities and shareholders' equity	$ 3,030	$ 4,028

See accompanying notes to condensed financial statements.

CELLEGY PHARMACEUTICALS, INC.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED STATEMENTS OF OPERATIONS
(UNAUDITED)
(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	THREE MONTHS ENDED MARCH 31,		PERIOD FROM JUNE 26, 1989 (INCEPTION) THROUGH MARCH 31,
	1996	1995	1996
Revenues:			
Licensing revenue	$ --	$ --	$ 1,000
Contract revenue from affiliate	15	--	145
Total Revenue	15	--	1,145
Operating expenses:			
Research and development	596	275	7,006
General and administrative	351	255	4,900
Total operating expenses	947	530	11,906
Operating loss	(932)	(530)	(10,761)
Interest expense	--	(143)	(863)
Interest income and other, net	68	7	604
Net loss	$ (864)	$ (666)	$(11,020)
Pro forma net loss per share	$ (0.23)	$ (0.20)	
Shares used in pro forma net loss per share calculation	3,836	3,332	

See accompanying notes to condensed financial statements.

CELLEGY PHARMACEUTICALS, INC.
(A DEVELOPMENT STAGE COMPANY)
CONDENSED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(AMOUNTS IN THOUSANDS)

	THREE MONTHS ENDED MARCH 31,		PERIOD FROM JUNE 26, 1989 (INCEPTION) THROUGH MARCH 31,
	1996	1995	1996
OPERATING ACTIVITIES:			
Net loss	$ (864)	$ (666)	$(11,020)
Adjustments to reconcile net loss to net cash flows used in operating activities:			
Depreciation and amortization	8	5	219
Loss on sale of equipment	--	--	4
Amortization of discount on notes payable and deferred financing costs	--	104	568
Issuance of common shares for services	--	--	24
Issuance of Series A convertible preferred stock for interest, license agreement and services rendered	--	--	240
Changes in operating assets and liabilities:			
Other current assets	(71)	(13)	(220)
Accounts payable and accrued liabilities	(54)	(164)	138
Accrued compensation and related expenses	(116)	(32)	72
Other	34	--	34
Net cash used in operating activities	(1,063)	(766)	(9,941)
INVESTING ACTIVITIES:			
Purchase of property and equipment	(42)	--	(207)
Purchase of short-term investments	--	--	(7,047)
Sales of short term investments	--	22	5,547
Net cash flows provided by (used in) investing activities	(42)	22	(1,707)
FINANCING ACTIVITIES:			
Proceeds from notes payable	$ --	$ 1,680	$ 3,548
Repayment of notes payable	--	--	(2,111)
Net proceeds from the issuance of common stock	2	--	6,504
Issuance of Series A convertible preferred stock, net of issuance costs	--	--	27
Issuance of Series B convertible preferred stock, net of issuance costs	--	--	(1)
Issuance of Series C convertible preferred stock, net of issuance costs	--	--	4,978
Deferred financing costs	--	(151)	(80)
Net cash flows provided by (used in) financing activities	2	1,529	12,865
Net increase(decrease) in cash	(1,103)	785	1,217
Cash and cash equivalents at beginning of period	2,320	380	--
Cash and cash equivalents at end of period	$ 1,217	$ 1,165	$ 1,217
SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS:			
Conversion of preferred stock to common stock	$ --	$ --	$ 6,514
Issuance of common stock for notes payable	--	--	268
Issuance of warrants in connection with notes payable financing	--	--	487
Issuance of Series A convertible preferred stock for notes payable	--	--	1,153
Issuance of Series B convertible preferred stock for notes payable	--	--	115
Issuance of common stock for Pacific Pharmaceuticals, Inc.	$ --	$ --	$ 9

See accompanying notes to condensed financial statements.

CELLEGY PHARMACEUTICALS, INC.
(A DEVELOPMENT STAGE COMPANY)
NOTES TO CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying unaudited condensed balance sheets as of March 31, 1996 and December 31, 1995, condensed statements of operations for the three months ended March 31, 1996 and 1995, and the condensed statements of cash flows for the three months ended March 31, 1996 and 1995 have been prepared by the Company in accordance with generally accepted accounting principles for interim financial information and with the instructions to Item 310(b) of Regulation S-B. Accordingly, they do not include all of the information and footnote disclosures required by generally accepted accounting principles for completed financial statements. These condensed financial statements should be read in conjunction with the Company's audited financial statements and notes thereto appearing elsewhere herein. In the opinion of management, the accompanying condensed financial statements include all adjustments (consisting of only normal recurring adjustments) considered necessary for a fair presentation of the financial position and results of operations for the periods presented.

Operating results for the period ended March 31, 1996 may not necessarily be indicative of the results to be expected for any other interim period or for the full year.

2. COMPUTATION OF PRO FORMA NET LOSS PER SHARE

Except as noted below, net loss per share is computed using the weighted average number of shares of common stock outstanding, including the effect for all periods presented of the conversion of all outstanding shares of convertible preferred stock into common stock upon the closing of the Company's initial public offering ("IPO") in August 1995. Common equivalent shares are excluded from the computation because their effect is anti-dilutive, except that, pursuant to certain Securities and Exchange Commission ("SEC") Staff Accounting Bulletins, common and common equivalent shares issued (or stock options and warrant grants issued) at prices below the public offering price during the twelve month period prior to the Company's IPO have been included in the calculation as if they were outstanding for the period ending March 31, 1995 (using the treasury stock method and the IPO price).

3. SUBSEQUENT EVENTS

On April 19, 1996 the Company completed a $7,500,000 private placement of 750 shares of convertible Series A Preferred Stock ("Preferred Stock Financing"). Net proceeds after agents' commissions were approximately $6,855,000. The shares are convertible, at the option of the holder, into Cellegy common stock. The number of shares of common stock issuable on conversion of a share of Series A Preferred Stock is calculated based on the lower of a fixed conversion price or a variable conversion price depending primarily on the market price of the commmon stock on the conversion date. The minimum number of shares which will be issued on conversion of all the preferred stock is approximately 1,150,000 shares, which would occur if conversion takes place at the time the shares first become convertible at the fixed conversion price of $6.6275 per share. If the variable conversion price is lower than the fixed conversion price, a greater number of shares will be issued upon conversion. Two years after issuance, the remaining preferred shares are automatically converted into common stock. A conversion premium accrues at the rate of 8 percent per annum and is payable on conversion in shares of common stock. Finally, Cellegy has redemption rights under certain circumstances.

In April 1996 Cellegy entered into a research agreement with Bausch & Lomb, Inc., headquartered in Rochester, New York. The agreement involves laboratory and possibly human testing of two of the Company's skin protectant formulations. This collaboration may result in a licensing agreement, if results from initial research are successful.

NO DEALER, SALESPERSON OR OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION NOT CONTAINED IN THIS PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY OF THE SECURITIES OFFERED HEREBY IN ANY JURISDICTION TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION IN SUCH JURISDICTION. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THE INFORMATION HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE HEREOF OR THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY SINCE SUCH DATE.

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(GRAPHIC OMITTED)
IMAGE: CELLEGY

5,000,000 SHARES OF
COMMON STOCK

PROSPECTUS
